

DXP ENTERPRISES INC  
Form 10-K/A  
May 29, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K/A  
(Amendment No. 2)

(Mark One)

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

For the fiscal year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934.

For the transition period from

to

Commission file number 0-21513

DXP Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or  
organization)

76-0509661

(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas 77040

(Address of principal executive offices)

Registrant's telephone number, including area code:

(713) 996-4700

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 Par Value

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

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  No

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  No

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 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated Filer  Non-accelerated filer

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

Aggregate market value of the registrant's Common Stock held by non-affiliates of registrant as of June 30, 2006: \$87,186,630.

Number of shares of registrant's Common Stock outstanding as of May 28, 2007: 5,314,089.



**EXPLANATORY NOTE**

The Company is filing this Amendment No. 2 to its Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities Exchange Commission on March 16, 2007. The sole purpose of this amendment is to (1) correct the inadvertent omission of the performance graph from Item 5, (2) correct a typographical error in the first sentence of the second paragraph under "Liquidity and Capital Resources" in Item 7 pertaining to the cash used in operating activities in 2005 which was incorrectly stated to be \$1.2 million and now correctly reflects that cash used in operating activities in 2005 was \$1.4 million, (3) remove Exhibit 2.1 from Item 15(a)(3) and the Exhibit Index which was inadvertently included as an Exhibit and is being removed because such agreement was not material to the Company, and (4) change the title of Exhibit 10.11 from "Summary Description of Director Compensation" to "Summary Description of Director Fees". Additionally, in connection with the filing of this amendment and pursuant to SEC rules, the Company is including currently dated certifications. This amendment does not otherwise update any exhibits as originally filed and does not otherwise reflect events occurring after the original filing date of the Annual Report on Form 10-K for the year ended December 31, 2006.

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This Amendment No. 2 to the Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "estimates", "will", "should", "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and actual results may vary materially from those discussed in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, our ability to effect our internal growth strategy, general economic and business conditions, developments in technology, our ability to effectively integrate businesses we may acquire, new or modified statutory or regulatory requirements and changing prices and market conditions. This report identifies other factors that could cause such differences. We cannot assure you that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. We assume no obligation and do not intend to update these forward-looking statements.

**PART II****ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades on The Nasdaq Global Market under the symbol "DXPE".

The following table sets forth on a per share basis the high and low sales prices for our common stock as reported by Nasdaq for the periods indicated.

	High	Low
2005		
First Quarter	\$ 5.83	\$ 4.41
Second Quarter	\$ 8.50	\$ 4.64
Third Quarter	\$24.83	\$ 6.54
Fourth Quarter	\$26.30	\$12.21
2006		
First Quarter	\$37.44	\$16.61
Second Quarter	\$59.24	\$28.00
Third Quarter	\$38.49	\$20.60
Fourth Quarter	\$36.61	\$20.72

On March 13, 2007 we had approximately 531 holders of record for outstanding shares of our common stock. This number does not include shareholders for whom shares are held in nominee or street name .

We anticipate that future earnings will be retained to finance the continuing development of our business. In addition, our bank credit facility prohibits us from declaring or paying any dividends or other distributions on our capital stock except for the monthly \$0.50 per share dividend on our Series B convertible preferred stock, which amounts to \$90,000 in the aggregate per year. Accordingly, we do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, the success of our business activities, regulatory and capital requirements, our lenders, our general financial condition and general business conditions.

#### **Stock Performance**

The following performance graph compares the performance of DXP Common Stock to the NASDAQ Industrial Index and the NASDAQ Composite (US). The graph assumes that the value of the investment in DXP Common Stock and in each index was \$100 at December 31, 2001, and that all dividends were reinvested.

#### **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes contained elsewhere in this Annual Report on Form 10-K.*

#### **General Overview**

Our products and services are marketed in at least 17 states to over 25,000 customers that are engaged in a variety of industries, many of which may be countercyclical to each other. Demand for our products generally is subject to

changes in the United States and global economy and economic trends affecting our customers and the industries in which they compete in particular. Certain of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry and the construction industry, are cyclical and materially affected by changes in the United States and global economy. As a result, we may experience changes in demand within particular markets, segments and product categories as changes occur in our customers' respective markets. During 2003, our performance was impacted negatively by the economic downturn, particularly the downturn in domestic manufacturing. All of our increase in sales and gross profit for 2003 compared to 2002 was due to increased sales of products for offshore energy production. Our employee headcount decreased by over ten percent during 2003 as we worked to bring our cost structure in line with our sales. During 2004 the economy improved. Our employee headcount decreased by approximately 1% during 2004. The majority of the 2004 sales increase came from increased sales of products for offshore energy production and general manufacturing. During 2005 the general economy and the oil and gas exploration and production business continued to improve. Our employee headcount increased by 17.9% as a result of two acquisitions and hiring additional personnel to support increased sales. The majority of the 2005 sales increase came from a broad based increase in sales of pumps, bearings, safety products and mill supplies to customers engaged in oilfield service, oil and gas production, mining, electricity generation and petrochemical processing. Sales by the two businesses acquired in 2005 accounted for \$7.3 million of the \$24.8 million 2005 sales increase. During 2006 the general economy and the oil and gas exploration and production business continued to be positive. Our employee headcount increased by 45% a result of four acquisitions and hiring additional personnel to support increased sales. The majority of the 2006 sales increase came from a broad based increase in sales of pumps, bearings, safety products and mill supplies to customers engaged in oilfield service, oil and gas production, mining, electricity generation and petrochemical processing. Sales by the four businesses acquired in 2006 accounted for \$11.8 million of the \$94.5 million 2006 sales increase.

Our sales growth strategy in recent years has focused on internal growth and acquisitions. Key elements of our sales strategy include leveraging existing customer relationships by cross-selling new products, expanding product offerings to new and existing customers, and increasing business-to-business solutions using system agreements and SmartSource<sup>SM</sup> solutions for our integrated supply customers. We will continue to review opportunities to grow through the acquisition of distributors and other businesses that would expand our geographic breadth and/or add additional products and services. Our results will depend on our success in executing our internal growth strategy and, to the extent we complete any acquisitions, our ability to integrate such acquisitions effectively.

Our strategies to increase productivity include consolidated purchasing programs, centralizing product distribution centers, centralizing certain customer service and inside sales functions, converting selected locations from full warehouse and customer service operations to DXP service centers, and using information technology to increase employee productivity.

### Results of Operations

	Years Ended December 31,					
	2004	%	2005	%	2006	%
	(in millions, except percentages)					
Sales	\$ 160.6	100.0	\$ 185.4	100.0	\$ 279.8	100.0
Cost of sales	121.2	75.5	135.7	73.2	201.2	71.9
Gross profit	39.4	24.5	49.7	26.8	78.6	28.1
Selling, general and administrative expense	34.2	21.3	40.3	21.7	57.9	20.7
Operating income	5.2	3.2	9.4	5.1	20.7	7.4
Interest expense	0.9	0.6	1.0	0.5	2.0	0.7
	(0.1)	(0.1)	(0.2)	(0.1)	(0.7)	(0.2)

Other income and minority  
interest

Income before income taxes	4.4	2.7	8.6	4.7	19.4	6.9
Provision for income taxes	1.6	1.0	3.1	1.7	7.5	2.7
Net income	\$ 2.8	1.7%	\$ 5.5	3.0%	\$ 11.9	4.2%
Per share						
Basic earnings per share	\$ 0.67		\$ 1.24		\$ 2.34	
Diluted earnings per share	\$ 0.50		\$ 0.94		\$ 2.08	

***Year Ended December 31, 2006 Compared to Year Ended December 31, 2005***

SALES. Revenues for 2006 increased \$94.5 million, or 51.0%, to approximately \$279.8 million from \$185.4 million in 2005. Sales for the MRO segment increased \$94.1 million, or 51.4% primarily due to a broad based increase in sales of pumps, bearings, safety products and mill supplies to companies engaged in oilfield service, oil and gas

production, mining, electricity generation and petrochemical processing. The sales increases appear to be at least partially the result of an improved economy and high energy prices. Sales by the four acquisitions completed in 2006 accounted for \$11.8 million of the 2006 sales increase. Excluding sales of the acquired businesses, sales for the MRO segment increased 45.0%. Sales for the Electrical Contractor segment increased \$0.4 million, or 16.9%, to \$2.8 million from \$2.4 million for 2005. The sales increase for the Electrical Contractor segment resulted from the sale of more commodity type electrical products.

**GROSS PROFIT.** Gross profit for 2006 increased 58.1% compared to 2005. Gross profit, as a percentage of sales, increased by approximately 1.3% for 2006, when compared to 2005. Gross profit as a percentage of sales for the MRO segment increased to 28.0% in 2006 from 26.6% in 2005. This increase can be primarily attributed to increased margins on pump related equipment sold by businesses acquired in 2005 and 2006 which are included in the MRO segment. Gross profit as a percentage of sales for the Electrical Contractor segment decreased to 39.9% for 2006, from 42.6% in 2005. This decrease resulted from the sale of more lower margin commodity type electrical products.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expense for 2006 increased by approximately \$17.6 million, or 43.7%, when compared to 2005. The increase is primarily attributed to increased salaries, incentive compensation, employee benefits, payroll related expenses and \$0.5 million of costs for Sarbanes-Oxley compliance. Selling, general and administrative expense associated with the four acquisitions completed in 2006 accounted for \$2.6 million of the increase. Salaries have increased partially as a result of increased headcount due to acquisitions and hiring more personnel for the purpose of supporting increasing sales. Incentive compensation has increased as a result of increased gross profit and income before tax. The majority of our employees receive incentive compensation which is based upon gross profit. As a percentage of revenue, the 2006 expense decreased by approximately 1.0% to 20.7% from 21.7% for 2005. This decrease resulted from sales increasing by 51.0% while selling, general and administrative costs increased by only 43.7%.

**OPERATING INCOME.** Operating income for 2006 increased by approximately \$11.3 million, or 119.9%, when compared to 2005. This increase was the result of a 122.3% increase in operating income for the MRO segment and a 49.2% increase in operating income for the Electrical Contractor segment. Operating income for the MRO segment increased as a result of increased gross profit, partially offset by increased selling, general, and administrative expense. Operating income for the Electrical Contractor segment increased as a result of increased gross profit, combined with decreased selling, general and administrative costs.

**INTEREST EXPENSE.** Interest expense for 2006 increased by 94% from 2005. This increase resulted from the combination of increased debt to fund acquisitions and internal growth and an approximate 177 basis point increase in prime and LIBOR market interest rates for 2006 compared to 2005. The effect of the increase in market interest rates was partially offset by the lower margins on our facility put in place in August, 2005.

**OTHER INCOME.** Other income for 2006 increased to \$0.7 million from \$0.1 million for 2005 as a result of gains recorded on sales of equipment and real estate during 2006.

**INCOME TAXES.** Our provision for income taxes differed from the U. S. statutory rate of 34% due to state income taxes and non-deductible expenses. Our effective tax rate for 2006 increased to 38.6% from 36.5% for 2005 primarily as a result of increased state income taxes. State income taxes increased as a result of increased operations in higher tax states and the effect of the use of state net operating loss carryforwards in 2005.

***Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***

**SALES.** Revenues for 2005 increased \$24.8 million, or 15.4%, to approximately \$185.4 million from \$160.6 million in 2004. Sales for the MRO segment increased \$24.8 million, or 15.7% primarily due to a broad based increase in sales of pumps, bearings, safety products and mill supplies to companies engaged in oilfield service, oil and gas production, mining, electricity generation and petrochemical processing. The sales increases appear to be at least partially the result of an improved economy and increased energy prices. Sales by the two businesses acquired in 2005 accounted for \$7.3 million of the 2005 sales increase. Excluding sales of the acquired businesses, sales for the MRO segment increased 11.0%. Sales for the Electrical Contractor segment were the same at \$2.4 million for 2004 and 2005.



**GROSS PROFIT.** Gross profit for 2005 increased 26.1% compared to 2004. Gross profit as a percentage of sales increased by approximately 2.3% for 2005, when compared to 2004. Gross profit as a percentage of sales for the MRO segment increased to 26.6% in 2005 from 24.3% in 2004. This increase can be primarily attributed to increased margins on pump related equipment sold by the MRO segment. The 2004 period included certain large sales of products for offshore energy production with lower than average margins. In 2005 we replaced those sales with smaller, higher margin sales. Gross profit as a percentage of sales for the Electrical Contractor segment increased to 42.6% for 2005, up from 41.9% in 2004. This increase resulted from the continued effort to focus on selling higher margin specialty electrical products and to be selective on selling lower margin commodity type electrical products.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expense for 2005 increased by approximately \$6.1 million, or 17.8%, when compared to 2004. The increase is primarily attributed to increased salaries, incentive compensation, employee benefits, payroll related expenses and costs associated with two hurricanes in 2005. Selling, general and administrative expense associated with the two businesses acquired in 2005 accounted for \$0.9 million of the increase. Salaries have increased partially as a result of hiring more sales related personnel for the purpose of increasing sales. Incentive compensation has increased as a result of increased gross profit. As a percentage of revenue, the 2005 expense increased by approximately 0.4% to 21.7% from 21.3% for 2004. This increase is primarily the result of increased incentive compensation. The majority of our employees receive incentive compensation which is based upon gross profit. Selling, general and administrative expense as a percentage of gross profit declined in 2005 compared to 2004.

**OPERATING INCOME.** Operating income for 2005 increased by approximately \$4.2 million, or 80.5%, when compared to 2004. This increase was the result of an 84.1% increase in operating income for the MRO segment and a 14.5% increase in operating income for the Electrical Contractor segment. Operating income for the MRO segment increased as a result of increased gross profit, partially offset by increased selling, general, and administrative expense. Operating income for the Electrical Contractor segment increased as a result of selling, general and administrative costs decreasing and gross profit increasing.

**INTEREST EXPENSE.** Interest expense for 2005 increased by \$0.1 million to \$1.0 million from \$0.9 million for 2004. This increase resulted from the combination of increased debt to fund acquisitions and an approximate 190 basis point increase in prime and LIBOR market interest rates for 2005 compared to 2004. The effect of the increase in market interest rates was partially offset by the lower margins on our facility.

## **Liquidity and Capital Resources**

### *General Overview*

As a distributor of MRO products and Electrical Contractor products, we require significant amounts of working capital to fund inventories and accounts receivable. Additional cash is required for capital items such as information technology and warehouse equipment. We also require cash to pay our lease obligations and to service our debt. Cash from operating activities was approximately breakeven in 2006 as compared to using \$1.4 million in cash during 2005. This change between the two years was primarily attributable to increased net income in 2006.

We paid \$12.1 million of cash to purchase businesses in 2006 compared to \$6.1 million in 2005.

We purchased approximately \$2.4 million of capital assets during 2006 compared to \$0.6 million for 2005. Capital expenditures during 2006 and 2005 were related primarily to computer equipment, computer software, inventory handling equipment, and building improvements. Capital expenditures for 2007 are expected to exceed the 2006 amount.

At December 31, 2006, our total long-term debt was \$37.9 million compared to total capitalization (total long-term debt plus shareholders' equity) of \$73.7 million. Approximately \$31.6 million of this outstanding debt bears interest at various floating rates. Therefore, as an example, a 200 basis point increase in interest rates would increase our annual interest expense by approximately \$632,000.

Our normal trade terms for our customers require payment within 30 days of invoice date. In response to competition and customer demands we will offer extended terms to selected customers with good credit history. Customers that are financially strong tend to request extended terms more often than customers that are not financially strong. Many of our customers, including companies listed in the Fortune 500, do not pay us within stated terms for a variety of reasons, including a general business philosophy to pay vendors as late as possible. We generally collect the amounts due from these large, slow-paying customers.

During 2006, the amount available to be borrowed under our credit facility increased from \$11.0 million at December 31, 2005 to \$13.6 million at December 31, 2006. This increase in availability resulted from the \$10 million increase in the credit facility, partially offset by a \$8.0 million increase in the amount borrowed under our lines of credit. The increased borrowings were used primarily to fund acquisitions. Management believes that the liquidity of our balance sheet at December 31, 2006, provides us with the ability to meet our working capital needs, scheduled principal payments, capital expenditures and Series B preferred stock dividend payments during 2007.

*Credit Facility*

On August 2, 2005, we entered into a new credit facility ( Facility ) which replaced the previous credit facility ( Old Credit Facility ). On June 5, 2006, the Facility was amended to increase the maximum amount available to be borrowed to \$40.0 million from \$30.0 million.

The Facility provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$40.0 million, and matures July 31, 2009. The Facility is secured by receivables, inventory and intangibles. The Facility contains customary affirmative and negative covenants as well as financial covenants that are measured quarterly and require that we maintain a certain cash flow and other financial ratios.

The Facility allows us to borrow at LIBOR plus a margin ranging from 0.75% to 1.25% or prime minus a margin of 1.75% to 1.25%. At December 31, 2005 and 2006, the LIBOR based rate was LIBOR plus 75 basis points. At December 31, 2005 and 2006, the prime based rate was prime minus 175 basis points. The LIBOR and prime based rates under the Facility are generally 150 basis points and 175 basis points lower, respectively, than those assessed under the Old Credit Facility. At December 31, 2006, \$23 million was borrowed at an interest rate of 6.125% under the LIBOR option and \$3.2 million was borrowed at an interest rate of 6.5% under the prime option. At December 31, 2005, \$15 million was borrowed at an interest rate of 5.125% under the LIBOR option and \$3.2 million was borrowed at an interest rate of 5.5% under the prime option. Commitment fees of .125% per annum are payable on the portion of the Facility capacity not in use for borrowings at any given time. This fee is 12.5 basis points lower than the same fee under the Old Credit Facility. At December 31, 2006, we were in compliance with all covenants. In addition to the \$2.5 million of cash at December 31, 2006, we had \$13.6 million available for borrowings under the Facility at December 31, 2006.

The Facility's principal financial covenants include:

**Fixed Charge Coverage Ratio** The Facility requires that the Fixed Charge Coverage Ratio be not less than 2.0 to 1.0 as of each fiscal quarter end, determined on a rolling four quarters basis, with Fixed Charge Coverage Ratio defined as the aggregate of net profit after taxes plus depreciation expense, amortization expense, and cash capital contributions minus dividends and distributions divided by the aggregate of the current maturity of long-term debt and capitalized lease payments.

**Debt to Credit Facility Adjusted EBITDA** The Facility requires that the Company's ratio of Total Funded Debt to Credit Facility Adjusted EBITDA, determined on a rolling four quarters basis, not exceed 4.0 to 1.0 as of each quarter end. Total Funded Debt is defined under the Facility for financial covenant purposes as the sum of all obligations for borrowed money (excluding subordinated debt) plus all capital lease obligations. Credit Facility Adjusted EBITDA is defined under the credit facility for financial covenant purposes as net profit before tax, plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense, inclusive of acquisitions.

*Borrowings*

	December 31,		Increase
	2005	2006	(Decrease)
	(in Thousands)		
Current portion of long-term debt	\$ 1,358	\$ 2,771	\$ 1,413
Long-term debt, less current portion	25,109	35,174	10,065
Total long-term debt	\$ 26,467	\$ 37,945	\$ 11,478 <sup>(2)</sup>
Amount available <sup>(1)</sup>	\$ 10,972	\$ 13,601	\$ 2,629 <sup>(3)</sup>

(1) Represents amount available to be borrowed at the indicated date under the Facility.

(2) The funds obtained from the increase in long-term debt were primarily used to complete four acquisitions.

(3) The \$2.6 million increase in the amount available is primarily a result of the \$10 million increase in the Facility, partially offset by increased borrowings under the line of credit.

*Performance Metrics*

	December 31,		Increase
	2005	2006	(Decrease)
Days of sales outstanding (in days)	52.3	50.2	(2.1)
Inventory turns	6.9	5.9	(1.0)

Results for businesses acquired in 2005 and 2006 were annualized to compute these performance metrics.

Accounts receivable days of sales outstanding were 50.2 at December 31, 2006 compared to 52.3 days at December 31, 2005. The decrease resulted primarily from a change in customer mix which resulted in faster collection of accounts receivable. Annualized inventory turns were 5.9 times at December 31, 2006 compared to 6.9 times at December 31, 2005. The decline in inventory turns resulted from decisions made by inventory management to increase inventory to support increased sales to purchase inventory before price increases and to react to longer lead times.

*Funding Commitments*

We believe our cash generated from operations and available under our Facility will meet our normal working capital needs during the next twelve months. However, we may require additional debt or equity financing to fund potential acquisitions. Such additional financings may include additional bank debt or the public or private sale of debt or equity securities. In connection with any such financing, we may issue securities that substantially dilute the interests of our shareholders. We may not be able to obtain additional financing on attractive terms, if at all.

*Contractual Obligations*

The impact that our contractual obligations as of December 31, 2006 are expected to have on our liquidity and cash flow in future periods is as follows:

	Total	Payments Due by Period			
		Less than 1 Year	1 3 Years	3-5 Years	More than 5 Years
Long-term debt, including current Portion <sup>(1)</sup>	\$ 37,945	\$ 2,771	\$ 31,621	\$ 1,803	\$ 1,750
Operating lease obligations	9,736	2,865	4,887	1,825	159
Estimated interest payments <sup>(2)</sup>	1,767	605	743	304	115
<b>Total</b>	<b>\$ 49,448</b>	<b>\$ 6,241</b>	<b>\$ 37,251</b>	<b>\$ 3,932</b>	<b>\$ 2,024</b>

- (1) Amounts represent the expected cash payments of our long-term debt and do not include any fair value adjustment.
  
- (2) Assumes interest rates in effect at December 31, 2006. Assumes debt is paid on maturity date and not replaced. Does not include interest on the revolving line of credit as borrowings under this facility fluctuate. The amounts of interest incurred for borrowings under the revolving lines of credit were \$654,000, \$755,000 and \$1,301,000 for 2004, 2005 and 2006, respectively. Management anticipates an increased level of interest payments on the Facility in 2007 as a result of increased average interest

rates and  
increased debt  
levels.

*Off-Balance Sheet Arrangements*

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ( SPE s ), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2006, we were not involved in any unconsolidated SPE transactions.

*Indemnification*

In the ordinary course of business, DXP enters into contractual arrangements under which DXP may agree to indemnify customers from any losses incurred relating to the services we perform. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnities have been immaterial.

**Discussion of Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by us in the accompanying financial statements relate to reserves for accounts receivable collectibility, inventory valuations, income taxes and self-insured medical claims. Actual results could differ from those estimates. Management periodically re-evaluates these estimates as events and circumstances change. Together with the effects of the matters discussed above, these factors may significantly impact the Company s results of operations from period-to-period. Critical accounting policies are those that are both most important to the portrayal of a company s financial position and results of operations, and require management s subjective or complex judgments. These policies have been discussed with the Audit Committee of the Board of Directors of DXP. Below is a discussion of what we believe are our critical accounting policies. Also, see Note 1 of the Notes to the Consolidated Financial Statements.

*Revenue Recognition*

We recognize revenues when an agreement is in place, price is fixed, title for product passes to the customer or services have been provided, and collectibility is reasonably assured.

*Allowance for Doubtful Accounts*

Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically (as circumstances warrant) based upon the expected collectibility of all such accounts. Write-offs could be materially different from the reserve provided if economic conditions change or actual results deviate from historical trends.

*Inventory*

Inventory consists principally of finished goods and is priced at lower of cost or market, cost being determined using both the first-in, first-out (FIFO) and the last-in, first out (LIFO) method. Reserves are provided against inventory for estimated obsolescence based upon the aging of the inventory and market trends. Actual obsolescence could be materially different from the reserve if economic conditions or market trends change significantly.

*Self-insured Medical Claims*

We accrue for the estimated outstanding balance of unpaid medical claims for our employees and their dependents. The accrual is adjusted monthly based on recent claims experience. The actual claims could deviate from recent claims experience and be materially different from the reserve.

*Goodwill and Other Intangible Assets*

Goodwill and other intangible assets attributable to our reporting units are tested for impairment by comparing the fair value of each reporting unit with its carrying value. Significant estimates used in the determination of fair value include estimates of future cash flows, future growth rates, costs of capital and estimates of market multiples. As required under current accounting standards, we test for impairment annually at year end unless factors otherwise indicate that impairment may have occurred. We did not have any impairments under the provisions of SFAS No. 142 as of December 31, 2006.

*Purchase Accounting*

The Company estimates the fair value of assets, including property, machinery and equipment and its related useful lives and salvage values, and liabilities when allocating the purchase price of an acquisition.

*Income Taxes*

Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established to reduce deferred income tax assets to the amounts expected to be realized.

*Adoption of SFAS 123(R)*

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard 123(R) Share-Based Payment ( SFAS 123(R) ) using the modified prospective transition method. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 Share-Based Payment ( SAB 107 ) in March, 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC. Under the modified prospective transition method, compensation cost recognized in the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified prospective transition method, results for prior periods have not been restated.

No future grants will be made under the Company's stock option plans. The Company now uses restricted stock for share-based compensation programs. Unrecognized compensation expense for restricted stock awards was \$856,000 at December 31, 2006. The weighted average period over which this amount is expected to be recognized is 21.1 months.

**Recent Accounting Pronouncements**

See Note 2 of the Notes to the Consolidated Financial Statements for discussion of recent accounting pronouncements.

**Inflation**

We do not believe the effects of inflation have any material adverse effect on our results of operations or financial condition. We attempt to minimize inflationary trends by passing manufacturer price increases on to the customer whenever practicable.

**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules.**

**(a) Documents included in this report:**

1. Financial Statements (included under Item 8):

	<b>Page</b>
<b>DXP Enterprises, Inc. and Subsidiaries:</b>	
Reports of Independent Registered Public Accounting Firm	18
Consolidated Financial Statements	
Consolidated Balance Sheets	21
Consolidated Statements of Income	22
Consolidated Statements of Shareholders' Equity	23
Consolidated Statements of Cash Flows	24
Notes to Consolidated Financial Statements	25

2. Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts.

All other schedules have been omitted since the required information is not significant or is included in the Consolidated Financial Statements or notes thereto or is not applicable.

3. Exhibits:

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

Exhibit No.	Description
2.1	Stock Purchase Agreement between DXP Enterprises, Inc., as Purchaser, and R. A. Mueller, Inc., dated December 1, 2005, whereby DXP Enterprises, Inc. acquired all of the outstanding shares of R. A. Mueller, Inc. (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on December 5, 2005).
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3.2	Bylaws (incorporated by reference Exhibit 3.2 to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 12, 1996).
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+10.4	Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and David R. Little (incorporated by reference to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 12, 1996).
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- 10.7 Credit Agreement by and among DXP Enterprises, Inc., as Borrower, and Wells Fargo Bank, as Bank, dated as of August 2, 2005. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Commission on August 4, 2005).
- +10.8 Employment Agreement dated effective as of January 1, 2004, between DXP Enterprises, Inc. and David R. Little (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

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+10.9	Employment Agreement dated effective as of June 1, 2004, between DXP Enterprises, Inc. and Mac McConnell (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004.).
+10.10	Amendment No. One to DXP Enterprises, Inc. 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
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+10.12	Summary Description of Executive Officer Cash Bonus Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
+10.13	Amendment No. Two to DXP Enterprises, Inc. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
+10.14	DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-134606), filed with the Commission on May 31, 2006).
10.15	First Amendment to Credit Agreement by and among DXP Enterprises, Inc., as Borrower, and Wells Fargo Bank, as Bank, dated as of August 2, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 6, 2006).
10.16	First Modification to Promissory Note by and among DXP Enterprises, Inc., as Borrower, and Wells Fargo Bank, as Bank, dated as of August 2, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 6, 2006).
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+10.18	Amendment No. One to DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 25, 2006).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2007).
23.1	Consent from Hein & Associates LLP, Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 23.1 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2007).
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.

\*31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.

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

Exhibits designated by the symbol \* are filed with this Annual Report on Form 10-K/A. All exhibits not so designated are incorporated by reference to a prior filing with the SEC as indicated.

+ Indicates a management contract or compensation plan or arrangement.

The Company undertakes to furnish to any shareholder so requesting a copy of any of the exhibits to this Annual Report on Form 10-K upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S  
REPORT ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders

DXP Enterprises, Inc. and Subsidiaries

Houston, Texas

We have audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of DXP Enterprises, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated March 16, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 15 herein (Schedule II-Valuation and Qualifying Accounts) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects with the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ HEIN & ASSOCIATES LLP

HEIN & ASSOCIATES LLP

Houston, Texas

March 16, 2007

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS  
DXP ENTERPRISES, INC.

Years Ended December 31, 2006, 2005 and 2004

(in thousands)

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance At End of Year
Year ended December 31, 2006					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,835	\$ 384	\$	\$ 737	\$ 1,482
Valuation allowance for deferred tax assets	\$ 44	\$	\$	\$ 3 <sup>(2)</sup>	\$ 41
Year ended December 31, 2005					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,776	\$ 273	\$ 48 <sup>(3)</sup>	\$ 262 <sup>(1)</sup>	\$ 1,835
Valuation allowance for deferred tax assets	\$ 78	\$	\$	\$ 34 <sup>(2)</sup>	\$ 44
Year ended December 31, 2004					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,420	\$ 492	\$	\$ 136 <sup>(1)</sup>	\$ 1,776
Valuation allowance for deferred tax assets	\$ 219	\$	\$	\$ 141 <sup>(2)</sup>	\$ 78

(1)

Uncollectible  
accounts written  
off, net of  
recoveries

- (2) Reduction  
results from  
expiration or  
use of state net  
operating loss  
carryforwards.
- (3) Reserve for  
receivables of  
acquired  
businesses.

**SIGNATURES**

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

DXP ENTERPRISES, INC. (Registrant)

By: /s/ DAVID R. LITTLE

David R. Little  
 Chairman of the Board,  
 President and Chief Executive Officer

Dated: May 29, 2007

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

<b>Name</b>	<b>Title</b>	<b>Date</b>
/s/ DAVID R. LITTLE David R. Little	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	May 29, 2007
/s/ MAC McCONNELL Mac McConnell	Senior Vice-President/Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	May 29, 2007
/s/ CLETUS DAVIS Cletus Davis	Director	May 29, 2007
/s/ TIMOTHY P. HALTER Timothy P. Halter	Director	May 29, 2007
/s/ KENNETH H. MILLER Kenneth H. Miller	Director	May 29, 2007

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EXHIBIT INDEX

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