DYNAMIC MATERIALS CORP
Form 10-K
March 13, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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: **Common Stock, $.05 Par Value**

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

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 ý

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 o No ý

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 ý 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. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "larger accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant was $401,430,970 as of June 30, 2008.

The number of shares of Common Stock outstanding was 12,841,377 as of March 6, 2009.

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, 2008.

PART I

ITEM 1. Business

Overview

Dynamic Materials Corporation is an industrial manufacturer focusing on niche markets related to the building of equipment and materials, to support the infrastructure of the process and energy industries. Built upon specialized technologies, the company seeks to establish a global presence through an international network of manufacturing facilities and sales offices. Today, the Company operates in three business segments: Explosive Metalworking, Oilfield Products, and AMK Welding.

We are 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. We refer to this part of our business as "DMC Clad" or the "Explosive Metalworking" segment. DMC Clad markets its explosion-welded clad products under the Detaclad® trade name. DMC Clad's products are used in critical applications in a variety of industries, including oil and gas, alternative energy, 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 through which we sell our products in international markets. Our Explosive Metalworking operations, which were recently expanded through our 2007 acquisition of DYNAenergetics, are located in the United States, Germany, France, and Sweden.

Through our Oilfield Products segment, which we also refer to as "DYNAwell" or "DYNAenergetics," we provide a range of proprietary and nonproprietary products for the global oil and gas industries. These products relate primarily to oil and gas well perforation, which is a process of punching holes in the casing of a well to enable easier and more precise recovery of oil or gas from a targeted formation. Manufactured products include shaped charges, detonators and detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells. DYNAwell also distributes a line of seismic products that support oil and gas exploration activities. DYNAwell's primary manufacturing and sales operations are located in Germany.

Our AMK Welding segment ("AMK Welding") provides 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 Connecticut facility.

Clad Metal Industry

Clad metal plates are typically used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, 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 structural base metal, such as steel. For heavy equipment, clad generally provides a cost savings alternative to building the equipment of solely the corrosion resistant alloy.

There are three major industrial clad plate manufacturing technologies:

Explosion welding

Hot Rollbonding

Weld overlay

Explosion welding is the most versatile clad plate manufacturing technology. Being a robust cold welding technology, explosion-welded clad products exhibit high bond strength combined with the unaltered corrosion resistance and mechanical properties of the pre-clad components. The explosion-welded clad process is suitable for joining virtually any combination of common engineering metals. Explosion-welded clad metal is produced as flat plates or concentric cylinders which can be further formed and fabricated as needed. When fabricated properly, the two metals will not come apart, The dimensional capabilities of the process are broad; cladding metal layers can range from a few thousandths of an inch to several inches; base metal thickness and lateral dimensions are primarily limited by the size capabilities of the world's metal production mills. Explosion welding is used to clad a very broad range of metals to steel including aluminum, titanium, zirconium, nickel alloys, and stainless steels. The alternative technologies are typically limited to the latter two. In addition to use as clad plates, the explosion welded components can be used as transition pieces, facilitating conventional welding of dissimilar metals. DMC clad transition Joints are used in the aluminum production and shipbuilding industries.

Hot rollbonding is performed by a small group of the world's heavy plate rolling mills. In this process, the clad metal and base metal are bonded together during the hot rolling operation in which the metal slab is converted to plate. Being a high temperature process, hot rollbond is limited to joining similar metals, such as stainless steel and nickel alloys to steel. Rollbond's niche is production of large quantities of light to medium gauge clad plates; it is frequently lower cost than explosion clad when total metal thickness is under 1 to 2 inches (dependent upon alloy and a number of other factors.) Rollbond products are generally suitable for most vessel applications but have lower bond shear strength and may have inferior corrosion resistance.

In weld overlay cladding, the clad metal layer is deposited on the base metal using arc-welding type processes. Weld overlay is a cost-effective technology for complicated shapes, for field service jobs, and for production of heavy-wall pressure vessel reactors. During overlay welding, the cladding metal and base metal are melted together at their interface, the resulting dilution of the cladding metal chemistry may compromise corrosion performance and limit use in certain applications. Weld metal shrinkage during cooling potentially causes distortion when the base layer is thin; consequently, overlay is rarely the technically preferred solution for construction of new equipment when thicknesses are under 3 to 4 inches. As with rollbond, weld overlay is limited to metallurgically similar metals, primarily stainless steels and nickel alloys joined to steel. Weld overlay is typically performed in conventional metal fabrication shops.

Clad Metals End Use Markets

Explosion-welded clad metal is primarily used in construction of large industrial equipment involving high pressures and temperatures and 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. There has been significant capital investment in many of these markets.

Oil and Gas: Oil and gas end use markets include both oil and gas production and petroleum refining. Oil and gas production 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. Many non-traditional energy production methods are potentially commercially viable for bringing natural gas to the market. Clad is

commonly used in these facilities. The primary clad metals for this market are stainless steel and nickel alloys clad to steel, with some use of reactive metals.

Petroleum refining processes frequently are corrosive, are hot, and operate at high pressures. 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 their 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 additional 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 clad metals are primarily stainless steel and nickel alloys.

Alternative Energy: Today's oil and gas prices and increasing climate concerns are driving significant upward demand for capital equipment in the alternative energy sector. Frequently, alternative energy technologies involve conditions which necessitate clad metals. Solar panels predominantly incorporate high purity silicon. Processes for manufacture of high purity silicon utilize a broad range of highly corrosion resistant clad alloys. Many geothermal fields are corrosive, requiring high alloy clad separators to clean the hot steam. Cellulosic ethanol technologies may require corrosion resistant metals such as titanium and zirconium.

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 often involves corrosive agents and is conducted under high pressures or temperatures, corrosion resistant equipment is needed, equipment which is best and most cost-effectively produced 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 requires extensive use of stainless steel and nickel alloys, 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 metal of choice. Titanium-clad plates are used extensively for construction of autoclaves and peripheral equipment.

Aluminum Production: Aluminum is reduced from its oxide in large electric smelters called potlines. The electric current 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 use a large number of transition joints. Transition joints are typically replaced after approximately five years in service. 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 vessels, 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 in seawater. 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 and nuclear 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 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 for power plant condensers.

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. Explosion-welded clad metal is often the low cost solution for making the tubesheets. Applications range from refrigeration chillers on fishing boats to massive air conditioning units for skyscrapers, airports, and deep underground mines.

Oil and Gas Field Perforating Industry

The oil and gas industry utilizes perforating products in oil and gas fields to punch holes in the casing or liner of an oil well to connect it to the reservoir. The operator runs a casing or liner into the well and then inserts the perforating guns, which contain a series of specialized shaped charges. Once fired, the perforating guns provide access to the specified sections of the desired areas of the targeted formations. Completing wells though the use of perforation guns can provide more control over the well.

DYNAwell End Use Markets

DYNAwell products are utilized to perform both perforating services which require shaped charges, detonators, boosters, detonating cords, and perforating guns and seismic prospecting. DYNAwell manufactures and distributes a comprehensive array of perforating products. Our DYNAwell products are generally purchased by oilfield service companies who utilize our perforating products for oil and gas recovery and our seismic products for oil and gas exploration activities.

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 three business segments: Explosive Metalworking (which we also refer to as DMC Clad), Oilfield Products (which we also refer to as DYNAwell or DYNAenergetics), and AMK Welding. The Explosive Metalworking segment uses proprietary explosive processes to fuse dissimilar metals and alloys and has more than 40 years of experience. We are the largest explosion-welded clad metal manufacturer in both North America and Europe. DYNAwell produces special shaped charges, detonators, detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells and has more than a decade of experience providing specialized products to the oil and gas industry. AMK Welding utilizes various specialized technologies to weld components for use in power-generation turbines as well as commercial and military jet engines and has 40 years of experience.

Explosive Metalworking

The Explosive Metalworking segment seeks to build on its leadership position in its markets. During the year ended December 31, 2008, the Explosive Metalworking segment represented approximately 84% of our revenue. The four manufacturing plants and their respective shooting sites in Pennsylvania, Germany, 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 oil and gas, alternative energy, 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 oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, 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 four manufacturing plants. Final products are processed to meet contract specific requirements for product configuration and quality/inspection level.

DYNAwell

DYNAwell manufactures, markets, and sells perforating explosives and associated hardware and seismic explosives, for the international oil and gas industry. While DYNAwell has been producing detonating cords and detonators and selling these and seismic explosives systems for decades, since 1994 significant emphasis has been placed on enhancing its oilfield product offerings by improving existing products and adding new products. In recent years, various types of detonating cords and detonators have been added as well as bi-directional boosters, a wide range of shaped charges, and corresponding gun systems. Within the last year, DYNAwell began manufacturing detonators for seismic exploration systems. Additionally, DYNAwell now designs and manufactures custom-ordered perforating products for third-party customers according to their designs and specifications.

The kinds of perforating products manufactured by DYNAwell are essential to certain types of modern oil and gas recovery. The products are sold to large, mid-sized, and small oilfield service companies in the U.S., Europe, Africa, the Middle East, and Asia, including direct sales to end users. The market for perforating products is growing. Rising worldwide demand for oil increases the demand for perforating products as oil exploration and recovery expands, leading to increased investment in the oil and gas production industry. Higher levels of exploration (seismic prospecting) and increased production activities in the global oil and gas industry are expected to continue. Increased exploration has led to increasingly complex completion operations, which raise the demand for high quality perforating products.

AMK Welding

AMK Welding employs a variety of sophisticated processes and equipment to provide specialized welding services principally to a power turbine manufacturer and to 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.

Welding processes utilized by AMK Welding include electron beam and gas tungsten arc welding processes. AMK Welding also 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. A number of additional small competitors operate throughout the world. 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 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: end-user owner companies, engineering contractors, and metal fabricators. DMC Clad's sales office in the United States covers the Americas and East Asia. Its sales offices in Europe cover the full European continent, Africa, the Middle East, India, and Southeast Asia. These sales teams are further supported by local sales offices in Italy, the Middle East, and India, with contract agents in most other developed countries, including China, Korea, Russia and Brazil. Contract agents typically work under multi-year agreements which are subject to sales performance as well as compliance with DMC Clad quality and customer service expectations. Members of the global sales team may be called to work on projects located outside their usual 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 products, DMC Clad endeavors to have its products specified as early as possible in the design process.

DMC Clad's sales are generally shipped from the manufacturing locations in the United States, Germany, France, and Sweden. Generally, any shipping costs or duties for which DMC Clad is responsible will be included in the price paid 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, German, and U.S. cladding sites and is supervised by a Technical Committee, chaired by our 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.

Oilfield Products

Suppliers and Raw Materials

DYNAwell utilizes a variety of raw materials for the production of oilfield perforating and seismic products, including high quality steel tubes, steel and copper, explosives (RDX, HMX, HNS), granulates, plastics and ancillary plastic product components. DYNAwell's product line consists of complex products which require numerous high quality components. DYNAwell obtains its raw materials primarily from a number of different producers in Germany and other European countries, but also purchases materials from North American, Chinese, and other international suppliers.

Competition

DYNAwell faces competition from independent producers of perforating products who are not committed to the large service companies and from large oil and gas service companies, such as Halliburton and Schlumberger, who produce most of their own needs for shaped charges but buy other components from suppliers.

Customer Profile

Onshore and offshore oilfield service companies use our DYNAwell products. Our customers desire perforating products that satisfy both their specific needs and expectations and difficult geological realities, such as high pressures and temperatures in the bore hole, which exist in areas where perforating products and services are used. We believe that our customers must balance costs and risks for every job and that our typical DYNAwell customer possesses a conservative risk tolerance. Consequently, we believe that our customers will be more likely to trust products with proven reliability in the field and will be cautious regarding new product innovation.

The customers for oilfield products can be divided into four broad categories: buying centers of large service companies, service companies worldwide, oil companies with and without their own service companies, and local resellers. DYNAwell's customer base includes clients from each of these categories.

Marketing, Sales, Distribution

DYNAwell's worldwide marketing and sales efforts for its oilfield and seismic products are based in Laatzen, Germany. DYNAwell's sales concept focuses on direct selling, distribution through licensed distributors and independent sales representatives, the establishment of international distribution centers to better manage high international transport costs, and educating current and potential customers about its products and technologies. Currently, DYNAwell sells its oilfield and seismic products through a U.S. distributor, Austin Explosives, and through trading joint ventures that are located in Russia (DYNAenergetics RUS), Kazakhstan (KazDYNAenergetics) and Canada (Canada Ltd.), ventures in which DYNAenergetics holds a majority interest.

Research and Development

DYNAwell attaches great importance to its research and development capabilities and has devoted substantial resources to its R&D programs. The R&D staff works closely with sales and operations management teams to establish priorities and effectively manage individual projects. DYNAwell won the important Spotlight on New Technology Award at the 2007 Offshore Technology Conference in Houston, Texas, for its newly developed No-Debris-Gun technology. Through this success, DYNAwell has increased its profile in the oil and gas industry. An R&D Project Plan, which focuses on new products, process support and customer paid projects, is prepared and reviewed at least annually in cooperation with the Sales, Operations and Quality departments.

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 and ground turbine industries. Other than 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 and Recent Developments

The genesis of the Company was an unincorporated business called "Explosive Fabricators," which was formed in Colorado in 1965. The business was incorporated in Colorado in 1971 under the name "E. F. Industries, Inc.," which was later changed to "Explosive Fabricators, Inc." or "EFI". The Company became a public company in 1977. In 1994, the Company changed its name to "Dynamic Materials Corporation." The Company reincorporated in Delaware in 1997 and its stock is currently listed on NASDAQ under the ticker symbol BOOM.

In 1976, the Company became a licensee of Detaclad®, the explosion-weld clad process developed by DuPont in 1959. In 1996, the Company purchased the Detaclad® operating business from Dupont.

Through a series of transactions culminating in June 2000, SNPE, Inc. ("SNPE"), a US corporation indirectly wholly owned by the French Government, acquired approximately 56% of the Company's outstanding common stock through open market purchases as well as direct investment in the Company. SNPE also loaned the Company approximately $1.2 million using a convertible subordinated note. On May 15, 2006, SNPE sold all of the shares it had previously purchased, as well as those received through the conversion of the note, in an underwritten public offering.

During its history, the Company has acquired a number of businesses. In 1998, the Company acquired AMK Welding, currently an operating division of the Company. Also in 1998, the Company acquired PMP and Spin Forge, businesses which were subsequently sold in 2003 and 2004, respectively.

In 2001, the Company acquired substantially all of the stock of Nobelclad Europe SA (a French company) ("Nobelclad"); Nobelclad had previously acquired the stock of Nitro Metall AB (a Swedish company) ("Nitro Metall"). The stock of Nobelclad was acquired from an affiliate of our parent company at the time, SNPE. Early in its history, Nobelclad was a licensee of the Detaclad® technology. The acquisition of Nobelclad expanded the Company's explosive metalworking operations to Europe.

In November 2007, the Company acquired the German company DYNAenergetics GmbH and Co. KG ("DYNAenergetics") and certain affiliates. DYNAenergetics was comprised of two primary businesses: explosive metalworking (DYNAplat) and oilfield products (DYNAwell). This acquisition expanded the Company's explosive metalworking operations in Europe and added a complimentary business segment, oilfield products. During 2008 and with an effective date of January 1, 2008, the DYNAplat explosive metalworking assets and business operations of DYNAenergetics were transferred into Dynaplat GmbH & Co KG, a newly formed 100% owned operating subsidiary of the Company. DYNAenergetics retained the assets, operations and joint venture investments of the DYNAwell oilfield products business.

Our current explosive metalworking segment is comprised of the Company's US Clad operations as well as the assets and operations purchased in the Nobelclad and DYNAplat acquisiitons. The oilfield products segment is comprised entirely of DYNAwell and its joint ventures. Our third segment is AMK Welding. Property locations for these operations are listed in detail in Item 2.

Employees

As of December 31, 2008, we employed 408 permanent employees, the majority of whom are engaged in manufacturing operations, with the remainder being engaged in sales and marketing or corporate functions.

The majority of our manufacturing employees are not unionized. Of the 408 permanent employees, 179 are U.S. based, 146 are based in Germany at the DYNAplat and DYNAWELL facilities, 66 are based in France at the Nobelclad facility and 17 are based in Sweden at Nitro Metall. Approximately 60% of our German-based employees are members of trade unions. About 40% of Nobelclad's employees and all Nitro Metall employees are members of trade unions. In addition, we also use a number of temporary workers at any given time, depending on the workload.

In the last three years, the Company has not experienced any strikes or work stoppages. 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 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. We hold various patents and licenses through our DYNAwell perforating business, but some of the patents are not yet registered. As with the explosive metalworking business segment, 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 current operations. The DYNAplat division of DMC Clad is protected through business secrets not through patents.

Permits. Explosive metalworking and the production of perforation products involve the use of explosives, making safety a critical factor in our operations. In addition, explosive metalworking and the production of oilfield products are highly regulated industries for which detailed permits are required. These permits require renewal every three or four years, depending on the permit. See Item 1A Risk Factors *Risk Factors Related to the Dynamic Materials Corporation 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, Germany, 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. Explosion Metalworking products are usually shipped to the fabricator before being passed on to the end user.

	(Dollars in Thousands)		
	For the years ended December 31,		
	2008	2007	2006
United States	$ 82,036	$ 64,735	$ 56,395
Germany	24,449	8,626	2,265
South Korea	12,938	16,904	3,080
Canada	11,685	12,588	10,787
Australia	11,307	1,039	235
France	10,447	5,280	4,791
Italy	9,517	5,461	3,466
China	8,203	10,790	1,055
India	7,237	2,355	3,764
Spain	7,208	3,492	2,465
Netherlands	4,093	3,033	1,967
Russia	3,604	607	11,137
South Africa	3,381	674	790
Belgium	3,275	6,727	2,546
United Kingdom	3,184	1,278	335
Romania	2,548	480	
Kazakhstan	2,418	151	
Mexico	2,396	1,082	1,230
Switzerland	1,922	665	152
Malaysia	1,914	2,154	358
Norway	1,699	2,596	481
Brazil	1,590	52	476
Sweden	1,388	1,378	677
Other foreign countries	14,138	13,028	5,020
Total	$232,577	$165,175	$113,472

Company Information

We are subject to the informational requirements of the Securities Exchange Act of 1934. We therefore file periodic reports, proxy statements and other information with the Securities Exchange Commission (the "SEC"). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at *www.sec.gov* that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Our Internet address is *www.dynamicmaterials.com*. Information contained on our website does not constitute part of this Annual Report on Form 10-K. Our annual report on SEC Form 10-K, quarterly reports on Forms 10-Q, current reports on Forms 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website as soon as reasonably practicable after we electronically file such material with or furnish it to

the SEC. We also regularly post information about our Company on our website under the Investors tab.

ITEM 1A. Risk Factors

Risk Factors Related to the Explosive Metalworking Industry

We have seen a recent slow down in some of our markets and anticipate sales will decline during 2009.

During the fourth quarter of 2008, we have seen a slowdown in DMC Clad sales to some of the markets we serve and anticipate our sales to further decrease [approximately 12% - 20%] in 2009 from the amount we achieved in 2008. The explosion-weld cladding market is dependent upon sales of products for use by customers in a limited number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. Indeed, we have already seen a slowdown in the chemical, petrochemical and hydrometallurgy sectors. An economic slowdown in one or all of these industries whether due to traditional cyclicality, general economic conditions or other factors could impact capital expenditures within the industry. If demand from such industries were to decline or to experience reduced growth rates, 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.

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 certain that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

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 efforts to identify suitable sites and obtain 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.

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 Germany, 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. 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.

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, we may not 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. While prices for much of the raw materials we use have recently decreased, we may again experience increasing prices. We generally do not hedge commodity prices or enter into forward supply contracts; 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.

Risk Factors Related to DYNAwell

Potential downturns in the oil and gas industry and related services industry could have a negative impact on DYNAwell's economic success.

The oil and gas industry is unpredictable and has historically been subject to occasional downturns. Demand for DYNAwell's products is linked to the financial success of the oil and gas industry as a whole, and downturns in the oil and gas industry, especially in the rate of well drilling, could negatively impact DYNAwell's economic success. Demand for oil and gas drives oil and gas field production and exploration, and with it the demand for services and products produced by DYNAwell. A variety of factors affect the demand for DYNAwell products, including governmental regulation of oil and gas

industry and markets, international and domestic prices for oil and gas, weather conditions, the financial condition of DYNAwell's clients, and consumption patterns of oil and gas.

The manufacturing of explosives subjects DYNAwell to various environmental, health and safety laws.

DYNAwell is subject to a number of environmental, health, and safety laws and regulations, the violation of which could result in significant penalties. DYNAwell's continued success depends on continued compliance with applicable laws and regulations. In addition, new environmental, health and safety laws and regulations could be passed which could create costly compliance issues. While DYNAwell endeavors to comply with all applicable laws and regulations, compliance with future laws and regulations may not be economically feasible or even possible.

DYNAwell's continued economic success depends on remaining at the forefront of innovation in the perforating industry.

DYNAwell's position in the perforation market depends in part on its ability to remain an innovative leader in the field. The ability to remain competitive depends in part on the retention of talented personnel. DYNAwell may be unable to remain an innovative leader in the perforation market segment or may be unable to retain top talent in the field.

Risk Factors Related to Dynamic Materials Corporation

Weakness in the general global economy may adversely affect certain segments of our end market customers and reduce our sales and results of operations.

We supply products to customers that fabricate industrial equipment for various capital-intensive industries. The current weakness in the general global economy may adversely affect our end market customers, causing them to cancel or postpone new plant or infrastructure construction, expansion, maintenance, or retrofitting projects that use our DMC Clad products. Similarly, decreased oil and gas well drilling will reduce the sales of our DYNAwell products. Any decrease in the demand for gas turbines and airplane engines will reduce the demand for the work performed by our AMK division. While to date we have not experienced postponements or cancellations of projects important to us, we anticipate a slowing demand from our end-market customers. The global general economic climate may lessen demand for our products and reduce our sales and results of operations.

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 the orders in our backlog 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 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, perforating, 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.

DYNAwell competes principally with perforating companies based in North and South America who produce and market perforating services and products. DYNAwell also competes with oil and gas service companies who are able to satisfy a portion of their perforating needs through in-house production. To remain competitive, DYNAwell must continue to provide innovative products and maintain an excellent reputation for quality, safety, and value. There can be no assurances that we will continue to compete successfully against these companies.

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 any of the last three years. We expect to

continue to depend upon our principal customers for a significant portion of our sales, although our principal customers may not 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 oil and gas, alternative energy, chemicals and 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.

DYNAwell, which is expected to contribute approximately 15% to our 2009 sales, has customers throughout the world. The Russian market is currently DYNAwell's largest market with more than 30% of its sales coming from that market. Economic or political instability in Russia could have a material adverse affect on DYNAwell's business and operating results.

AMK Welding, which is expected to contribute approximately 5% to our 2009 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 operating results.

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.

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, by the U.S. Department of Commerce, the U.S. Environmental Protection Agency, and by state and local health and safety agencies. In Germany, we and all our activities are subject to various safety and environmental regulations of the federal state which are enforced by the local authorities, including the Federal Act on Emission Control (Bundesimmissionsschutzgesetz). The Federal Act on Emission Control permits are held by companies jointly owned by DYNAenergetics and the other companies that are located at the Würgendorf and Troisdorf manufacturing sites and are for an indefinite period of time. 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 Germany, France and Sweden may be particularly vulnerable to noise abatement regulations because these operations are primarily conducted outdoors. The Dillenburg facility is operated based on a mountain plan ("Bergplan"), which is a specific permit granted by the local mountain authority. This permit must be renewed every three years.

Changes in or compliance with environmental and safety laws and 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.

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, Germany, France and Sweden, including guidelines and regulations for the safe manufacture, handling, transport and storage of explosives issued 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; the Safety Library Publications of the Institute of Makers of Explosive; and similar guidelines of their European counterparts. In Germany, the transport, storage and use of explosives is governed by a permit issued under the Explosives Act (Sprengstoffgesetz). In Sweden, our purchase, transport, storage and use of explosives is governed by a permit issued to us by the Police Authority of the County of Varmland. In France, the manufacture and transportation of explosives is subcontracted to a third party which is responsible for compliance with regulations established by various State and local governmental agencies concerning the handling and transportation of explosives.. Our French operations could be adversely affected if the third party does not comply with these regulations. 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 Würgendorf and Troisdorf, Germany, France and Sweden are located outdoors, our shooting facilities located in Pennsylvania and in Dillenburg, Germany are located in mines, 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 or from foreign subsidiaries of U.S. companies is restricted by U.S. and similar foreign 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, or 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.

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 Germany, France, and Sweden, where some of our employees are unionized. The employees at our U.S. facilities, 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 have not experienced a strike or work stoppage in the last 3 year. However, if a work stoppage occurs at one or more of our facilities, it may materially impair our ability to operate our business in the future.

As we regularly test the value of goodwill associated with our recent acquisitions, economic conditions may lead to a impairment of such goodwill.

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At the end of 2008, we reviewed the carrying value of our goodwill. In reviewing the goodwill associated with the DYNAwell business we acquired in 2007, we estimated that the fair value of this business unit was only slightly greater than the carrying value of the associated net assets, including goodwill. While we did not recognize impairment of the DYNAwell goodwill during the 2008 fiscal year, we plan to review its carrying value again in the next few months. If the DYNAwell business does not perform as well as we expected when we estimated its fair value or if other conditions in the capital markets and general economy change the assumptions we used in this valuation, then we may be required to recognize an impairment of the goodwill associated with that business.

We are exposed to potentially volatile fluctuations of the U.S. dollar (our reporting currency) against the currencies of many of our operating subsidiaries.

Many of our operating subsidiaries conduct business in Euros or other foreign currency. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of any of our operating subsidiaries will cause us to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, our company and our operating subsidiaries are exposed to foreign currency risk to the extent that we or they enter into transactions denominated in currencies other than our or their respective functional currencies. For example DYNAwell's functional currency is Euros, but its sales often occur in U.S. dollars. Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries' assets and liabilities and to the financial results of foreign subsidiaries and

affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for us is to the Euro due to the percentage of our U.S. dollar revenue that is derived from countries where the Euro is the functional currency.

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 may be unable to consummate any future acquisition. If any acquisition is made, we may not 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 term of the lease for the office space is through November 30, 2015, with renewal options through November 30, 2021.

We own our principal domestic manufacturing site, which is located in Mount Braddock, Pennsylvania. We currently lease our primary domestic shooting site, which is located in Dunbar, Pennsylvania, and have entered into new license and risk allocation agreements relating to the use of a secondary shooting site that is located within a few miles of our Mount Braddock, Pennsylvania manufacturing facility. The shooting site in Dunbar and the nearby secondary shooting site support our Mount Braddock manufacturing facility. The lease for the Dunbar property will expire on December 15, 2010, but we have options to renew the lease which extend through December 15, 2029. The license and risk allocation agreements will expire on December 31, 2018, but we have options to renew these agreements through December 31, 2028. Our German subsidiary, DYNAenergetics, has a manufacturing site in Troisdorf, Germany, and leases space for a sales office in Laatzen, Germany. Our German subsidiary, DYNAplat, has a manufacturing site Würgendorf and a shooting site in Dillenburg, Germany. Portions of these sites are leased and portions are owned. The lease expiration dates for our Troisdorf, Würgendorf, and Dillenburg manufacturing sites are February 28, 2011; December 31, 2010; and August 31, 2011, respectively. 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; Würgendorf, Germany; France; and Sweden are part of the Explosive Metalworking segment. The DYNAwell manufacturing sites are leased. These leases expire on

February 28, 2011. 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	14,630 sq. ft.	Leased	November 30, 2015, with renewal options through November 30, 2021
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, 2009 (renews annually)
South Windsor, Connecticut	AMK Welding	21,000 sq. ft.	Owned	
Troisdorf, Germany	DYNAWELL, Manufacturing	263,201 sq. ft.	Leased	February 28, 2011
Würgendorf, Germany	Dynaplat, Manufacturing	Land: 25 acres Building: 20,312 sq. ft. 2,756 sq. ft.	Owned Leased	December 31, 2010
Dillenburg Germany	Dynaplat Shooting site	4 acres 9,849 sq. ft.	Owned Leased	August 31, 2011
Würgendorf, Germany	Dynaplat Sales DYNAenergetics Administration	2,815 sq. ft. 2,799 sq. ft.	Leased	October 31, 2009 January 31, 2011
Laatzen, Germany	DYNAWELL Sales	2,314 sq. ft.	Leased	December 31, 2009

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, 2008.

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.

	High	Low
2008		
First Quarter	$ 62.50	$ 38.97
Second Quarter	$ 49.85	$ 32.57
Third Quarter	$ 33.94	$ 22.12
Fourth Quarter	$ 23.40	$ 10.82
2007		
First Quarter	$ 35.90	$ 25.56
Second Quarter	$ 39.35	$ 32.19
Third Quarter	$ 50.07	$ 37.50
Fourth Quarter	$ 66.30	$ 44.72

As of February 28, 2009, there were approximately 379 holders of record of our common stock.

We declared and paid a $0.15 per share dividend in 2007 and 2008. 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, debt covenant compliance considerations, changes in income tax laws, 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, 2003, 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	12/31/03	12/31/04	12/30/05	12/29/06	12/31/07	12/31/08
Dynamic Materials Corporation	$ 100	$407.48	$2,024.49	$1,904.08	$3,988.44	$1,313.61
Nasdaq Non-Financial Stocks	$ 100	$107.85	$ 110.29	$ 120.94	$ 137.20	$ 62.83
Nasdaq Composite (US)	$ 100	$108.84	$ 111.16	$ 122.11	$ 132.42	$ 63.80

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." The 2007 selected financial data include the operating results of DYNAenergetics from the November 15, 2007, acquisition date through December 31, 2007, and balance sheet information as of December 31, 2007.

	(Dollars in Thousands, Except Per Share Data)				
	Year Ended December 31,				
	2008	2007	2006	2005	2004
Statement of Operations					
Net sales	$ 232,577	$ 165,175	$ 113,472	$ 79,291	$ 54,165
Cost of products sold	161,732	110,168	71,439	55,856	40,559
Gross profit	70,845	55,007	42,033	23,435	13,606
Cost and expenses	32,793	16,115	11,930	7,667	6,718
Income from operations	38,052	38,892	30,103	15,768	6,888
Other (income) expense, net	4,778	158	(505)	163	524
Income before income taxes	33,274	38,734	30,608	15,605	6,364
Income tax provision	9,206	14,147	11,341	5,233	1,961
Income from continuing operations	24,068	24,587	19,267	10,372	4,403
Discontinued operations, net of tax			1,497		(1,570)
Net income	$ 24,068	$ 24,587	$ 20,764	$ 10,372	$ 2,833
Income from continuing operations per share:					
Basic	$ 1.93	$ 2.03	$ 1.63	$ 0.92	$ 0.43
Diluted	$ 1.91	$ 2.00	$ 1.58	$ 0.86	$ 0.41
Net income per share:					
Basic	$ 1.93	$ 2.03	$ 1.75	$ 0.92	$ 0.28
Diluted	$ 1.91	$ 2.00	$ 1.70	$ 0.86	$ 0.27
Weighted average number of shares outstanding:					
Basic	12,445,685	12,083,851	11,841,373	11,290,053	10,269,080
Diluted	12,579,598	12,293,158	12,213,075	12,086,884	10,968,090
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.15	$ 0.15	$ 0.15	$ 0.10	$
Financial Position					
Current assets	$ 90,768	$ 94,730	$ 63,847	$ 36,552	$ 26,246
Total assets	229,219	240,899	84,973	55,311	43,753
Current liabilities	45,466	58,818	25,297	14,838	16,962
Long-term debt	46,514	62,051	382	2,221	2,906
Other non-current liabilities	18,737	21,751	1,714	3,297	3,815
Stockholders' equity	118,502	98,279	57,580	34,955	20,070

Selected unaudited quarterly financial data for the years ended December 31, 2008 and 2007, are presented below:

	(Dollars in Thousands, Except Per Share Data)			
	Year ended December 31, 2008			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	$ 58,393	$ 63,183	$ 52,380	$ 58,621
Gross profit	$ 17,711	$ 19,049	$ 17,025	$ 17,060
Net income	$ 5,245	$ 6,210	$ 7,223	$ 5,390
Net income per share basic	$ 0.42	$ 0.50	$ 0.58	$ 0.43
Net income per share diluted	$ 0.42	$ 0.49	$ 0.57	$ 0.43

	Year ended December 31, 2007			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	$ 33,094	$ 34,454	$ 42,416	$ 55,211
Gross profit	$ 10,851	$ 12,079	$ 14,292	$ 17,785
Net income	$ 4,882	$ 5,659	$ 7,117	$ 6,929
Net income per share basic	$ 0.41	$ 0.47	$ 0.59	$ 0.57
Net income per share diluted	$ 0.40	$ 0.46	$ 0.58	$ 0.56

The net income per share for the 2008 and 2007 quarters, when totaled, 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. The quarter ended December 31, 2007 includes the operating results of DYNAenergetics from the November 15, 2007 acquisition date through December 31, 2007.

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

Prior to late 2007, our business had been organized into two segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. On November 15, 2007, we acquired 100% ownership of a German company, DYNAenergetics. DYNAenergetics operates two distinct businesses which have historically been known as DYNAplat and DYNAwell. DYNAplat is a manufacturer of explosion clad products similar to those manufactured by DMC Clad, and its operating results from the date of acquisition are included in our Explosive Metalworking segment. DYNAwell manufactures a number of products for the perforation of oil and gas wells and also distributes a line of seismic products for oil and gas exploration activities. DYNAwell's operating results from the date of acquisition are reported under a new segment that we have named "Oilfield Products."

In 2008, Explosive Metalworking accounted for 84% of our net sales and 91% of our income from continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 12% and 4%, respectively, of our 2008 net sales. In 2007 and 2006, Explosive Metalworking accounted for more than 94% and 95% of our net sales, respectively, and 97% and 96% of income from continuing operations, respectively.

Our 2008 net sales, which include a full year of sales from the acquired DYNAenergetics' businesses, increased by $67,402, or 40.8%, compared to 2007 net sales, which include sales from DYNAenergetics for the period from November 15 through December 31, 2007. The year-to-year consolidated net sales increase reflects sales increases of $39,561 (25.5%) for our Explosive Metalworking segment, $25,288 for our new Oilfield Products segment and $2,553 (35.5%) for AMK Welding. Explosive Metalworking's 2008 and 2007 sales included sales contributions of $30,763 and $4,357, respectively, from DYNAenergetics' explosion clad business. Our income from continuing operations decreased by 2.2% to $38,052 in 2008 from $38,892 in 2007, reflecting a $1,448 decline in Explosive Metalworking's operating income and an increase in stock-based compensation expense of $1,936 that were partially offset by improvements of $1,598 and $946 in the operating income performance of Oilfield Products and AMK Welding, respectively. Reported consolidated operating income for 2008 and for 2007 include amortization expense of $7,382 and $1,191, respectively, relating to purchased intangible assets associated with the acquisition of DYNAenergetics. Our net income decreased by 2.1% to $24,068 in 2008 from $24,587 in 2007.

Impact of Current Economic Situation on the Company.

The Company was only minimally impacted in 2008 by the global economic slow down. During the Fourth Quarter of 2008, our sales decreased slightly from historic levels. We expect our net consolidated sales in 2009 to decrease approximately 12% to 20% from the amount we achieved in 2008. In light of this expected slow down, we have deferred some of our previous planned capital expenditures and are continuing to carefully manage expenses. We expect continued strong, although somewhat reduced, cash flow from operations for 2009. As of December 31, 2008, we had over $14 million in cash and cash equivalents as well as approximately $43.8 million of borrowing capacity available under our current credit facilities.

Net sales

Explosive Metalworking's revenues 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 oil and gas, petrochemicals, alternative energy, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration, and similar industries. While a large portion of the demand for our clad metal products is driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing, oil refining, and aluminum smelting facilities also account for a significant portion of total demand.

Oilfield Products' revenues are generated principally from sales of shaped charges, detonators and detonating cord, and bidirectional booster sand perforating guns to customers who perform the perforation of oil and gas wells and from sales of seismic products to customers involved in oil and gas exploration activities.

AMK Welding's revenues 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 revenue is derived from a relatively small number of customers; therefore, the failure to complete existing contracts on a timely basis, 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 aggressively on the basis of price.

Gross profit and cost of products sold

Cost of products sold for Explosive Metalworking includes 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.

Cost of products sold for Oilfield Products includes the cost of metals, explosives and other raw materials used to manufacture shaped charges, detonating products and perforating guns as well as employee compensation and benefits, 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

On January 10, 2006, we sold our option rights to purchase the real estate previously used in a discontinued operation 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 remaining equipment of those discontinued operations to the company 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 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 decreased to 27.7% in 2008 from 36.5% in 2007. Income tax provisions on the earnings of Nobelclad, Nitro Metall, DYNAenergetics and our German and Luxembourg holding companies have been provided based upon the respective French, Swedish, German and Luxembourg statutory tax rates for the applicable years. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our effective tax rate on our projected consolidated pre-tax income to range between 30% and 32%.

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 as consisting 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.

Our backlog with respect to the Explosive Metalworking segment decreased to $97,247 at December 31, 2008, from $100,000 at December 31, 2007. Despite only a small decrease in Explosive Metalworking backlog from December 31, 2007 to December 31, 2008, we are forecasting that our consolidated net sales for fiscal 2009 will decline between 12% and 20% from those reported in fiscal 2008. This anticipated sales decline is attributable to uncertainty associated with current global economic conditions, the slowdown we have already seen in the chemical, petrochemical and hydrometallurgy sectors, and the difficulty in predicting the timing of large orders.

Products with fixed selling prices. These products include value-added products such as decking and fencing sold to DIY/retail customers, as well as trusses, wall panels and other components sold to the site-built construction market, and most industrial packaging products. Prices for these products are generally fixed at the time of the sales quotation for a specified period of time or are based upon a specific quantity. In order to maintain margins and reduce any exposure to adverse trends in the price of component lumber products, we attempt to lock in costs for these sales commitments with our suppliers. Also, the time period and quantity limitations generally allow us to re-price our products for changes in lumber costs from our suppliers.

Products with selling prices indexed to the reported Lumber Market with a fixed dollar adder to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers needs and carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the

market price of lumber impact our gross margins. For these products, our margins are exposed to changes in the trend of lumber prices.

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Changes in the trend of lumber prices have their greatest impact on the following products:

Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 12% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. (*Please refer to the Risk Factors section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.*)

Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

In addition to the impact of the Lumber Market trends on gross margins, changes in the level of the market cause fluctuations in gross margins when comparing operating results from period to period. This is explained in the following example, which assumes the price of lumber has increased from period one to period two, with no changes in the trend within each period.

	Period 1	Period 2
Lumber cost	$ 300	$ 400
Conversion cost	50	50
= Product cost	350	450
Adder	50	50
= Sell price	$ 400	$ 500
Gross margin	12.5%	10.0%

As is apparent from the preceding example, the level of lumber prices does not impact our overall profits, but does impact our margins. Gross margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low.

BUSINESS COMBINATIONS

See Notes to Consolidated Condensed Financial Statements, Note I, Business Combinations.

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RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the components of our Consolidated Condensed Statements of Earnings as a percentage of net sales.

	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	89.3	87.9	88.7	87.1
Gross profit	10.7	12.1	11.3	12.9
Selling, general, and administrative expenses	9.5	8.7	9.9	9.6
Net loss on disposition of assets and other impairment and exit charges	1.0		0.4	
Earnings from operations	0.2	3.4	1.0	3.3
Interest, net	0.4	0.5	0.4	0.6
Earnings (loss) before income taxes and minority interest	(0.2)	2.9	0.6	2.7
Income taxes	0.1	1.1	0.3	1.0
Earnings before minority interest	(0.3)	1.8	0.3	1.7
Minority interest	(0.0)	(0.1)	(0.0)	(0.1)
Net earnings (loss)	(0.3)%	1.7%	0.3%	1.6%

GROSS SALES

We engineer, manufacture, treat, distribute and install lumber, composite wood, plastic, and other building products for the DIY/retail, site-built construction, industrial, and manufactured housing markets. Our strategic long-term sales objectives include:

Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, penetrating the concrete forms market, and increasing our sales of engineered wood components for custom homes, multi- family and light commercial construction.

Expanding geographically in our core businesses.

Increasing sales of value-added products and framing services. Value-added product sales primarily consist of fencing, decking, lattice, and other specialty products sold to the DIY/retail market, specialty wood packaging, engineered wood components, and wood alternative products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.

Maximizing unit sales growth while achieving return on investment goals.

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The following table presents, for the periods indicated, our gross sales (in thousands) and percentage change in gross sales by market classification.

	For the Three Months Ended			For the Nine Months Ended		
Market Classification	Sept. 27, 2008	% Change	Sept. 29, 2007	Sept. 27, 2008	% Change	Sept. 29, 2007
DIY/Retail	$ 251,559	(5.9)	$ 267,291	$ 758,898	(7.8)	$ 823,173
Site-Built Construction	119,772	(24.2)	158,035	361,430	(21.0)	457,663
Industrial	166,327	5. 4	157,836	480,947	5.7	455,129
Manufactured Housing	85,215	(22.5)	110,006	245,713	(19.3)	304,426
Total Gross Sales	622,873	(10.1)	693,168	1,846,988	(9.5)	2,040,391
Sales Allowances	(12,129)		(14,770)	(38,247)		(39,850)
Total Net Sales	$ 610,744	(10.0)	$ 678,398	$ 1,808,741	(9.6)	$ 2,000,541

Note: In the first quarter of 2008, we reviewed the classification of our customers and made certain reclassifications. Prior year information has been restated to reflect these reclassifications.

Gross sales in the third quarter of 2008 decreased 10% compared to the third quarter of 2007. We estimate that our unit sales decreased by 8% and overall selling prices decreased by 2% comparing the two periods. We estimate that our unit sales increased 3% as a result of business acquisitions, while unit sales from existing and closed facilities decreased 11%. Our overall selling prices fluctuate as a result of the Lumber Market (see Historical Lumber Prices) and were negatively impacted by pricing pressure primarily in the site-built market.

Gross sales in the first nine months of 2008 decreased 9% compared to the first nine months of 2007 resulting from an estimated decrease in units shipped of approximately 7%, while overall selling prices decreased by 2%. We estimate that our unit sales increased 3% as a result of business acquisitions and new plants, while our unit sales from existing and closed facilities decreased by 10%.

Changes in our sales by market are discussed below.

DIY/Retail:

Gross sales to the DIY/retail market decreased 6% in the third quarter of 2008 compared to 2007 primarily due to an estimated 4% decrease in overall unit sales and an estimated 2% decrease in overall selling prices. We estimate that our unit sales increased 2% as a result of acquisitions, while unit sales from existing and closed facilities decreased 6%. Unit sales declined due to the impact of the housing market on our retail customers whose business is closely correlated with single-family housing starts and a decline in consumer spending as evidenced by a decline in same store sales of our big box customers.

Gross sales to the DIY/retail market decreased 8% in the first nine months of 2008 compared to 2007 primarily due to an estimated 7% decrease in overall units shipped and an estimated 1% decrease in overall selling prices. We estimate that our unit sales increased 2% as a result of acquisitions, while unit sales from existing and closed facilities decreased 9%. The decrease in unit sales is primarily due to the same factors mentioned in the paragraph above.

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Site-Built Construction:

Gross sales to the site-built construction market decreased 24% in the third quarter of 2008 compared to 2007 due to an estimated 18% decrease in unit sales out of existing plants and an estimated 6% decrease in our average selling prices primarily due to intense pricing pressure and a soft Lumber Market. National single-family housing starts were off a reported 39% from July through September of 2008 compared to the same period of 2007. We were able to mitigate some of the decrease in the single-family market by pursuing multi-family and light commercial business and increasing our turn-key framing activities. However, these markets are currently being impacted by tight credit conditions.

Gross sales to the site-built construction market decreased 21% in the first nine months of 2008 compared to 2007, due to an estimated 13% decrease in unit sales and an estimated 8% decrease in selling prices. Single-family housing starts have fallen approximately 40% in 2008 compared to 2007.

Industrial:

Gross sales to the industrial market increased 5% in the third quarter of 2008 compared to the same period of 2007, due to an estimated 3% increase in unit sales and an estimated 2% increase in selling prices. Acquisitions and our continued focus on adding new customers, including concrete forming, helped us mitigate the effect of a decline in sales to certain of our customers that supply the housing market or have been impacted by the weakening U.S. economy.

Gross sales to the industrial market increased 6% in the first nine months of 2008 compared to the same period of 2007, due to an estimated 8% increase in units shipped offset by an estimated 2% decrease in selling prices. Unit sales increased for the reasons mentioned in the paragraph above.

Manufactured Housing:

Gross sales to the manufactured housing market decreased 23% in the third quarter of 2008 compared to the same period of 2007, primarily due to an estimated 21% decrease in unit sales combined with an estimated 2% decrease in selling prices due to the Lumber Market. Our decline in unit sales from existing facilities was the result of an overall decline in industry production. The industry most recently reported a 17% decrease in HUD code production in July and August, and industry production of modular homes was down 34% in the second quarter of 2008. We believe these trends continued through the third quarter of 2008.

Gross sales to the manufactured housing market decreased 19% in the first nine months of 2008 compared to the same period of 2007. This decrease resulted from an estimated 17% decrease in unit sales combined with an estimated 2% decrease in selling prices. The industry most recently reported a 10% decrease in HUD code production in the first eight months of 2008 compared to the same period in 2007.

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Value-Added and Commodity-Based Sales:

The following table presents, for the periods indicated, our percentage of value-added and commodity-based sales to total sales.

	Three Months Ended		Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Value-Added	59.6%	59.4%	60.7%	60.8%
Commodity-Based	40.4%	40.6%	39.3%	39.2%

Note: In the third quarter of 2007, we reviewed the classification of our product codes and made certain reclassifications. Prior year information has been restated to reflect these reclassifications.

Value-added sales decreased 10% in the third quarter of 2008 compared to 2007, primarily due to decreased sales of trusses, engineered wood products, and wall panels, offset partially by increases in industrial packaging and related components. Commodity-based sales decreased 11% comparing the third quarter of 2008 with the same period of 2007, primarily due to decreased sales of non-manufactured brite and other lumber and non-manufactured treated lumber.

Value-added sales decreased 10% in the first nine months of 2008 compared to 2007, primarily due to decreased sales of trusses, wall panels, engineered wood products and fencing, offset partially by increases in industrial packaging and related components and turn-key framing and installed sales to site-built customers. Commodity-based sales decreased 9% comparing the first nine months of 2008 with the same period of 2007, primarily due to decreased sales of non-manufactured brite and other lumber and non-manufactured treated lumber.

COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage decreased to 10.7% from 12.1% and gross profit dollars decreased more than 20% comparing the third quarter of 2008 with the same period of 2007. The decline in our profitability was primarily due to a combination of:

- Price pressure in all of our markets but particularly in our site-built market, which reported a significant decline in gross margin.
- A significant increase in fuel and other transportation costs.
- Missed buying opportunities as a result of stocking lower levels of lumber inventory.
- Lower volumes combined with fixed manufacturing costs.

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Our gross profit percentage decreased to 11.3% from 12.9% and gross profit dollars decreased more than 20% comparing the first nine months of 2008 with the same period of 2007. Our decline in profitability comparing these two periods was primarily due to the factors mentioned in the paragraph above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses decreased by over $0.7 million, or 1.3%, in the third quarter of 2008 compared to the same period of 2007, while we reported an 8% decrease in unit sales. Existing operations increased $2.3 million, operations we closed decreased $4.6 million, and business acquisitions added $1.6 million in SG&A expenses. The increase in SG&A expenses at our existing operations was primarily due to an increase in bad debt expense and bonus expense, partially offset by a decline in wages and related costs due to a reduction in headcount. Approximately $1 million of the increase in bad debt expense was due to an adjustment we recorded in the third quarter of 2007 as a result of a favorable ruling we received on a preference claim. The increase in bonus expense was due to an adjustment we recorded in the third quarter of 2007 to reduce our year to date bonus accrual when we felt several of our profit centers would not achieve our minimum return on investment hurdle to be eligible for bonus.

Selling, general and administrative (SG&A) expenses decreased by approximately $14.0 million, or 7.3%, in the first nine months of 2008 compared to the same period of 2007, and we reported a 7% decrease in unit sales. Existing operations decreased SG&A expenses by approximately $2.3 million, operations we closed decreased SG&A expenses $14.9 million, and business acquisitions added $3.2 million in SG&A expenses. The decrease in SG&A expenses at existing operations was primarily due to a decline in wages and related benefits due to a reduction in headcount and a reduction in bonus and other performance related compensation. These decreases were partially offset by an increase in bad debt expense.

We believe our cost reduction efforts will continue to drive down our costs and will have a more significant impact in future reporting periods.

NET LOSS ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES

We incurred $6.2 million and $7.4 million of asset impairments and other costs associated with idled facilities and down-sizing efforts in the third quarter and first nine months of 2008, respectively. The plants we closed had annual sales of approximately $45 million and annual incremental operating losses of over $6 million.

INTEREST, NET

Net interest costs were lower in the third quarter and first nine months of 2008 compared to the same period of 2007 due to lower debt balances combined with a decrease in short-term interest rates.

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INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate increased to 43.6% in the first nine months of 2008, compared to 36.9% in the first nine months of 2007. This year s tax rate was negatively impacted by the research & development tax credit for fiscal 2008 which was not granted legislative approval until October 2008, an increase in non-deductible amortization expense associated with recent acquisitions, and the effect of permanent tax differences on lower pre-tax income.

We recorded tax expense of $0.5 million in the third quarter of 2008 on a pre-tax loss of $1.2 million due to the factors discussed above.

OFF-BALANCE SHEET TRANSACTIONS

We have no significant off-balance sheet transactions other than operating leases.

LIQUIDITY AND CAPITAL RESOURCES

The table below presents, for the periods indicated, a summary of our cash flow statement (in thousands):

	Nine Months Ended	
	Sept. 27, 2008	Sept. 29, 2007
Cash from operating activities	$ 33,314	$ 80,414
Cash from investing activities	(7,694)	(80,022)
Cash from financing activities	(37,766)	(4,753)
Net change in cash and cash equivalents	(12,146)	(4,361)
Cash and cash equivalents, beginning of period	43,605	51,108
Cash and cash equivalents, end of period	$ 31,459	$ 46,747

In general, we financed our growth in the past through a combination of operating cash flows, our revolving credit facility, industrial development bonds (when circumstances permit), and issuance of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance growth except in the case of a large acquisition. We manage our capital structure by attempting to maintain a targeted ratio of debt to equity and debt to earnings before interest, taxes, depreciation and amortization. We believe this is one of many important factors to maintaining a strong credit profile, which in turn helps ensure timely access to capital when needed.

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Seasonality has a significant impact on our working capital from March to August which historically resulted in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the September 27, 2007 balances in the accompanying unaudited consolidated condensed balance sheets.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. Our cash cycle (excluding the impact of our sale of receivables program) increased to 44 days in the first nine months of 2008 from 43 days in the first nine months of 2007, due to a one day increase in our days of sales outstanding as a one day decrease in our days of inventory outstanding was offset by a one day decrease in our days of payables outstanding. The increase in our days of sales outstanding was primarily due to slower payments with certain site-built customers and a change in sales mix whereby the industrial market, which has a comparatively longer receivables cycle, comprises a higher percentage of our sales.

Cash from operating activities was approximately $33 million in the first nine months of 2008. Our net earnings of $5.1 million included $44.1 million of non-cash expenses, which were offset by a $15.9 million increase in working capital. Working capital increased primarily due to an increase in accounts receivable due to the termination of our sales of receivables program at the end of September 2008. Terminating this program resulted in $27 million more in accounts receivable at the end of the third quarter 2008 compared to year-end 2007 and $50 million more in accounts receivable at the end of the third quarter 2008 compared to the same period of the prior year.

Our sale of receivables program was terminated on September 26, 2008, due to the downgrade of the credit rating of certain customers whose receivables were part of this program. This downgrade triggered a re-pricing of the program under the terms of the agreement which made this program a less favorable source of liquidity.

We have curtailed our capital expenditures and currently plan to spend approximately $20 million in 2008, which includes outstanding purchase commitments on existing capital projects totaling approximately $2 million on September 27, 2008. We intend to fund capital expenditures and purchase commitments through our operating cash flows.

On September 27, 2008, we had approximately $18 million outstanding on our $300 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately $30 million on September 27, 2008. Financial covenants on the unsecured revolving credit facility and unsecured notes include a minimum net worth requirement, minimum interest and fixed charge coverage tests, and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were within all of our lending requirements on September 27, 2008. Continued losses may adversely impact our ability to meet certain of these loan covenants in the future without further action on our part. Management will evaluate what, if any, action or actions may be available to resolve any future non-compliance. A possible consequence of non-compliance may include an adjustment to increase our interest rates to reflect current market conditions.

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Our Series 1998-A Senior Notes totaling $78.5 million are due on December 21, 2008 and we intend to re-pay them utilizing available cash flow and our revolving credit facility.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Consolidated Condensed Financial Statements, Note H, Commitments, Contingencies, and Guarantees.

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 29, 2007.

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UNIVERSAL FOREST PRODUCTS, INC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risks related to fluctuations in interest rates on our variable rate debt, which consists of a revolving credit facility and industrial development revenue bonds. We do not currently use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments to mitigate this risk.

For fixed rate debt, changes in interest rates generally affect the fair market value, but not earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not influence fair market value, but do affect future earnings and cash flows. We do not have an obligation to prepay fixed rate debt prior to maturity, and as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we would be required to refinance it.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a 15e and 15d 15e) as of the quarter ended September 27, 2008 (the Evaluation Date), have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls. During the third quarter ended September 27, 2008, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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UNIVERSAL FOREST PRODUCTS, INC.
PART II. OTHER INFORMATION

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

(a) None.
(b) None.
(c) Issuer purchases of equity securities.

Fiscal Month	(a)	(b)	(c)	(d)
June 29, 2008 August 2, 2008				1,227,314
August 3 30, 2008				1,227,314
August 31 September 27, 2008				1,227,314

(a) Total number of shares purchased.

(b) Average price paid per share.

(c) Total number of shares purchased as part of publicly announced plans or programs.

(d) Maximum number of shares that may yet be purchased under the plans or programs.

(1) On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our

common stock. As of September 27, 2008, cumulative total authorized shares available for repurchase is 1.2 million shares.

Item 5. Other Information.

In the third quarter of 2008, the Audit Committee did not approve any non-audit services to be provided by our independent auditors, Ernst & Young LLP, for 2008.

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UNIVERSAL FOREST PRODUCTS, INC.
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Item 6. Exhibits.

The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

31 Certifications.

(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32 Certifications.

(a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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UNIVERSAL FOREST PRODUCTS, INC.
SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL FOREST PRODUCTS, INC.

Date: October 31, 2008

By: /s/ Michael B. Glenn
Michael B. Glenn
Its: Chief Executive Officer

Date: October 31, 2008

By: /s/ Michael R. Cole
Michael R. Cole
Its: Chief Financial Officer

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EXHIBIT INDEX

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