

# DXP ENTERPRISES INC

## FORM 10-K (Annual Report)

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Address	7272 PINEMONT DRIVE HOUSTON, Texas 77040
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CIK	0001020710
Industry	Misc. Capital Goods
Sector	Capital Goods
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

COMMISSION FILE NUMBER 0-21513

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**DXP ENTERPRISES, INC.**

A TEXAS CORPORATION

76-0509661  
IRS Employer Identification No.

7272 PINEMONT  
HOUSTON, TEXAS 77040

Telephone Number (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

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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.

Aggregate market value of the registrant's Common Stock held by non-affiliates of registrant as of March 28, 2000: \$10,389,095

Number of shares of registrant's Common Stock outstanding as of March 28, 2000: 4,054,281

Documents incorporated by reference: portion of the definitive proxy statement for the annual meeting of shareholders to be held in 1999 are incorporated by reference into Part III hereof.

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## PART I

This Annual Report on Form 10-K contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. DXP Enterprises, Inc.'s actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Business", "Business-Cautious Statements", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K. Unless the context otherwise requires, references in this Annual Report on Form 10-K to the "Company" or "DXP" shall mean DXP Enterprises, Inc., a Texas corporation, together with the Company's subsidiaries.

### ITEM 1. BUSINESS

#### GENERAL

The Company is a leading provider of maintenance, repair and operating ("MRO") products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. The Company provides a wide range of MRO products in the fluid handling equipment, bearings and power transmission equipment, general mill and safety supplies and electrical products categories. On July 16, 1999, the Company completed the sale of certain assets of its valve and valve automation division. As a result, the Company no longer competes in the valve and valve automation business. The Company offers its customers a single source of integrated services and supply on an efficient and competitive basis by being a first-tier distributor which purchases its products directly from the manufacturer. The Company also provides integrated services such as system design, fabrication, installation, repair and maintenance for its customers. The Company offers a wide range of industrial MRO products, equipment and services through a complete continuum of customized and efficient MRO solutions, ranging from traditional distribution to fully integrated supply contracts. The integrated solution is tailored to satisfy the customer's unique needs.

#### INDUSTRY OVERVIEW

The Company estimates that annual sales in the United States of MRO products for industrial customers currently exceeds \$200 billion, of which the Company estimates over \$140 billion are in the four major product categories of (i) fluid handling equipment, (ii) bearings and power transmission equipment, (iii) general mill and safety supplies and (iv) electrical products. Based on 1998 sales as reported by industry sources, the Company was the 40th largest distributor of MRO products in the United States.

The industrial distribution market is highly fragmented, with the 50 largest distributors accounting for less than 18% of the total United States market during 1998. As a result, most industrial customers currently purchase their industrial supplies through numerous local distribution and supply companies. These distributors generally provide the customer with repair and maintenance services, technical support and application expertise with respect to one product category. Products typically are purchased by the distributor for resale directly from the manufacturer and warehoused at branch distribution facilities of the distributor until sold to the customer. The customer also typically will purchase an amount of product inventory for its near term anticipated needs and store those products at its industrial site until the products are used. While the growth in the industrial distribution market is generally related to the expansion of the United States economy, revenues attributable to the outsourcing of MRO supply procurement, inventory control and warehouse management, known as "integrated supply", are expected to grow at an annualized rate of 30%.

The Internet will have an impact on the supply chain and therefore distribution. Research predicts that business to business sales over the Internet will reach \$1.3 trillion in three years. Many of the products sold over the Internet are products that are typically sold in the industrial distribution market. The Company is developing its technology program to enter the business to business e-commerce market place. See "-- Products and Services".

The Company believes that the current distribution system for industrial products in the United States creates inefficiencies at both the customer and the distributor level through excess inventory requirements and duplicative cost structures. To compete more effectively, the Company's customers and other users of MRO

products are seeking ways to enhance efficiencies and lower MRO product and procurement costs. In response to this customer desire, three primary trends have emerged in the industrial supply industry:

- Industry Consolidation. Industrial customers have reduced the number of supplier relationships they maintain to lower total purchasing costs, improve inventory management, assure consistently high levels of customer service and enhance purchasing power. This focus on fewer suppliers has led to consolidation within the fragmented industrial distribution industry.

- Customized Integrated Service. As industrial customers focus on their core manufacturing or other production competencies, they increasingly are demanding customized integration services, ranging from value-added traditional distribution to integrated supply and system design, fabrication, installation and repair and maintenance services.

- Single Source, First-Tier Distribution. As industrial customers continue to address cost containment, there is a trend toward reducing the number of suppliers and eliminating multiple tiers of distribution. Therefore, to lower overall costs to the MRO customer, some MRO distributors are expanding their product coverage to eliminate second-tier distributors and the difficulties associated with alliances.

## **RECENT DIVESTURES**

On July 16, 1999, the Company completed the sale of certain assets of its division that specialized in valve and valve automation products, for approximately \$2.04 million in cash, a \$500,000 promissory note and the assumption of a \$114,000 note payable. The consideration received from the sale of the assets approximated the net book value of the assets sold, which consisted of inventory and personal property. The Company retained the accounts receivable balances associated with that division. Since the completion of the transaction, the Company no longer competes in the valve and valve automation business.

## **PRODUCTS AND SERVICES**

The Company currently serves as a first-tier distributor of more than 170,000 stock keeping units ("SKUs") for use primarily by customers engaged in the general manufacturing, oil and gas, petrochemical, service and repair and wood products industries. Other industries served by the Company include mining, construction, chemical, municipal, food and beverage and pulp and paper. The Company's MRO products include a wide range of products in the fluid handling equipment, bearings and power transmission equipment, general mill and safety supplies and electrical products. The Company's products are distributed from 49 distribution centers strategically located throughout the United States and sold through the sales efforts of approximately 280 employees who generally are compensated on a commission basis.

Currently, the Company is beta testing its e-commerce business to business online store. The Company anticipates offering a limited amount of its products for sale through its web site during the second quarter of 2000. There can be no assurances that existing or new customers will utilize the Company's internet site for purchasing products.

### **Fluid Handling Equipment**

The Company's fluid handling equipment line includes a full line of (i) centrifugal pumps for transfer and process service applications, such as petrochemicals, refining and crude oil production, (ii) rotary gear pumps for low- to medium-pressure service applications, such as pumping lubricating oils and other viscous liquids, (iii) plunger and piston pumps for high-pressure service applications such as salt water injection and crude oil pipeline service and (iv) air-operated diaphragm pumps. The Company also provides various pump accessories. Sales of fluid handling equipment accounted for 44%, 39% and 43% of the Company's revenues for the years ended December 31, 1997, 1998 and 1999, respectively.

### **Bearings and Power Transmission Equipment**

The Company provides a full line of bearings, hoses, seals and power transmission products. The Company's bearing products include several types of mounted and unmounted bearings for a variety of

applications. Hose products distributed by the Company include a large selection of industrial fittings and stainless steel hoses, hydraulic hoses, Teflon(R) hoses and expansion joints, as well as hoses for chemical, petroleum, air and water applications. The Company distributes seal products for downhole, wellhead, valve and completion equipment to oilfield service companies. Power transmission products distributed by the Company include speed reducers, flexible coupling drives, chain drives, sprockets, gears, conveyors, clutches, brakes and hoses. Sales of bearings, hoses, seals and power transmission equipment accounted for 31%, 25% and 22% of the Company's revenues for the years ended December 31, 1997, 1998 and 1999, respectively.

### **General Mill and Safety Supplies**

The Company offers a broad range of general mill and safety supplies, such as abrasives, tapes and adhesive products, coatings and lubricants, cutting tools, fasteners, hand tools, janitorial products, pneumatic tools, welding equipment, eye and face protection products, first aid products, protection products, hazardous material handling products, instrumentation and respiratory protection products. Sales of general mill supply and safety products accounted for approximately 25% of the Company's revenue for the years ended December 31, 1998 and December 31, 1999. The Company began offering general mill and safety supplies following its acquisition of the assets of two general mill and safety supply businesses in 1997.

### **Electrical Products**

The Company offers a broad range of electrical products, such as wire conduit, wiring devices, electrical fittings and boxes, signaling devices, heaters, tools, switch gear, lighting, lamps, tape, lugs, wire nuts, batteries, fans and fuses. Sales of electrical products accounted for 6% and 8% of the Company's revenues for the years ended December 31, 1998 and December 31, 1999, respectively. The Company began offering electrical products following its acquisition of the assets of two electrical supply businesses in 1998.

## **CUSTOMIZED DISTRIBUTION SERVICES**

### **System Design, Fabrication, Installation and Repair and Maintenance Services**

In addition to distributing products, the Company provides complete, customized pumping, valve automation and power transmission system design and fabrication services through its engineering personnel and fabrication facilities. The Company also provides training services with respect to the installation and basic applications of its products as well as around-the-clock field repair services supported by a leased fleet of fully equipped service vehicles.

### **Integrated Supply**

SmartSource(R), the Company's integrated supply program, allows a customer to choose from a complete continuum of supply options, ranging from traditional distribution to integrated supply.

## **CUSTOMERS**

The Company provides its products and services to over 25,000 customers in various industries, principally general manufacturing, oil and gas, petrochemical, service and repair and wood products. Other industries include mining, construction, chemical, municipal, food and beverage and pulp and paper. No one customer represented more than 5% of the Company's sales for the year ended December 31, 1999.

## **SALES AND MARKETING**

At December 31, 1999, approximately 280 employees, serving in various capacities ranging from branch or operations managers (42), outside sales representatives (96) and direct sales representatives (142) supported the Company's marketing and sales efforts. The Company's branch and operations managers support the sales efforts through direct customer contact and manage the efforts of the outside and direct sales representatives. The Company has structured compensation to provide incentives to its sales representatives to increase sales through the use of commissions. The Company's outside sales representatives focus on building

long-term relationships with customers and, through their product and industry expertise, providing customers with product application, engineering and after-the-sale services. The direct sales representatives support the outside sales representatives and are responsible for entering product orders and providing technical support with respect to the Company's products. Because the Company offers a broad range of products, the Company's outside and direct sales representatives are able to use their existing customer relationships with respect to one product line to cross-sell the Company's other product lines. In addition, geographic locations in which certain products are sold also are being utilized to sell products not historically sold at such locations. As the Company expands its product lines and geographical presence, it assesses the opportunities and appropriate timing of introducing existing products to new customers and new products to existing customers. Prior to implementing such cross-selling efforts, the Company must provide appropriate sales training and product expertise to its sales force.

Unlike many of its competitors, the Company markets its products primarily as a first-tier distributor, generally procuring products directly from the manufacturers, rather than from other distributors. As a first-tier distributor, the Company is able to reduce its customers' costs and improve efficiencies in the supply chain.

The Company believes it has increased its competitive advantage through its traditional and integrated supply programs, designed to address the customer's specific product and procurement needs. The Company offers its customers various options for the integration of their supply needs, ranging from serving as a single source of supply for all or specific lines of products and product categories to offering a fully integrated supply package in which the Company assumes the procurement and management functions, including ownership of inventory, at the customer's location. The Company's unique approach to integrated supply allows the Company to design a program that best fits the needs of the customer. For those customers purchasing a number of products in large quantities, the customer is able to outsource all or most of those needs to the Company. For customers with smaller supply needs, the Company is able to combine its traditional distribution capabilities with its broad product categories and advanced ordering systems to allow the customer to engage in one-stop shopping without the commitment required under an integrated supply contract.

## **SUPPLIERS**

The Company acquires its products through numerous original equipment manufacturers. The Company has distribution agreements with these manufacturers, some of which give the Company exclusive rights to distribute the manufacturers' products in a specific geographic area. All of the Company's distribution agreements are subject to cancellation by the manufacturer upon one year notice or less. No one manufacturer provides products that account for 10% or more of the Company's revenues. The Company believes that alternative sources of supply could be obtained in a timely manner if any distribution agreement were canceled. Accordingly, the Company does not believe that the loss of any one distribution agreement would have a material adverse effect on its business, financial condition or results of operations. Representative manufacturers of the Company's products include (i) Gould's, G&L, Viking, Wilden and Gaso (fluid handling products), (ii) SKF, Torrington/Fafnir, Timkin and NTN, Dodge/Reliance, Falk, Gates, Martin Sprocket, T. B. Woods, Emerson, Rexnord and Baldor Electric (bearing and power transmission products), (iii) Union Bullerfield, Gulf Coast Fasteners, Norton Gray Abrasives, Sastech, Inc., and LaCross Rainfair Safety Products (general mill and safety supply) and (iv) Cutler-Hammer, Cooper, Killark, and Allied and American Insulated Wiring (electrical products).

## **MANAGEMENT INFORMATION SYSTEM**

The Company uses technology to benefit customers and to improve the Company's productivity and efficiency. In addition to traditional functions of inventory control, order processing, purchasing, accounts receivable, accounts payable and general ledger, the Company's computer system has the flexibility to integrate with the customer's maintenance, accounting and management systems. The Company's system allows for real-time reporting of industrial products used by work order, department and individual, as well as on-line stock inquiry and order-status reports. The Company's system supports advanced functions, such as EDI, customized billing, end user reporting, facsimile transmission, bar coding and preventative maintenance.

The Company's SmartSource(R) program delivers DXP's technology to the integrated supply customer, thereby eliminating duplication and inefficiencies to lower the total acquisition cost of MRO products. This system links the Company's branches and corporate offices with manufacturers and customers into one network system.

The Company operates a mainframe system that is supported by the industry-standard open system environment. The Company has invested significant resources within the last 18 months to increase the capabilities and networking opportunities of this system. The Company's system supports a large number of customer specific databases which tie into the Company's primary database. This capability allows the Company to provide its customers with a wide variety of reports that are customized to meet the specific needs of the customer.

## **COMPETITION**

The Company's business is highly competitive. The Company competes with a variety of industrial supply distributors, many of which may have greater financial and other resources than the Company. Many of the Company's competitors are small enterprises selling to customers in a limited geographic area. The Company also competes with larger distributors that provide integrated supply programs and outsourcing services similar to those offered by the Company through its SmartSource(R) program, some of which may be able to supply their products in a more efficient and cost-effective manner than the Company. The Company also competes with direct mail distributors, large warehouse stores and, to a lesser extent, manufacturers. While many of the Company's competitors offer traditional distribution of some of the product groupings offered by the Company, the Company is not aware of any major competitor that offers on a non-direct mail basis a product grouping as broad as that offered by the Company. Further, while certain direct-mail distributors provide product offerings as broad as the Company, these competitors do not offer the product application, engineering and after-the-sale services provided by the Company.

## **INSURANCE**

The Company maintains liability and other insurance that it believes to be customary and generally consistent with industry practice. There can be no assurance that such insurance will be adequate for the risks involved, that coverage limits will not be exceeded or that such insurance will apply to all liabilities. The occurrence of an adverse claim in excess of the coverage limits maintained by the Company could have a material adverse effect on the Company's financial condition and results of operations.

## **GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS**

The Company is subject to various laws and regulations relating to its business and operations, and various health and safety regulations as established by the Occupational Safety and Health Administration.

Certain of the Company's operations are subject to federal, state and local laws and regulations controlling the discharge of materials into or otherwise relating to the protection of the environment. Although the Company believes that it has adequate procedures to comply with applicable discharge and other environmental laws, the risks of accidental contamination or injury from the discharge of controlled or hazardous materials and chemicals cannot be eliminated completely. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could have a material adverse effect on the Company. The Company is not currently aware of any situation or condition that it believes is likely to have a material adverse effect on its results of operations or financial condition.

## **EMPLOYEES**

At December 31, 1999, the Company had 599 full-time employees. The Company believes that its relationship with its employees is good.



## **CAUTIONARY STATEMENTS**

The Company's expectations with respect to future results of operations that may be embodied in oral and written forward-looking statements, including any forward-looking statements that may be contained in this Annual Report on Form 10-K, are subject to risks and uncertainties that must be considered when evaluating the likelihood of the Company's realization of such expectations. The Company's actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below.

### **Ability to Comply with Financial Covenants of Credit Facility**

The Company's loan agreements with its bank lender (the "Credit Facility") requires the Company to comply with certain specified covenants, restrictions, financial ratios and other financial and operating tests. The Company's ability to comply with any of the foregoing restrictions will depend on its future performance, which will be subject to prevailing economic conditions and other factors, including factors beyond the Company's control. A failure to comply with any of these obligations could result in an event of default under the Credit Facility, which could permit acceleration of the Company's indebtedness under the Credit Facility. The Company from time to time has been unable to comply with some of the financial covenants contained in the Credit Facility (relating to, among other things, the maintenance of prescribed financial ratios) and has, when necessary, obtained waivers or amendments to the covenants from its lender. Although the Company expects to be able to comply with the covenants, including the financial covenants, of the Credit Facility, there can be no assurance that in the future the Company will be able to do so or that its lender will be willing to waive such compliance or further amend such covenants.

### **Risks Related to Internal Growth Strategy**

Future results for the Company will depend in part on the Company's success in implementing its internal growth strategy, which includes expanding existing product lines and adding new product lines. The ability of the Company to implement this strategy will depend on its success in acquiring and integrating new product lines and marketing integrated forms of supply arrangements such as those being pursued by the Company through its SmartSource(R) program. Although the Company intends to increase sales and product offerings to existing customers, add business to business e-commerce capability through its developing website and reduce costs through consolidating certain administrative and sales functions, there can be no assurance that the Company will be successful in these efforts.

### **Substantial Competition**

The Company's business is highly competitive. The Company competes with a variety of industrial supply distributors, some of which may have greater financial and other resources than the Company. Although many of the Company's traditional distribution competitors are small enterprises selling to customers in a limited geographic area, the Company also competes with larger distributors that provide integrated supply programs such as those offered through outsourcing services similar to those that are offered by the Company's SmartSource(R) program. Some of these large distributors may be able to supply their products in a more timely and cost-efficient manner than the Company. The Company's competitors include direct mail suppliers, large warehouse stores and, to a lesser extent, certain manufacturers.

### **Risks of Economic Trends**

Demand for the Company's products is subject to changes in the United States economy in general and economic trends affecting the Company's customers and the industries in which they compete in particular. Many of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry, are cyclical and materially affected by changes in the economy. As a result, the Company may experience changes in demand for its products as changes occur in the markets of its customers.

### **Dependence on Key Personnel**

The Company will continue to be dependent to a significant extent upon the efforts and ability of David R. Little, its Chairman of the Board, President and Chief Executive Officer. The loss of the services of Mr. Little or any other executive officer of the Company could have a material adverse effect on the Company's financial condition and results of operations. The Company does not maintain key-man life insurance on the life of Mr. Little or on the lives of its other executive officers. In addition, the Company's ability to grow successfully will be dependent upon its ability to attract and retain qualified management and technical and operational personnel. The failure to attract and retain such persons could materially adversely affect the Company's financial condition and results of operations.

### **Dependence on Supplier Relationships**

The Company has distribution rights for certain product lines and depends on these distribution rights for a substantial portion of its business. Many of these distribution rights are pursuant to contracts that are subject to cancellation upon little or no prior notice. Although the Company believes that it could obtain alternate distribution rights in the event of such a cancellation, the termination or limitation by any key supplier of its relationship with the Company could result in a temporary disruption on the Company's business and, in turn, could adversely affect results of operations and financial condition. See "Business -- Suppliers".

### **Risks Associated With Hazardous Materials**

Certain of the Company's operations are subject to federal, state and local laws and regulations controlling the discharge of materials into or otherwise relating to the protection of the environment. Although the Company believes that it has adequate procedures to comply with applicable discharge and other environmental laws, the risks of accidental contamination or injury from the discharge of controlled or hazardous materials and chemicals cannot be eliminated completely. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could have a material adverse effect on the Company's financial condition and results of operations.

## **ITEM 2. PROPERTIES**

The Company owns its headquarters facility in Houston, Texas which has 45,000 square feet of office space. It also owns or leases 47 branch distribution facilities located in Arizona, Arkansas, Colorado, Georgia, Idaho, Louisiana, Montana, Nevada, New Mexico, North Dakota, Oklahoma, Tennessee, Texas, Utah and Wyoming. These facilities range from 2,500 square feet to 138,000 square feet in size. Those facilities that are not owned by the Company are leased for terms generally ranging from three to five years. The leases provide for periodic specified rental payments and certain leases are renewable at the option of the Company. The Company believes that if the leases for any of its facilities were not renewed, other suitable facilities could be leased with no material adverse effect on its business, financial condition or results of operations. Certain of the facilities owned by the Company are pledged to secure indebtedness of the Company.

On March 15, 2000, the Company completed a transaction to sell certain of its fabrication and warehouse properties in Houston, Texas, for approximately \$2.8 million in cash. Additionally, the Company is expected to sell additional warehouse and office space during the second quarter of 2000 for \$0.7 million. Each transaction allows the Company to lease back the sold property for a period of time in order to relocate and lease fabrication and warehouse facilities to continue servicing its existing customer base. Relocation is expected to be completed by June 1, 2000.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time the Company is a party to various legal proceedings arising in the ordinary course of its business. The Company believes that the outcome of any of these proceedings will not have a material adverse effect on its business, financial condition or results of operations.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### PART II

#### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock trades on The Nasdaq SmallCap Market under the symbol "DXPE". On March 13, 2000, the Nasdaq-Amex Stock Market ("Nasdaq") moved the Common Stock from the Nasdaq National Market to the Nasdaq SmallCap Market because, due to the recent trading price of the Common Stock, the Company did not comply with the value of public float requirement for continued listing on the Nasdaq National Market.

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

	HIGH	LOW
	-----	-----
1998		
First Quarter.....	12	10
Second Quarter.....	11 7/8	8
Third Quarter.....	11	7
Fourth Quarter.....	8 3/4	6 3/4
1999		
First Quarter.....	10	6
Second Quarter.....	7	3 1/2
Third Quarter.....	5 7/8	3/4
Fourth Quarter.....	8 1/8	1 3/8
2000		
First Quarter (through March 28, 2000).....	3 7/8	2 1/8

On March 28, 2000, the closing sales price of the Common Stock was \$2.56 per share. On March 28, 2000 there were 607 holders of record of outstanding shares of Common Stock.

The Company anticipates that future earnings will be retained to finance the continuing development of its business. In addition, the Credit Facility prohibits the Company from declaring or paying any dividends or other distributions on its capital stock except for limited dividends on its preferred stock. Accordingly, the Company does not anticipate paying cash dividends on the Common Stock in the foreseeable future. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, future earnings, the success of the Company's business activities, regulatory and capital requirements, the general financial condition of the Company and general business conditions.

On December 28, 1999, the Company issued 46,750 shares of Common Stock to its employees, other than officers, pursuant to an Employee Stock Bonus Plan.

#### ITEM 6. SELECTED FINANCIAL DATA

The Company is a Texas corporation that was formed in 1996 to effect a consolidation of SEPCO Industries, Inc. ("SEPCO") and Newman Communications Corporation (the "Reorganization") pursuant to which DXP became a public company. Prior to the Reorganization, the Company had no operations and its only assets consisted of \$1,000 cash. The Reorganization has been accounted for as a recapitalization of SEPCO. The selected historical consolidated financial data of SEPCO set forth below for the one year period ended December 31, 1995, has been derived from the audited consolidated financial statements of SEPCO. The selected historical consolidated financial data set forth below for each of the years in the four-year period ended December 31, 1999 have been derived from the audited consolidated financial statements of the

Company, and assume that the Reorganization had been effected on the first day of the period presented. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

	YEAR ENDED DECEMBER 31,				
	SEPCO		DXP		
	1995	1996	1997	1998	1999
	(IN THOUSANDS EXCEPT FOR PER SHARE DATA)				
CONSOLIDATED STATEMENTS OF EARNINGS					
DATA:					
Revenues.....	\$111,328	\$125,208	\$169,667	\$203,443	\$179,878
Gross profit(1).....	29,157	32,117	44,880	54,020	46,753
Operating income(1)(2).....	4,598	2,785	6,434	7,450	2,151
Income before provision for income taxes.....	3,512	1,635	4,670	5,004	415
Net income (loss).....	2,088	890	2,768	2,874	(118)
Preferred stock dividend.....	(23)	(119)	(103)	(90)	(90)
Net income (loss) attributable to common Shareholders.....	2,065	771	2,665	2,784	(208)
Basic earnings (loss) per common share.....	\$ 0.54	\$ 0.19	\$ 0.65	\$ 0.67	\$ (0.05)
Common shares outstanding(4).....	3,837	3,997	4,082	4,159	4,075
Diluted earnings (loss) per share.....	\$ 0.46	\$ 0.18	\$ 0.49	\$ 0.51	\$ (0.05)
Common and common equivalent shares Outstanding(3)(4).....	4,501	4,857	5,703	5,596	4,075

	YEAR ENDED DECEMBER 31,				
	SEPCO		DXP		
	1995	1996	1997	1998	1999
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Total assets.....	\$ 43,254	\$ 45,042	\$ 67,636	\$ 81,332	\$ 73,966
Long-term debt obligations.....	21,275	22,300	33,395	42,910	36,780
Shareholders' equity(3).....	9,688	10,459	13,031	15,607	15,653

(1) Year ended December 31, 1996 includes a one-time charge to compensation expense of \$618,000 for the amendment of book value options to fair market value options and approximately \$284,000 in professional costs associated with the Reorganization. The Company disposed of approximately \$1,100,000 of excess inventory in December 1996 that it had accumulated through prior acquisitions of product groups that were subject to shelf-life restrictions. This is a one-time charge not expected to occur in future years.

(2) Year ended December 31, 1998 includes a one-time charge to professional fees and travel costs of \$474,000 associated with the Company's decision to discontinue the offering of additional common stock.

(3) Number of shares used to compute earnings per share and shareholders' equity has been restated to reflect the Reorganization as of the first day of the first period presented.

(4) Common stock and earnings per share have been restated to give effect to the two-to-one reverse split of the Common Stock which became effective May 12, 1997 and another two-to-one reverse stock split that became effective July 17, 1998.

## **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 Financial Statements and related notes contained elsewhere in this Annual Report on Form 10-K.

### **GENERAL**

The Company is a leading provider of MRO products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. The Company provides a wide range of MRO products in the fluid handling equipment, bearings and power transmission equipment, general mill and safety supplies and electrical product categories. The Company offers its customers a single source of integrated services and supply on an efficient and competitive basis by being a first-tier distributor which purchases its products directly from the manufacturer. The Company also provides integrated services such as system design, fabrication, installation, repair and maintenance for its customers. The Company offers a wide range of industrial MRO products, equipment and services through a complete continuum of customized and efficient MRO solutions, ranging from traditional distribution to fully integrated supply contracts. The integrated solution is tailored to satisfy the customer's unique needs.

On July 16, 1999, the Company completed the sale of certain assets of its valve and valve automation products division, for approximately \$2.65 million; this sale price consisted of \$2.04 million in cash, a \$500,000 promissory note and the assumption of a \$140,000 note payable. As a result, the Company no longer competes in the valve and valve automation business.

The Company's products and services are marketed in 16 states to over 25,000 customers that are engaged in a variety of industries, many of which may be counter cyclical to each other. Demand for the Company's products generally is subject to changes in the United States economy and economic trends affecting the Company's 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, are cyclical and materially affected by changes in the economy. As a result, the Company may within particular markets and product categories experience changes in demand as changes occur in the markets of its customers.

The Company's strategy in the past focused on addressing current trends in the industrial distribution market through a combination of acquisitions and internal growth. Due to current conditions in the industry, the Company has curtailed its acquisitions efforts. Key elements of the Company's internal growth strategy include leveraging existing customer relationships, expanding product offerings from existing locations, reducing costs through consolidated purchasing programs and combined product distribution centers, designing and implementing innovative solutions to address the procurement and supply needs of the Company's customers and using the Company's traditional distribution and integrated supply capabilities to increase sales in each area. Should conditions in the industry improve, the Company may seek acquisitions that will provide the Company access to additional product lines and customers to enhance its position as a single source industrial distributor with first-tier distribution capabilities. Future results for the Company will be dependent on the success of the Company in implementing its internal growth strategy and, to the extent the Company completes any acquisitions, the ability of the Company to integrate such acquisitions.

### **RESULTS OF OPERATIONS**

The Company currently distributes a substantial number of products in four major product categories within the industrial distribution market and also provided, prior to the sale of its valve and valve automation business in the third quarter of 1999, products in a fifth category, pipe, valve and fittings. The Company has provided two of those product categories, fluid handling equipment and bearings and transmission equipment, for a number of years. The third product category, general mill and safety supplies, was added in 1997 through two acquisitions and the fourth category, electrical products, was added in February 1998 with additional acquisitions.

The following table sets forth the revenues generated from the sales of major products and services distributed by the Company and the percentage of revenues of various items.

	DXP		
	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
<b>REVENUES:</b>			
Fluid handling equipment.....	\$ 75,472	\$ 79,299	\$ 77,575
Bearings and power transmission equipment.....	53,180	50,840	40,347
General mill and safety supplies(1).....	31,660	49,992	44,248
Pipe, valve and fittings(3).....	9,355	9,539	3,694
Electrical Products(2).....	--	13,773	14,014
<b>Total revenues.....</b>	<b>\$169,667</b>	<b>\$203,443</b>	<b>\$179,878</b>
<b>PERCENT OF REVENUES:</b>			
Cost of sales.....	73.5%	73.4%	74.0%
Gross profit.....	26.5	26.6	26.0
Selling, general and administrative expenses.....	22.7	22.9	24.8
Operating income.....	3.8	3.7	1.2
Other income.....	.5	.6	1.1
Interest expense, net.....	1.6	1.8	2.1
Income before taxes.....	2.7	2.5	.2
Income tax expense.....	1.1	1.0	.3
Net income.....	1.6%	1.4%	(.1)%

(1) Product category added in connection with acquisitions completed in the second quarter 1997.

(2) Product category added in connection with acquisitions completed in the first six months of 1998.

(3) Product category discontinued in connection with the sale of its valve and valve automation business in the third quarter of 1999.

#### **YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998**

Revenues for 1999 decreased 11.6% to approximately \$179.9 million from \$203.4 million in 1998. The Company's acquisitions during 1998, which included electrical products and pump distribution, accounted for \$20.4 million in revenues during 1999. The valve and valve automation business, which was sold during the third quarter of 1999, generated revenues in 1999 of \$3.7 million compared to \$9.5 million in 1998. Excluding revenues generated by the acquired companies in 1998 and the valve and valve automation business sold during 1999, current year revenues decreased by 11.1% to \$155.8 million from \$175.3 million in 1998. Sales of fluid handling equipment, excluding revenue from 1998 acquisitions, decreased \$3.9 million, or 5.3%, in 1999 from 1998. Revenue from bearings and power transmission equipment sales decreased 20.6%, or \$10.5 million, in 1999 from 1998. Sales of general mill and safety supplies for 1999 decreased \$5.7 million, or 11.5%, from 1998. The overall decrease in revenues resulted primarily from the effects associated with the decline in oil prices in 1998 and a slow recovery by the oil industry in 1999 along with a softness in the mining industry. A comparison of electrical supplies is not presented due to the fact that the product categories did not exist during the entire comparative period.

Gross margins were slightly lower in 1999 as compared to 1998. The Company currently expects some increase in manufacturer prices to continue due to increased raw material costs. Although the Company intends to attempt to pass on these price increases to its customers to maintain current gross margins, there can be no assurances that the Company will be successful in this regard.

Selling, general and administrative expense for 1999 decreased by approximately \$2.0 million, or 4.2%, when compared to 1998, and is primarily attributable to the decrease in selling expenses resulting from lower sales. As a percentage of revenue, selling, general and administrative expense for 1999 increased slightly by

1.9% to 24.8% as compared to 22.9% in 1998. This was due primarily to the decrease in revenue volume which outpaced the expense reduction effort undertaken by the Company during 1999.

Operating income for 1999 decreased to \$2.2 million from \$7.5 in 1998 and is primarily due to the fact that the decrease in revenue volume outpaced the expense reduction efforts undertaken by the Company.

Interest expense for 1999 remained relatively consistent when compared to 1998.

The Company's provision for income taxes for 1999 decreased by approximately \$1.6 million compared to 1998 and is a result of the decrease in profits. The current tax provision resulted from deductions allowed for book purposes but not allowed for income tax purposes and state income taxes.

The Company realized a net loss of \$0.1 million during 1999, compared to net income of \$2.9 million in 1998, and is due to the various factors previously discussed.

#### **YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997**

Revenues for 1998 increased 19.9% to \$203.4 million from 1997. The Company's acquisitions during 1998 and 1997, which included the assets of general mill and safety supply, pump supply and electrical supply companies, accounted for the \$33.8 million increase in revenues. Sales of fluid handling equipment increased by 5.1%, or \$3.8 million in 1998 over the comparable period in 1997. This was due to the \$4.8 million in revenues generated by the assets of the pump company acquired in May 1998. Sales of bearings and power transmission equipment for 1998 decreased 4.4%, or \$2.3 million over the comparable period in 1997, due primarily to the effects of lower oil prices and its affects on the oil industry. Sales of valve and valve automation equipment increased 2.0%, or \$.2 million over the comparable period in 1997. A comparison of general mill and safety supplies and electrical supplies is not presented due to the fact that the product categories did not exist during the entire comparative prior period.

Gross margins remained relatively consistent in 1998 as compared to 1997.

Selling, general and administrative expenses remained relatively consistent as a percentage of revenue in 1998 as compared to 1997. The Company recorded a one-time charge of \$474,000 in 1998 related to professional fees and travel costs associated with a proposed offering of common stock which the Company decided to abandon.

Operating income for 1998 increased 15.8% from the corresponding period in 1997, from \$6.4 million to \$7.5 million, due to the various factors discussed above.

Interest expense during 1998 increased by \$1.0 million to \$3.7 million as compared to 1997. The increase was primarily due to greater interest expense resulting from additional borrowings incurred to finance two acquisitions during the second quarter of 1997, a third during the first quarter of 1998, two acquisitions during the second quarter of 1998 and the purchase of real property used as the Company's corporate headquarters. Average interest rates were slightly lower during 1998 as compared to 1997.

The Company's provision for income taxes for 1998 increased by \$.2 million compared to 1997, as a result of a marginal increase in profits.

Net income for 1998 was consistent with that generated in 1997, due primarily to the higher interest expense incurred from the financing of five acquisitions over the prior eighteen month period together with the purchase of the real property for the Company's corporate headquarters and the one-time charge associated with the Company's decision to discontinue the proposed offering of common stock.

## LIQUIDITY AND CAPITAL RESOURCES

### General

Under the Credit Facility, all available cash is generally applied to reduce outstanding borrowings, with operations funded through borrowings under the Credit Facility. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that require the Company to maintain a positive cash flow and other financial ratios. The Company's policy is to maintain low levels of cash and cash equivalents and to use borrowings under the Credit Facility for working capital. The Company had \$1.9 million available for borrowings under the working capital component of the Credit Facility at December 31, 1999. Working capital at December 31, 1998 and December 31, 1999 was \$37.1 million, and \$30.0 million, respectively. During 1998 and 1999, the Company collected its trade receivables in approximately 49 and 50 days, respectively, and turned its inventory approximately four times in each year, on an annualized basis.

The Company and its lender amended the Credit Facility three times in the first nine months of 1999: effective March 30, 1999, May 13, 1999 and August 13, 1999. At December 31, 1999, the Credit Facility provided for borrowings of up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$44.0 million. The amendments to the Credit Facility extended the maturity date of the Credit Facility from April 1, 2000 to April 1, 2001. In addition, the interest rates on borrowings under the Credit Facility were amended and increased from a LIBOR rate to prime (8.50% at December 31, 1999) plus 1% on the term loan portion of the Credit Facility and prime plus 1/2% on the revolving loan portion of the Credit Facility. At December 31, 1999, the Company had outstanding indebtedness of \$13.0 million under the term loan portion of the Credit Facility and \$21.4 million under the revolving loan portion of the Credit Facility. The Credit Facility is secured by receivables, inventory, and machinery and equipment. An executive officer of the Company, who is also a shareholder of the Company, has personally guaranteed up to \$.5 million of the obligations of the Company under the line of credit. Additionally, certain shares held in trust for this executive officer's children are pledged to secure this line of credit. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that are measured monthly and require the Company to maintain a certain cash flow and other financial ratios.

The Company from time to time has not been in compliance with certain covenants under the Credit Facility regarding financial ratios. At December 31, 1999, the Company again was not in compliance with certain of those covenants. The lender has provided waivers to the Company regarding the compliance with these covenants, although there can be no assurance the lender will be willing to provide waivers in the future if the Company is unable to comply with the financial ratio covenants.

The Company generated cash from operating activities of \$10.5 million in 1999 as compared to \$5.7 million generated during 1998, due primarily to a decrease in inventory of approximately \$4.7 million from 1998.

The Company had capital expenditures of approximately \$2.2 million in 1999 as compared to \$3.9 million during 1998. Capital expenditures in 1999 were primarily related to the purchase of furniture and fixtures and a telephone system (\$1.0 million) for the Company's corporate headquarters, as well as the purchase of computer equipment and software (\$0.9 million). Capital expenditures in 1998 were primarily related to the purchase and improvement of real property (\$2.5 million) to be used as the corporate headquarters for the Company's management and administrative group as well as other office, computer and communication equipment.

The Company completed the sale, during the third quarter of 1999, of certain assets of its division that specialized in valve and valve automation products, for approximately \$2.04 million in cash, a \$500,000 promissory note and the assumption of \$114,000 note payable. The consideration received from the sale of the assets approximated the net book value of the assets sold, which consisted of inventory and personal property. The Company retained the accounts receivable balances associated with that division. Since the completion of the transaction, the Company no longer competes in the valve and valve automation business.



The Company believes that cash generated from operations and available under its Credit Facility will meet its future ongoing operational and liquidity needs and capital requirements. Funding of the Company's acquisition efforts and integrated supply strategy will require capital in the form of the issuance of additional equity or debt financing. There can be no assurance that future funding will be available to the Company or, if available, as to the terms and conditions thereof.

During the first quarter of 2000, the Company completed a transaction to sell certain of its fabrication and warehouse properties in Houston, Texas, for approximately \$2.8 million in cash. Additionally, the Company is expected to sell additional warehouse and office space during the second quarter of 2000 for \$0.7 million. The net proceeds, after selling expenses, taxes and satisfaction of property-related debt, will be used to further reduce the Company's outstanding indebtedness.

## **YEAR 2000 MATTERS**

The transition to the year 2000 date change was made without any significant problems or interruption of business activity. The principal software and equipment of the Company affected by the date change to year 2000 were the financial information systems and certain personal computers and field equipment used by the Company's personnel. The modification costs and the costs associated with becoming year 2000 compliant had no material adverse effect on the Company's statement of earnings or cash flow.

## **ACCOUNTING PRONOUNCEMENTS**

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge to the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains or losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The adoption of this statement did not have a material impact on the financial position or results of operations of the Company.

On December 8, 1999, the United States Securities and Exchange Commission ("SEC") staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition", to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company reviewed its revenue recognition procedures and is satisfied that it is in compliance with this SAB.

## **INFLATION**

The Company does not believe the effects of inflation have any material adverse effect on its results of operations or financial condition and attempts to minimize inflationary trends by passing manufacturer price increases on to the customer whenever practicable.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Directors and Shareholders of DXP Enterprises, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of DXP Enterprises, Inc. (a Texas corporation), and Subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DXP Enterprises, Inc., and subsidiaries at December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

**ARTHUR ANDERSEN LLP**

March 16, 2000  
Houston, Texas

**DXP ENTERPRISES, INC., AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	DECEMBER 31	
	1998	1999
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ 1,625	\$ 2,991
Trade accounts receivable, net of allowance for doubtful accounts of \$1,155 in 1998 and \$1,535 in 1999.....	24,367	21,268
Inventories.....	28,926	24,238
Prepaid expenses and other.....	1,453	644
Deferred income taxes.....	870	900
	-----	-----
Total current assets.....	57,241	50,041
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, net.....	13,160	12,931
OTHER ASSETS:		
Intangible assets, net of accumulated amortization of \$2,175 in 1998 and \$2,554 in 1999.....	10,447	10,068
Notes receivable from officers and employees.....	324	770
Other.....	160	156
	-----	-----
Total assets.....	\$81,332	\$73,966
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable.....	\$14,826	\$15,570
Accrued wages and benefits.....	1,449	1,086
Other accrued liabilities.....	99	220
Current portion of long-term debt.....	3,782	3,206
	-----	-----
Total current liabilities.....	20,156	20,082
	-----	-----
LONG-TERM DEBT, less current portion.....	42,910	36,780
DEFERRED COMPENSATION.....	739	778
DEFERRED INCOME TAXES.....	563	561
EQUITY SUBJECT TO REDEMPTION:		
Series A preferred stock, 1,122 shares.....	112	112
Common stock, 140,214 shares.....	1,245	--
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Series A preferred stock, 1/10th vote per share; \$1.00 par value; liquidation preference of \$100 per share; 1,000,000 shares authorized, 2,992 shares issued and outstanding.....	2	2
Series B convertible preferred stock, 1/10th vote per share; \$1.00 par value; \$100 stated value; Liquidation preference of \$100 per share; 1,000,000 shares authorized, 17,700 shares issued and 15,000 shares outstanding.....	18	18
Common stock, \$.01 par value, 100,000,000 shares authorized; 4,211,010 and 4,257,760 shares issued of which 4,155,773 and 4,071,685 shares are outstanding, 140,214 shares are equity subject to redemption (for 1998 only) and 55,237 and 186,075 shares are treasury stock.....	40	41
Paid-in capital.....	908	2,251
Retained earnings.....	15,443	15,235
Treasury stock.....	(804)	(1,894)
	-----	-----
Total shareholders' equity.....	15,607	15,653
	-----	-----
Total liabilities and shareholders' equity.....	\$81,332	\$73,966
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**DXP ENTERPRISES, INC., AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS**  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
Sales.....	\$169,667	\$203,443	\$179,878
Cost of Sales.....	124,787	149,423	133,125
Gross profit.....	44,880	54,020	46,753
Selling, General and Administrative Expenses.....	38,446	46,570	44,602
Operating income.....	6,434	7,450	2,151
Other Income.....	890	1,241	1,972
Interest Expense.....	(2,654)	(3,687)	(3,708)
Income Before Income Taxes.....	4,670	5,004	415
Provision for Income Taxes.....	1,902	2,130	533
Net Income (Loss).....	2,768	2,874	(118)
Preferred Stock Dividend.....	(103)	(90)	(90)
Net Income (Loss) Attributable to Common Shareholders.....	\$ 2,665	\$ 2,784	\$ (208)
Basic Earnings (Loss) per Common Share.....	\$ .65	\$ .67	\$ (.05)
Common Shares Outstanding.....	4,082	4,159	4,075
Diluted Earnings (Loss) per Share.....	\$ .49	\$ .51	\$ (.05)
Common and Common Equivalent Shares Outstanding.....	5,703	5,596	4,075

The accompanying notes are an integral part of these consolidated financial statements.

**DXP ENTERPRISES, INC., AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	SERIES A PREFERRED	SERIES B PREFERRED	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1996.....	\$2	\$15	\$40	\$ 408	\$ 9,994	--	\$10,459
Dividends paid.....	--	--	--	--	(103)	--	(103)
Increase in paid-in capital due to reduction of equity subject to redemption as a result of acquiring 374 shares of Series A preferred stock.....	--	--	--	37	--	(37)	--
Increase in paid-in capital due to reduction of equity subject to redemption as a result of acquiring 2,700 shares of Series B preferred stock.....	--	3	--	268	--	(271)	--
Increase in paid-in capital due to reduction of equity subject to redemption as a result of converting 1,800 shares of Series B preferred stock to 50,400 shares of common stock.....	--	--	1	179	--	--	180
Acquisition of 30,436 shares of common stock.....	--	--	(1)	--	--	(272)	(273)
Net income.....	--	--	--	--	2,768	--	2,768
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1997.....	2	18	40	892	12,659	(580)	13,031
Dividends paid.....	--	--	--	--	(90)	--	(90)
Increase in paid-in capital due to issuance of 21,200 shares of common stock based on options exercised.....	--	--	--	16	--	--	16
Acquisition of 21,500 shares of common stock.....	--	--	--	--	--	(201)	(201)
Acquisition of 3,301 shares of common stock.....	--	--	--	--	--	(23)	(23)
Net income.....	--	--	--	--	2,874	--	2,874
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1998.....	2	18	40	908	15,443	(804)	15,607
Dividends paid.....	--	--	--	--	(90)	--	(90)
Elimination of remaining equity subject to redemption.....	--	--	1	1,244	--	--	1,245
Acquisition of 21,500 shares of common stock.....	--	--	--	--	--	(200)	(200)
Acquisition of 80,214 shares of common stock associated with the Pelican purchase.....	--	--	--	--	--	(714)	(714)
Acquisition of 29,124 shares.....	--	--	--	--	--	(176)	(176)
Issuance of 46,750 shares of common stock.....	--	--	--	99	--	--	99
Net loss.....	--	--	--	--	(118)	--	(118)
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999.....	\$2	\$18	\$41	\$2,251	\$15,235	\$(1,894)	\$15,653
	==	===	===	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

**DXP ENTERPRISES, INC., AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)**

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss).....	\$ 2,768	\$ 2,874	\$ (118)
Adjustments to reconcile net income (loss) to net cash provided by Operating activities --			
Depreciation and amortization.....	1,341	1,820	2,016
Compensation expense related to stock option plans...	--	--	39
Benefit for deferred income taxes.....	(62)	(64)	(32)
Loss (gain) on sale of property and equipment.....	(103)	47	(45)
Changes in operating assets and liabilities --			
Trade accounts receivable.....	(7,971)	5,484	3,099
Inventories.....	2,899	(142)	4,688
Prepaid expenses and other.....	(640)	(1,237)	(349)
Trade accounts payable and accrued liabilities.....	1,892	(3,121)	1,230
	-----	-----	-----
Net cash provided by operating activities.....	124	5,661	10,528
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of Strategic Supply net assets.....	(4,118)	--	--
Purchase of Pelican Supply common stock.....	(1,070)	--	--
Purchase of Tri-Electric Supply net assets.....	--	(6,109)	--
Purchase of Lucky Electric Supply net assets.....	--	(2,206)	--
Purchase of Mark W. Smith Equipment net assets.....	--	(4,206)	--
Purchase of property and equipment.....	(825)	(3,859)	(2,226)
Proceeds from sale of property and equipment.....	--	26	850
Other.....	--	44	--
	-----	-----	-----
Net cash used in investing activities.....	(6,013)	(16,310)	(1,376)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings from debt.....	183,715	219,011	182,887
Principal payments on revolving line of credit, long-term and subordinated debt and notes payable to bank.....	(177,395)	(207,175)	(189,592)
Proceeds on sale of Corpus Christi facility.....	112	--	--
Issuance of common stock.....	--	16	99
Acquisition of preferred and common stock.....	(580)	(224)	(1,090)
Dividends paid in cash.....	(103)	(90)	(90)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	5,749	11,538	(7,786)
	-----	-----	-----
INCREASE (DECREASE) IN CASH.....	(140)	889	1,366
CASH AT BEGINNING OF YEAR.....	876	736	1,625
	-----	-----	-----
CASH AT END OF YEAR.....	\$ 736	\$ 1,625	\$ 2,991
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Cash paid for --			
Interest.....	\$ 2,654	\$ 3,687	\$ 3,708
	=====	=====	=====
Income taxes.....	\$ 1,551	\$ 2,986	\$ 394
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

## DXP ENTERPRISES INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

DXP Enterprises, Inc. (DXP or the Company), a Texas corporation, was incorporated on July 26, 1996, to be the successor to SEPCO Industries, Inc. (SEPCO). The Company is a leading provider of maintenance, repair and operating (MRO) products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. The Company provides a wide range of MRO products in the fluid handling equipment, bearings and power transmission equipment, general mill and safety supplies and electrical product categories. The Company offers its customers a single source of integrated services and supply on an efficient and competitive basis by being a first-tier distributor which purchases its products directly from the manufacturer. The Company also provides integrated services such as system design, fabrication, installation, repair and maintenance for its customers. The Company offers a wide range of industrial MRO products, equipment and services through a complete continuum of customized and efficient MRO solutions, ranging from traditional distribution to fully integrated supply contracts. The integrated solution is tailored to satisfy the customer's unique needs.

#### PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### CONCENTRATION OF CREDIT RISK

The Company provides maintenance, repair and operating products, equipment and integrated services, including engineering expertise and logistics capabilities to a diversified customer base in the north and southwestern regions of the United States. The Company believes no significant concentration of credit risk exists. The Company continually evaluates the creditworthiness of its customers' financial positions and monitors accounts on a periodic basis, but does not require collateral.

#### 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.

#### PROPERTY, PLANT AND EQUIPMENT

Assets are carried on the basis of cost. Provisions for depreciation are computed at rates considered to be sufficient to amortize the costs of assets over their expected useful lives. Depreciation of property, plant and equipment is computed using principally the straight-line method for financial reporting purposes. Useful lives assigned to property, plant and equipment range from 3 to 39 years. Maintenance and repairs of depreciable assets are charged against earnings as incurred. Additions and improvements are capitalized. When properties are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to earnings.

#### INTANGIBLES

Intangibles consist of noncompete and licensing agreements and goodwill. The noncompete and licensing agreements are amortized over five years, and goodwill is amortized over 5 to 35 years. All amortization of intangibles is computed using the straight-line method.



**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**FEDERAL INCOME TAXES**

The Company utilizes the asset and liability method prescribed by SFAS No. 109 in accounting for income taxes. Under this method, deferred taxes are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted marginal tax rates and laws that will be in effect when the differences reverse.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

A summary of the carrying and the fair value of financial instruments at December 31, 1999, is as follows:

	CARRYING VALUE	FAIR VALUE
	-----	-----
	( IN THOUSANDS )	
Cash.....	\$2,991	\$2,991
Notes receivable from officers and employees.....	770	770
Long-term debt, including current portion.....	39,986	39,986

The carrying value of the notes receivable from officers and employees approximates fair value because the interest rate of the notes (9 percent) is consistent with the interest rate of the Company's revolving debt and with rates currently available in the market for similar instruments. The carrying value of the long-term debt approximates fair value based upon the current rates and terms available to the Company for instruments with similar remaining maturities.

**REVENUE RECOGNITION**

The Company recognizes revenue as products are shipped to the customer.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company 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 the Company in the accompanying financial statements relate to the allowance for doubtful accounts and reserves for obsolete inventory. Actual results could differ from those estimates.

**RECLASSIFICATIONS**

Certain 1998 amounts have been reclassified to conform with the 1999 presentation.

**2. NEW ACCOUNTING PRONOUNCEMENTS:**

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge to the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains

## DXP ENTERPRISES INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

or losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The adoption of this statement did not have a material impact on the financial position or results of operations of the Company.

On December 8, 1999, the United States Securities and Exchange Commission ("SEC") staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition", to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company reviewed its revenue recognition procedures and is satisfied that it is in compliance with this SAB.

#### 3. ACQUISITIONS AND DIVESTITURES:

Effective May 30, 1997, the Company acquired 100 percent of the outstanding stock of Pelican State Supply Company (Pelican). The purchase price totaled approximately \$3.0 million and consisted of 140,214 shares of the Company's common stock subject to redemption and cash of approximately \$1.0 million. The acquisition has been accounted for using the purchase method of accounting. Goodwill of approximately \$2.04 million was recorded in connection with the acquisition. Pro forma disclosures of operating results are omitted because the acquired companies' operations were not significant.

On June 2, 1997, a wholly owned subsidiary of the Company acquired substantially all the assets of Strategic Supply, Inc. (Strategic). The purchase price, which is subject to adjustments, consisted of approximately \$4.1 million in cash, assumption of \$4.7 million of trade payables and other accrued expenses, \$2.8 million in promissory notes payable to the seller and earn-out payments (based on the earnings before interest and taxes of Strategic) to be paid over a period of approximately six years, up to a maximum of \$3.5 million. No earn-out payments have been earned to date. The acquisition has been accounted for using the purchase method of accounting. Goodwill of \$50,000 was recorded in connection with the acquisition.

On February 26, 1998, a wholly owned subsidiary of the Company acquired substantially all the assets of Tri-Electric Supply, Ltd. (Tri-Electric). The purchase price consisted of \$6.2 million in cash, assumption of \$1.6 million of trade payables and other accrued expenses; the acquisition has been accounted for using the purchase method of accounting. Goodwill of \$3.9 million was recorded in connection with the acquisition.

On May 31, 1998, a wholly owned subsidiary of the Company acquired substantially all the assets of Lucky Electric & Supply, Inc. (Lucky). The purchase price consisted of approximately \$1.5 million in cash, a \$735,000 promissory note and the assumption of \$149,000 of trade payables and other accrued expenses. The acquisition has been accounted for using the purchase method of accounting. Goodwill of \$0.6 million was recorded in connection with the acquisition.

Effective May 31, 1998, a wholly owned subsidiary of the Company acquired substantially all the assets of Mark W. Smith Equipment, Inc. (Smith). The purchase price consisted of approximately \$4.2 million in cash and the assumption of \$618,000 of trade payables and other accrued expenses. The acquisition has been accounted for using the purchase method of accounting. Goodwill of \$2.7 million was recorded in connection with the acquisition.

On July 16, 1999, the Company completed the sale of certain assets of its valve and valve automation products division, for approximately \$2.65 million; this sale price consisted of \$2.04 million in cash, a \$0.5 million promissory note and the assumption of a \$140,000 note payable. As a result, the Company no longer competes in the valve and valve automation business. There was no gain or loss on the sale since the consideration was equal to the net book value of the assets sold.

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The results of operations of all acquisitions are included since the date of acquisition in the historical financial statements. The following table presents selected unaudited consolidated financial information for the Company on a pro forma basis assuming all acquisitions had occurred on January 1, 1997 (in thousands, except per share amounts). The pro forma information set forth below is not necessarily indicative of the results that actually would have been achieved had such transaction been consummated as of January 1, 1997, or that may be achieved in the future.

	DECEMBER 31	
	1997	1998
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS) (UNAUDITED)	
Revenues.....	\$220,565	\$210,803
Net income.....	3,464	3,150
Basic earnings per common share.....	.82	.74
Diluted earnings per common share.....	.61	.56

**4. INVENTORY:**

The Company uses the LIFO method of inventory valuation for approximately 60 percent of its inventories. Remaining inventories are accounted for using the FIFO method. The reconciliation of FIFO inventory to LIFO basis is as follows:

	DECEMBER 31	
	1998	1999
	(IN THOUSANDS)	
Finished goods.....	\$ 29,717	\$ 25,259
Work in process.....	3,093	2,208
Inventories at FIFO.....	32,810	27,467
Less -- LIFO allowance.....	(3,884)	(3,229)
Inventories.....	\$ 28,926	\$ 24,238
	=====	=====

During 1999, the Company liquidated certain inventories valued using the LIFO method; these inventories had been carried at cost substantially lower than their FIFO costs and resulted in cost of goods sold being decreased by approximately \$950,000 with a corresponding increase in income before taxes.

**5. PROPERTY, PLANT AND EQUIPMENT:**

Property, plant and equipment are comprised of the following:

	DECEMBER 31	
	1998	1999
	(IN THOUSANDS)	
Land.....	\$ 1,837	\$ 1,834
Buildings and leasehold improvements.....	9,048	8,543
Furniture, fixtures and equipment.....	12,745	13,513
	23,630	23,890
Less -- Accumulated depreciation and amortization.....	(10,470)	(10,959)
	\$ 13,160	\$ 12,931
	=====	=====

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**6. LONG-TERM DEBT:**

Long-term and subordinated notes consist of the following:

	DECEMBER 31	
	----- 1998	1999 -----
	(IN THOUSANDS)	
Long-term debt --		
Credit facility:		
Working capital component.....	\$24,895	\$21,425
Term loan component.....	14,933	13,013
Note payable to insurance company, 10.125%, collateralized by real property, payable in monthly installments through December 2006.....	1,481	1,354
Notes payable to credit corporation, 2.25% above prime (8.5% at December 31, 1999), collateralized by computer equipment, payable in monthly installments through April 2001.....	853	492
Promissory note payable, 7.0% payable in monthly installments through June 2003.....	2,380	2,050
Notes payable to finance company, 7.74% to 8.21%, collateralized by Furniture, payable in monthly installments through April 2004.....	--	722
Other.....	2,150	930
	-----	-----
	46,692	39,986
Less -- Current portion.....	(3,782)	(3,206)
	-----	-----
	\$42,910	\$36,780
	=====	=====

Under the Company's loan agreements with its bank lender (the "Credit Facility"), all available cash is generally applied to reduce outstanding borrowings, with operations funded through borrowings under the Credit Facility. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that require the Company to maintain a positive cash flow and other financial ratios. The Company had \$1.9 million available for borrowings under the Credit Facility at December 31, 1999. The Company from time to time has not been in compliance with certain covenants under the Credit Facility regarding financial ratios. At December 31, 1999, the Company again was not in compliance with certain of those covenants. The lender has provided waivers to the Company regarding the compliance with these covenants, although there can be no assurance the lender will be willing to provide waivers in the future if the Company is unable to comply with the financial ratio covenants.

The Credit Facility was amended by the Company and its lender on three separate occasions during 1999, which provided 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) \$44.0 million. The amendments also extended the maturity date of the Credit Facility from April 1, 2000 to April 1, 2001. Additionally, the LIBOR pricing, set to expire on June 30, 1999 was cancelled and the interest rate was increased to prime plus 1% on the term portion of the Credit Facility, which was \$13.0 million at December 31, 1999, and prime plus 1/2% on the revolving loan portion of the Credit Facility, which was \$21.4 million at December 31, 1999; the prime rate at December 31, 1999, was 8.5%. The Credit Facility is secured by receivables, inventory, and machinery and equipment. An executive officer of the Company, who is also a shareholder of the Company, has personally guaranteed up to \$0.5 million of the obligations of the Company under the line of credit. Additionally, certain shares held in trust for this executive officer's children are also pledged to secure this line of credit.

At March 16, 2000, the Company had \$2.2 million available for borrowings under the Credit Facility.

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The maturities of long-term debt for the next five years and thereafter are as follows (in thousands):

2000.....	3,206
2001.....	25,008
2002.....	3,325
2003.....	7,648
2004.....	257
Thereafter.....	542
	-----
	\$39,986
	=====

**7. INCOME TAXES:**

The provision for income taxes consists of the following:

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
	-----	-----	-----
	(IN THOUSANDS)		
Current --			
Federal.....	\$1,652	\$1,794	\$156
State.....	312	400	409
	-----	-----	-----
	1,964	2,194	565
Deferred --			
Federal.....	(62)	(64)	(32)
	-----	-----	-----
	\$1,902	\$2,130	\$533
	=====	=====	=====

The difference between income taxes computed at the federal statutory income tax rate and the provision for income taxes is as follows:

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
	-----	-----	-----
	(IN THOUSANDS)		
Income taxes computed at federal statutory rate.....	\$1,588	\$1,701	\$141
State income taxes, net of federal benefit.....	206	264	250
Nondeductible goodwill amortization.....	63	92	82
Other.....	45	73	60
	-----	-----	-----
	\$1,902	\$2,130	\$533
	=====	=====	=====

The net current and noncurrent components of deferred income taxes are as follows:

	DECEMBER 31	
	1998	1999
	-----	-----
	(IN THOUSANDS)	
Net current assets.....	\$ 870	\$ 900
Net noncurrent liabilities.....	563	561
	-----	-----
Net asset.....	\$(307)	\$(339)
	=====	=====

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Deferred tax liabilities and assets were comprised of the following:

	DECEMBER 31	
	1998	1999
	(IN THOUSANDS)	
Deferred tax assets --		
Amortization of goodwill.....	2	3
Unamortized rent reduction.....	22	12
Allowance for doubtful accounts.....	277	407
Section 263A inventory costs.....	313	226
Deferred compensation on stock options.....	251	264
Other.....	5	(12)
	-----	-----
Total deferred tax assets.....	870	900
	-----	-----
Deferred tax liability --		
Difference between financial and tax depreciation of assets acquired.....	\$ 563	\$ 561
	-----	-----
Net deferred tax asset.....	\$(307)	\$(339)
	=====	=====

**8. SHAREHOLDERS' EQUITY:**

**SERIES A PREFERRED STOCK**

The holders of Series A preferred stock are entitled to one-tenth of a vote per share on all matters presented to a vote of shareholders generally, voting as a class with the holders of common stock, and are not entitled to any dividends or distributions other than in the event of a liquidation of the Company, in which case the holders of the Series A preferred stock are entitled to a \$100 liquidation preference per share. Each share of the Series B convertible preferred stock is convertible into 28 shares of common stock and a monthly dividend per share of \$.50. The holders of the Series B convertible stock are also entitled to a \$100 liquidation preference per share after payment of the distributions to the holders of the Series A preferred stock and to one-tenth of a vote per share on all matters presented to a vote of shareholders generally, voting as a class with the holders of the common stock.

**STOCK BONUS PLAN**

On December 28, 1999, the Company issued 46,750 shares of common stock to employees, other than officers, pursuant to an Employee Stock Bonus Plan approved by the Board of Directors.

**STOCK SPLIT**

In each of 1997 and 1998, the Company effected a two-to-one reverse stock split. The Company's financial statements have been restated to reflect the effect of these reverse stock splits.

**VOTING TRUST**

A director, officer and shareholder of the Company is the trustee of three trusts for the benefit of another officer shareholder's children, each of which hold 570,932 shares of common stock and 5,000 shares of Series B convertible preferred stock. The trustee has sole voting control of these shares.

**STOCK REDEMPTION**

The 140,214 shares of common stock issued pursuant to the purchase of Pelican were subject to a put option whereby at any time between November 30, 1998, and November 30, 2000, the Company could have

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

been required to purchase all or part of such shares at a price of \$14.00 per share. During 1998, the repurchase price of these shares was reduced from \$14.00 to \$8.88 per share pursuant to certain rights of offset set forth in the purchase agreement. The reduction in the repurchase price has been reflected as a \$718,000 reduction of goodwill and equity subject to redemption. In March 1999, the Company agreed to repurchase 80,214 of these common shares at \$8.88 per share. Furthermore, as a part of this repurchase, the remaining 60,000 shares outstanding are no longer subject to the put option.

On July 17, 1998, the Company entered into a stock purchase agreement with a common shareholder. The Company agreed to purchase 43,000 shares for a total of \$401,000 in two installments. On September 1, 1998, the Company purchased one-half of the shares for \$200,500. The remainder of the shares were purchased during 1999 for \$200,500.

**STOCK OPTIONS**

Prior to 1997, the Company issued nonqualified stock options to certain officers of the Company to purchase shares of its common stock which had exercise prices equal to the fair market value of the Company's common stock at the date of grant. Additionally, the Company issued options to certain officers and employees pursuant to the terms of the Company's long-term incentive plan. No compensation expense related to these option agreements was recorded in 1997 or 1998. As of December 31, 1998 and 1999, a deferred compensation liability of \$739,000 has been recorded in conjunction with these option agreements. Activity during 1998 and 1999 with respect to the stock options follows:

	SHARES	OPTION PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
Outstanding at December 31, 1997.....	1,349,700	\$1.48 -- \$16.00	\$ 1.50
Granted.....	265,000	\$7.50 -- \$12.00	10.79
Exercised.....	(21,200)	\$ .76	.76
Canceled or expired.....	(20,500)	\$10.66	10.66
	-----	-----	-----
Outstanding at December 31, 1998.....	1,573,000	\$1.48 -- \$16.00	\$ 3.32
Granted.....	19,000	\$ 6.88	6.88
Exercised.....	--	--	--
Canceled or expired.....	(104,912)	\$2.31 -- \$12.00	9.21
	-----	-----	-----
Outstanding at December 31, 1999.....	1,487,088	\$1.48 -- \$16.00	\$ 2.95
	=====	=====	=====
Exercisable at December 31, 1999.....	1,339,618	\$1.48 -- \$12.00	\$ 2.07
	=====	=====	=====

The outstanding options at December 31, 1999, expire between March 31, 2000, and August 23, 2005, or 90 days after termination of full-time employment. The weighted average remaining contractual life was 5.9 years, 4.8 years and 3.8 years at December 31, 1997, 1998 and 1999, respectively.

**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**EARNINGS PER SHARE**

SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share in financial statements of public enterprises rather than primary and fully diluted earnings per share as previously required. Under the provisions of this statement, basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities. The following table sets forth the shares outstanding for the earnings per share calculations for the years ended December 31, 1997, 1998 and 1999:

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Common stock outstanding, beginning of period.....	3,996,974	4,157,361	4,156,806
Weighted average common stock issued in stock option exercise.....	--	15,150	--
Weighted average common stock issued in acquisition.....	93,476	--	--
Less: weighted average treasury shares repurchased.....	(13,095)	(13,192)	(81,814)
Weighted average common stock issued in conversion of preferred stock.....	4,200	--	--
Shares used in computing basic earnings per share...	4,081,555	4,159,319	4,074,992
Dilutive effect of stock options, net of assumed repurchase of treasury stock.....	1,138,321	1,016,430	--
Dilutive effect of convertible preferred stock.....	482,854	420,000	--
Shares used in computing diluted earnings per share.....	5,702,730	5,595,749	4,074,992

**STOCK-BASED COMPENSATION**

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its stock options under the fair value method as provided therein. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options issued in 1997, 1998 and 1999: risk-free interest rates of 6 percent for 1997, 1998 and 1999; expected lives of five years; 18.4 percent assumed volatility; and no expected dividends.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Set forth below is a summary of the Company's net income and earnings per share as reported and pro forma as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. The pro forma information is not meant to be representative of the effects on reported net income for future years because, as provided by SFAS No. 123, only the effects of awards granted after January 1, 1995, are considered in the pro forma calculation.

	1997		1998		1999	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income attributable to common shareholders (in thousands).....	\$2,665	\$2,620	\$2,784	\$2,616	\$(208)	\$(430)
Basic earnings per common share.....	\$ .65	\$ .64	\$ .67	\$ .63	\$(.05)	\$(.09)
Diluted earnings per common share...	\$ .49	\$ .48	\$ .51	\$ .48	\$(.05)	\$(.09)



**DXP ENTERPRISES INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**9. COMMITMENTS AND CONTINGENCIES:**

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 1999, for noncancelable leases are as follows (in thousands):

2000.....	\$1,616
2001.....	1,042
2002.....	659
2003.....	325
2004.....	134
Thereafter.....	42
	-----
	\$3,818
	=====

Rental expense for operating leases was \$1,681,675, \$1,949,130, \$2,143,067 for the years ended December 31, 1997, 1998 and 1999, respectively.

**10. RETIREMENT PLANS:**

DXP provides an employee stock ownership plan (ESOP) which is eligible to employees having 1,000 hours of service in 12 consecutive months of employment. Employer contributions are at the discretion of the board of directors. The ESOP held 862,117 shares of the Company's common stock at December 31, 1999. The Company expensed for the ESOP \$150,000 in 1997, 1998 and 1999. Actual contributions to the Company's ESOP are made subsequent to fiscal year-end with approval by the Company's board of directors; approval was received and contributions of \$150,000 were made for 1997 and 1998. The Company also offers a 401(k) profit-sharing plan for employees having 1,000 hours of service in 12 consecutive months of employment. The Company matches contributions at a rate of 10 percent. The Company contributed to the 401(k) profit sharing-plan \$81,000, \$214,000 and \$132,316 in the years ended December 31, 1997, 1998 and 1999, respectively.

**11. RELATED-PARTY TRANSACTIONS:**

The Company has made two loans to an officer in the amounts of \$149,910 and \$58,737, respectively, each bearing interest at 9 percent per annum. The outstanding balances of such loans were \$50,080 and \$54,587 at December 31, 1998 and 1999, respectively.

Additionally, the Company from time to time has made noninterest-bearing advances to this officer. As of December 31, 1998 and 1999, the outstanding advances amounted to \$420,439 and \$473,871, respectively.

**12. SUBSEQUENT EVENTS:**

On March 15, 2000, the Company completed a transaction to sell certain of its fabrication and warehouse properties in Houston, Texas, for approximately \$2.8 million in cash. Additionally, the Company is expected to sell additional warehouse and office space during the second quarter of 2000 for \$0.7 million. Each transaction allows the Company to lease back the sold property for a period of time in order to relocate and lease fabrication and warehouse facilities to continue servicing its existing customer base. Relocation is expected to be completed by June 1, 2000.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

The information required by Part III, Items 10 through 13, inclusive, of Form 10-K is hereby incorporated by reference from the Company's Definitive Proxy Statement for the 2000 Annual Meeting of Shareholders, which shall be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(a) DOCUMENTS INCLUDED IN THIS REPORT:

1. Financial Statements

	PAGE
	----
DXP ENTERPRISES AND SUBSIDIARIES:	
Report of Independent Public Accountants.....	18
Audited Consolidated Financial Statements	
Consolidated Balance Sheets.....	19
Consolidated Statements of Earnings.....	20
Consolidated Statements of Shareholders' Equity.....	21
Consolidated Statements of Cash Flows.....	22
Notes to Consolidated Financial Statements.....	23

(b) REPORTS ON FORM 8-K:

None.

(c) EXHIBITS:

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

Exhibits designated by the symbol + are management contracts or compensatory plans or arrangements that are required to be filed with this report pursuant to this Item 14.

The Company undertakes to furnish to any stockholder so requesting a copy of any of the following exhibits upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	-- Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement On Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
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).
4.1	-- Form of Common Stock certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).

EXHIBIT NUMBER -----	DESCRIPTION -----
4.2	-- See Exhibit 3.1 for provisions of the Company's Restated Articles of Incorporation, as amended, defining the rights of the holders of Common Stock.
4.3	-- See Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of holders of Common Stock.
10.1	-- DXP Enterprises, Inc. 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
10.2	-- DXP Enterprises, Inc. 1999 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
+10.3	-- DXP Enterprises, Inc. Long Term Incentive Plan, as amended (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
+10.4	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Kenneth H. Miller (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).
+10.5	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Tommy Orr (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).
+10.6	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Cletus Davis (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).
+10.7	-- Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and Jerry J. Jones (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).
+10.8	-- Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and Bryan H. Wimberly (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).
+10.9	-- 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).
+10.10	-- Employment Agreement dated effective as of July 15, 1996, between SEPCO Industries, Inc. and David R. Little (incorporated by reference to Exhibit No. 10.8 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-53387), filed with the Commission on May 22, 1998).
+10.11	-- Employment Agreement dated as of July 1, 1996, between SEPCO Industries, Inc. and Jerry J. Jones, as amended by Amendment to Employment Agreement dated effective May 21, 1998 (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-53387), filed with the commission on May 22, 1998).

EXHIBIT NUMBER -----	DESCRIPTION -----
+10.12	-- Employment Agreement dated as of July 1, 1996, between SEPCO Industries, Inc. and Bryan H. Wimberly, as amended by Amendment to Employment Agreement dated effective May 21, 1998 and Amendment to Employment Agreement dated effective June 30, 1998 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed with the Commission on August 10, 1998).
+10.13	-- Employment Agreement dated as of July 1, 1996, between SEPCO Industries, Inc. and Gary A. Allcorn, as amended by Amendment to Employment Agreement dated effective May 21, 1998 (incorporated by reference to Exhibit 10.11 of the Registrant's Registration Statement on Form S-1 (Reg. No. 333-53387), filed with the Commission on May 22, 1998).
10.14	-- Second Amended and Restated Loan and Security Agreement dated effective as of April 1, 1994, by and between Barclays Business Credit, Inc. and SEPCO Industries, Inc., as amended by First Amendment to Second Amended and Restated Loan and Security Agreement and Secured Promissory Note dated May, 1995, by and between SEPCO Industries, Inc. and Shawmut Capital Corporation, successor-in-interest by assignment to Barclays Business Credit, Inc., as amended by Second Amendment to Second Amended and Restated Loan and Security Agreement dated April 3, 1996, by and between SEPCO Industries, Inc. and Fleet Capital Corporation, formerly known as Shawmut Capital Corporation, as amended by Third Amendment to Second Amended and Restated Loan and Security Agreement dated September 9, 1996, by and between SEPCO Industries, Inc. and Bayou Pumps, Inc. and Fleet Capital Corporation, as amended by Fourth Amendment to Second Amended and Restated Loan and Security Agreement dated October 24, 1996, by and between SEPCO Industries, Inc. American MRO, Inc. and Fleet Capital Corporation and as amended by Letter Agreement dated November 4, 1996, from Fleet Capital Corporation to SEPCO Industries, Inc., Bayou Pumps, Inc. and American MRO, Inc. (incorporated by reference to Amendment No. 4 to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on November 6, 1996).
10.15	-- Fifth Amendment to Second Amended and Restated Loan and Security Agreement dated June 2, 1997, by and among SEPCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the Quarterly period ended June 30, 1997, filed with Commission on November 17, 1997).
10.16	-- Sixth Amendment to Second Amended and Restated Loan and Security Agreement and Amendment to Other Agreements dated April 29, 1998, by And among Sepco Industries, Inc., Bayou Pumps, Inc. and American MRO, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 1998).
10.17	-- Seventh Amendment to Second Amended and Restated Loan and Security Agreement dated June 30, 1998, by and among Sepco Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, filed with the Commission on August 10, 1998).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.18	-- Eighth Amendment to Second Amended and Restated Loan and Security Agreement dated October 20, 1998, by and among Sepco Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, filed with the Commission on November 13, 1998).
10.19	-- Promissory Note dated December 31, 1989, in the aggregate principal amount of \$149,910.00, made by David R. Little and payable to SEPCO Industries, Inc. (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).
10.20	-- Promissory Note dated December 31, 1989, in the aggregate principal amount of \$58,737.00, made by David R. Little and payable to SEPCO Industries, Inc. (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).
10.21	-- Vehicle Lease Agreement dated July 28, 1993, by and between World Omni Financial Corp. and SEPCO Industries, Inc. (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).
10.22	-- Real Estate Note dated November 8, 1979, by Southern Engine & Pump Company, payable to the order of Southwestern Life Insurance Company (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).
+10.23	-- SEPCO Industries, Inc. Employee Stock Ownership Plan (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 13, 1996).
10.24	-- Amendment No. Two to SEPCO Industries, Inc. Employee Stock Ownership Plan (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 26, 1998).
10.25	-- Amendment No. Three to SEPCO Industries, Inc. Employee Stock Ownership Plan (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 26, 1998).
10.26	-- August 1999 Amendment to Loan and Security Agreement dated August 13, 1999, by and among DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
10.27	-- August 1999 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements dated August 13, 1999, by and among SEPCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
10.28	-- August 1999 Amendment to Loan and Security Agreement Dated August 13, 1999, by and among Pelican State Supply Company, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.29	-- May 1999 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements Dated May 13, 1999, by and among SEPSCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.30	-- May 1999 Amendment to Loan and Security Agreement dated May 13, 1999, by and among Pelican State Supply Company, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.31	-- May 1999 Amendment to Loan and Security Agreement dated May 13, 1999, by and among DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.32	-- Waiver and Amendment dated March 30, 1999 between SEPSCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.33	-- Waiver and Amendment dated March 30, 1999 between Pelican State Supply Company, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.34	-- Waiver and Amendment dated March 30, 1999 between DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.35	-- Loan and Security Agreement dated June 16, 1997, by and between Fleet Capital Corporation and DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. (incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.36	-- Amendment to Loan and Security Agreement dated April 29, 1998, by and between DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 1998).
10.37	-- Second Amendment to Loan and Security Agreement dated October 20, 1998, by and between DXP Acquisition, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 1998, filed with the Commission on November 13, 1998).
10.38	-- Continuing Guaranty Agreement dated June 16, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).

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NUMBER

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- 10.39 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Enterprises, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.40 -- Continuing Guaranty Agreement dated June 16, 1997, by Sepco Industries, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.41 -- Continuing Guaranty Agreement dated June 16, 1997, by American MRO, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.42 -- Continuing Guaranty Agreement dated June 16, 1997, by Bayou Pumps, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.43 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Sepco Industries, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.44 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.45 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Bayou Pumps, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.46 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).

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- 10.47 -- Loan and Security Agreement dated May 29, 1997, by and between Fleet Capital Corporation and Pelican State Supply Company, Inc. (incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.48 -- Amendment to Loan and Security Agreement dated April 29, 1998, by and between Pelican State Supply Company, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 1998).
- 10.49 -- Continuing Guaranty Agreement dated May 29, 1997, by DXP Enterprises, Inc., guarantying the indebtedness of Pelican State Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.50 -- Continuing Guaranty Agreement dated May 29, 1997, by SEPCO Industries, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.14 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.51 -- Continuing Guaranty Agreement dated May 29, 1997, by American MRO, Inc., guarantying the indebtedness of Pelican State Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.52 -- Continuing Guaranty Agreement dated May 29, 1997, by Bayou Pumps, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.16 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.53 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of SEPCO Industries, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.54 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.18 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.55 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of Bayou Pumps, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.19 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).



EXHIBIT NUMBER -----	DESCRIPTION -----
10.56	-- Secured Promissory Note dated April 29, 1998 payable by SEPCO Industries, Inc., Bayou Pumps, Inc. and American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, filed with the Commission on May 14, 1998).
*11.1	-- Statement re Computation of Per Share Earnings.
*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 31, 1999).
*23.1	-- Consent from Arthur Andersen LLP.
*27.1	-- Financial Data Schedule.

## 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: March 29, 2000.

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:

NAME -----	TITLE -----	DATE -----
/s/ DAVID R. LITTLE ----- David R. Little	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2000
/s/ GARY A. ALLCORN ----- Gary A. Allcorn	Senior Vice-President/Finance, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 29, 2000
/s/ JERRY J. JONES ----- Jerry J. Jones	Director	March 29, 2000
/s/ CLETUS DAVIS ----- Cletus Davis	Director	March 29, 2000
/s/ KENNETH H. MILLER ----- Kenneth H. Miller	Director	March 29, 2000
/s/ THOMAS V. ORR ----- Thomas V. Orr	Director	March 29, 2000

## EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	-- Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
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).
4.1	-- Form of Common Stock certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
4.2	-- See Exhibit 3.1 for provisions of the Company's Restated Articles of Incorporation, as amended, defining the rights of the holders of Common Stock.
4.3	-- See Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of holders of Common Stock.
10.1	-- DXP Enterprises, Inc. 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
10.2	-- DXP Enterprises, Inc. 1999 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
+10.3	-- DXP Enterprises, Inc. Long Term Incentive Plan, as amended (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
+10.4	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Kenneth H. Miller (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).
+10.5	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Tommy Orr (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).
+10.6	-- Stock Option Agreement dated effective as of May 7, 1996, between SEPCO Industries, Inc. and Cletus Davis (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).
+10.7	-- Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and Jerry J. Jones (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).
+10.8	-- Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and Bryan H. Wimberly (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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NUMBER

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- +10.9 -- 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).
- +10.10 -- Employment Agreement dated effective as of July 15, 1996, between SEPCO Industries, Inc. and David R. Little (incorporated by reference to Exhibit No. 10.8 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-53387), filed with the Commission on May 22, 1998).
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| 10.15                      | -- Fifth Amendment to Second Amended and Restated Loan and Security Agreement dated June 2, 1997, by and among SEPCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the Quarterly period ended June 30, 1997, filed with Commission on November 17, 1997). |
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10.30	-- May 1999 Amendment to Loan and Security Agreement dated May 13, 1999, by and among Pelican State Supply Company, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.31	-- May 1999 Amendment to Loan and Security Agreement dated May 13, 1999, by and among DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.32	-- Waiver and Amendment dated March 30, 1999 between SEPCO Industries, Inc., Bayou Pumps, Inc., American MRO, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.33	-- Waiver and Amendment dated March 30, 1999 between Pelican State Supply Company, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.34	-- Waiver and Amendment dated March 30, 1999 between DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999).
10.35	-- Loan and Security Agreement dated June 16, 1997, by and between Fleet Capital Corporation and DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. (incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.36	-- Amendment to Loan and Security Agreement dated April 29, 1998, by and between DXP Acquisition, Inc., d/b/a Strategic Acquisition, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 1998).
10.37	-- Second Amendment to Loan and Security Agreement dated October 20, 1998, by and between DXP Acquisition, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 1998, filed with the Commission on November 13, 1998).
10.38	-- Continuing Guaranty Agreement dated June 16, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.39	-- Continuing Guaranty Agreement dated June 16, 1997, by DXP Enterprises, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.40	-- Continuing Guaranty Agreement dated June 16, 1997, by Sepco Industries, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.41	-- Continuing Guaranty Agreement dated June 16, 1997, by American MRO, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.42	-- Continuing Guaranty Agreement dated June 16, 1997, by Bayou Pumps, Inc., guarantying the indebtedness of DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
10.43	-- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Sepco Industries, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).

EXHIBIT  
NUMBER

## DESCRIPTION

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- 10.44 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.45 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Bayou Pumps, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.46 -- Continuing Guaranty Agreement dated June 16, 1997, by DXP Acquisition, Inc. d/b/a Strategic Acquisition, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.47 -- Loan and Security Agreement dated May 29, 1997, by and between Fleet Capital Corporation and Pelican State Supply Company, Inc. (incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.48 -- Amendment to Loan and Security Agreement dated April 29, 1998, by and between Pelican State Supply Company, Inc. and Fleet Capital Corporation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 14, 1998).
- 10.49 -- Continuing Guaranty Agreement dated May 29, 1997, by DXP Enterprises, Inc., guarantying the indebtedness of Pelican State Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.50 -- Continuing Guaranty Agreement dated May 29, 1997, by SEPCO Industries, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.14 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.51 -- Continuing Guaranty Agreement dated May 29, 1997, by American MRO, Inc., guarantying the indebtedness of Pelican State Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.52 -- Continuing Guaranty Agreement dated May 29, 1997, by Bayou Pumps, Inc., guarantying the indebtedness of Pelican State Supply Company, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.16 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).



EXHIBIT  
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- 10.53 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of SEPCO Industries, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.54 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.18 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.55 -- Continuing Guaranty Agreement dated May 29, 1997, by Pelican State Supply Company, Inc., guarantying the indebtedness of Bayou Pumps, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.19 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q on Form 10-Q/A for the quarterly period ended June 30, 1997, filed with the Commission on November 17, 1997).
- 10.56 -- Secured Promissory Note dated April 29, 1998 payable by SEPCO Industries, Inc., Bayou Pumps, Inc. and American MRO, Inc. to Fleet Capital Corporation (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, filed with the Commission on May 14, 1998).
- \*11.1 -- Statement re Computation of Per Share Earnings.
- \*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 31, 1999).
- \*23.1 -- Consent from Arthur Andersen LLP.
- \*27.1 -- Financial Data Schedule.

**EXHIBIT 11.1**

**STATEMENT RE COMPUTATION OF PER SHARE EARNINGS**

	1997	1998	1999
	-----	-----	-----
Basic:			
Average shares outstanding .....	4,081,555	4,159,319	4,074,992
Net income (loss) .....	\$ 2,665,000	2,784,000	(208,000)
Per share amount .....	\$ 0.65	\$ 0.67	\$ (0.05)
Dilutive:			
Average shares outstanding .....	4,081,555	4,159,319	4,074,992
Net effect of dilutive stock options -- based on the treasure stock method using period-end market price, if higher than average market price	1,138,321	1,016,430	--
Assumed conversion of Class A convertible Preferred Stock.....	482,854	420,000	--
Total .....	5,702,730	5,595,749	4,074,992
Net income (loss) .....	\$ 2,768,000	\$ 2,874,000	\$ (208,000)
Per share amount .....	\$ 0.49	\$ 0.51	\$ (0.05)

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

As independent public accountants, we hereby consent to the incorporation by reference of our report dated March 16, 2000 included in this registration statement, into the Company's previously filed registration statements on Form S-8 (File No. 333-61953, 333-92875, 333-92877 and 333-93681).

*/s/ ARTHUR ANDERSEN LLP*

*Houston, Texas*

*March 29, 2000*

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED INCOME STATEMENTS OF DXP ENTERPRISES, INC. AS OF DECEMBER 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	2,991
SECURITIES	0
RECEIVABLES	22,803
ALLOWANCES	1,535
INVENTORY	24,238
CURRENT ASSETS	50,041
PP&E	23,890
DEPRECIATION	10,959
TOTAL ASSETS	73,966
CURRENT LIABILITIES	20,082
BONDS	36,780
PREFERRED MANDATORY	112
PREFERRED	20
COMMON	41
OTHER SE	15,592
TOTAL LIABILITY AND EQUITY	73,966
SALES	179,878
TOTAL REVENUES	179,878
CGS	133,125
TOTAL COSTS	133,125
OTHER EXPENSES	42,630
LOSS PROVISION	0
INTEREST EXPENSE	3,708
INCOME PRETAX	415
INCOME TAX	533
INCOME CONTINUING	(118)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(118)
EPS BASIC	(.05)
EPS DILUTED	(.05)

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