

DXP ENTERPRISES INC

FORM 10-K (Annual Report)

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

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, 2000

COMMISSION FILE NUMBER 0-21513

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

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 April 13, 2001: \$2,687,312.

Number of shares of registrant's Common Stock outstanding as of April 13, 2001: 4,071,685

Documents incorporated by reference: portion of the definitive proxy statement for the annual meeting of shareholders to be held in 2001 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-Cautionary 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

DXP Enterprises, Inc. (DXP or the Company), a Texas corporation, was incorporated in 1996, to be the successor to a company founded in 1908. Since the beginning, we have primarily been engaged in the business of distributing maintenance, repair and operating ("MRO") products, equipment and service to industrial customers. We are organized into three segments: MRO, Electrical Contractor and Valve (sold in 1999). Sales and operating income for 1998, 1999 and 2000, and identifiable assets at the close of such years for our business segments are presented in Note 13 of the Notes to the Consolidated Financial Statements.

MRO SEGMENT

The MRO segment provides MRO products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. We provide a wide range of MRO products in the fluid handling equipment, bearings, power transmission equipment, general mill, safety supply and electrical products categories. We offer our customers a single source of integrated services and supply on an efficient and competitive basis by being a first-tier distributor who can purchase products directly from the manufacturer. We also provide integrated services such as system design, fabrication, installation, repair and maintenance for our customers. We offer 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 our customer's unique needs.

We estimate that annual sales in the United States of MRO products for industrial customers currently exceeds \$200 billion, of which we estimate over \$140 billion are in the major product categories of fluid handling equipment, bearings, power transmission equipment, general mill, safety supply and electrical products. Based on 1999 sales as reported by industry sources, we were the 40th largest distributor of MRO products in the United States.

The industrial distribution market is highly fragmented, with the 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.

We believe 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, our 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:

o 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.

o 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.

o 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.

We currently serve 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 MRO segment include mining, construction, chemical, municipal, food and beverage and pulp and paper. Our MRO products include a wide range of products in the fluid handling equipment, bearings, power transmission equipment, general mill, safety products and electrical products. Our products are distributed from 34 sales offices and two distribution centers strategically located throughout the United States and sold through the sales efforts of employees who generally are compensated on a commission basis.

Our 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. We also provide various pump accessories. Our bearing products include several types of mounted and unmounted bearings for a variety of applications. Hose products distributed by us include a large selection of industrial fittings and stainless steel hoses, hydraulic hoses, Teflon hoses and expansion joints, as well as hoses for chemical, petroleum, air and water applications. We distribute seal products for downhole, wellhead, valve and completion equipment to oilfield service companies. Power transmission products distributed by us include speed reducers, flexible coupling drives, chain drives, sprockets, gears, conveyors, clutches, brakes and hoses. We offer a broad range of general mill and supplies, such as abrasives, tapes and adhesive products, coatings and lubricants, cutting tools, fasteners, hand tools, janitorial products, pneumatic tools and welding equipment. Our safety products include eye and face protection products, first aid products, protection products, hazardous material handling products, instrumentation and respiratory protection products. We distribute 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.

In addition to distributing products, we provide pumping and power transmission system design and fabrication services through our engineering personnel and fabrication facilities. We also provide training services with respect to the installation and basic applications of our products as well as around-the-clock field repair services.

SmartSource, our integrated supply program, allows a customer to choose from a complete continuum of supply options, ranging from traditional distribution to integrated supply.

Our branch and operations managers support the sales efforts through direct customer contact and manage the efforts of the outside and direct sales representatives. We have structured compensation to provide incentives to our sales representatives to increase sales through the use of commissions. Our 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 our products. Because we offer a broad range of products, our outside and direct sales representatives are able to use their existing

customer relationships with respect to one product line to cross-sell our 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 we expand our product lines and geographical presence through hiring experienced sales representatives, we assess 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, we provide the appropriate sales training and product expertise to our sales force.

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

We believe we have increased our competitive advantage through our traditional and integrated supply programs, designed to address the customer's specific product and procurement needs. We offer our 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 we assume the procurement and management functions, including ownership of inventory, at the customer's location. Our unique approach to integrated supply allows us 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 us. For customers with smaller supply needs, we are able to combine our traditional distribution capabilities with our 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.

We acquire our products through numerous original equipment manufacturers. We have distribution agreements with these manufacturers, some of which give us exclusive rights to distribute the manufacturers' products in a specific geographic area. All of our 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 our revenues. We believe that alternative sources of supply could be obtained in a timely manner if any distribution agreement were canceled. Accordingly, we do not believe that the loss of any one distribution agreement would have a material adverse effect on our business, financial condition or results of operations. Representative manufacturers of our products include Gould's, G&L, Viking, Wilden, Gaso, SKF, Torrington/Fafnir, Timkin, NTN, Dodge/Reliance, Falk, Gates, Martin Sprocket, T. B. Woods, Emerson, Rexnord, Baldor Electric Union Bullerfield, Gulf Coast Fasteners, Norton Gray Abrasives, Sastech, Inc. and LaCross Rainfair Safety Products.

At December 31, 2000, the MRO Segment has 532 full-time employees.

ELECTRICAL CONTRACTOR SEGMENT

The Electrical Contractor Segment was formed in 1998 with the acquisition of substantially all of the assets of Tri-Electric, Ltd. and Lucky Electric & Supply, Inc. The Electrical Contractor Segment sells 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, to electrical contractors. The segment has three warehouse/sales facilities; one in San Antonio, Texas, and two in Memphis, Tennessee.

The Electrical Contractor Segment sells a broad range of products from over 100 vendors. Significant vendors include Cutler-Hammer, Cooper, Killark, and Allied and American Insulated Wiring. To meet prompt delivery demands of its customers, this segment maintains large inventories. The majority of sales are on open account.

At December 31, 2000, the Electrical Contractor Segment had 34 full-time employees.

VALVE SEGMENT

The assets of the Valve Segment were sold in July, 1999. As a result, the Company no longer competes in the valve and valve automation business. The Valve Segment sold pneumatic, hydraulic and

electric actuators for critical or high-pressure service applications or remote valve operation applications, to operators of refineries and pipelines.

MANAGEMENT INFORMATION SYSTEMS

We currently operate using multiple computer systems. During 2001, we plan to install a common operating and financial system which will be used by all of our locations. Accordingly, we recorded an impairment of these legacy systems as of December 31, 2000 (see Note 3 of the Notes to the Consolidated Financial Statements).

We use technology to benefit customers and to improve our productivity and efficiency. In addition to traditional functions of inventory control, order processing, purchasing, accounts receivable, accounts payable and general ledger, certain of our computer systems have the flexibility to integrate with the customer's maintenance, accounting and management systems. Certain of our systems allow 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. Certain of our systems support advanced functions, such as EDI, customized billing, end user reporting, facsimile transmission, bar coding and preventative maintenance. Our SmartSource program delivers DXP's technology to the integrated supply customer, thereby eliminating duplication and inefficiencies to lower the total acquisition cost of MRO products.

COMPETITION

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

INSURANCE

We maintain liability and other insurance that we believe 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 us could have a material adverse effect on our financial condition and results of operations. Additionally, we are partially self-insured for our group health plan.

GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

We are subject to various laws and regulations relating to our business and operations, and various health and safety regulations as established by the Occupational Safety and Health Administration.

Certain of our 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 we believe that we have 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, we could be held liable for any damages that result, and any such liability could have a material adverse effect on us. We are not currently aware of any situation or condition that it believes is likely to have a material adverse effect on our results of operations or financial condition.

EMPLOYEES

At December 31, 2000, we had 566 full-time employees. We believe that our relationship with our employees is good.

CAUTIONARY STATEMENTS

Our 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 our realization of such expectations. Our 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

Our loan agreements with our bank lender (the "Credit Facility") requires that we comply with certain specified covenants, restrictions, financial ratios and other financial and operating tests. Our ability to comply with any of the foregoing restrictions will depend on our future performance, which will be subject to prevailing economic conditions and other factors, including factors beyond our 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 our indebtedness under the Credit Facility. From time to time we have 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 have, when necessary, obtained waivers or amendments to the covenants from our lender. Although we expect 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 we will be able to do so or that our lender will be willing to waive such non-compliance or further amend such covenants.

Risks Related to Internal Growth Strategy

Future results for us will depend in part on our success in implementing our internal growth strategy, which includes expanding existing product lines and adding new product lines. Our ability to implement this strategy will depend on our success in acquiring and integrating new product lines and marketing integrated forms of supply arrangements such as those being pursued by us through our SmartSource program. Although we intend to increase sales and product offerings to existing customers, improve our business to business e-commerce capability through outsourcing our website and reduce costs through consolidating certain administrative and sales functions, there can be no assurance that we will be successful in these efforts.

Substantial Competition

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

Risk Associated with Default on Subordinated Note Payable

Under the terms of the asset purchase agreement associated with the acquisition of a business in 1997, we can require the seller to adjust the purchase price for certain inventory remaining unsold as of July 1, 2000. We notified the seller that the adjustment of the purchase price exceeds the \$2,045,000 balance of the subordinated note payable. As of July 1, 2000, we suspended principal and interest payments on the note. The seller has notified our bank lender that we were in default on the subordinated note. Our bank lender notified us that the default on the subordinated note caused us to be in default on one of its

secured lines of credit in the amount of \$5.4 million. However, we have entered into a forbearance agreement with our bank lender whereby the bank lender agreed to forebear taking any action on defaults under the \$5.4 million secured line of credit. The bank lender can terminate the forbearance agreement at any time. The \$5.4 million balance of the secured line of credit and the \$2.0 million balance of the subordinated note have been included in current maturities of long-term debt at December 31, 2000.

In our opinion, should the \$5.4 million secured line of credit be demanded upon termination of the forbearance agreement, we would be able to refinance the obligation or liquidate it through the proceeds from asset sales or property refinancing. We intend to aggressively pursue our claims against the seller under the provisions of the asset purchase agreement. The subordinated note provides for an interest rate of prime plus four percent if the note is in default. We believe the subordinated note will either be paid off using funds obtained from the seller in settlement of our claims or the subordinated note will be offset against our claims. However, there can be no assurance that we will be successful in collecting the funds due under our claims or in offsetting the subordinated note against our claims.

Risks of Economic Trends

Demand for our products is subject to changes in the United States economy in general and economic trends affecting our 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, we may experience changes in demand for our products as changes occur in the markets of our customers.

Dependence on Key Personnel

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

Dependence on Supplier Relationships

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

Risks Associated With Hazardous Materials

Certain of our 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 we believe that we have 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, we could be held liable for any damages that result and any such liability could have a material adverse effect on our financial condition and results of operations.

ITEM 2. PROPERTIES

We own our headquarters facility in Houston, Texas which has 45,000 square feet of office space. The MRO Segment owns or leases 34 branch distribution facilities located in Arizona, Arkansas, Colorado, Georgia, Idaho, Louisiana, Montana, Nevada, New Mexico, North Dakota, Oklahoma, Tennessee, Texas, Utah and Wyoming. The Electrical Contractor Segment leases one facility in Texas and owns one facility and leases one facility in Tennessee. These facilities range from 2,500 square feet to 138,000 square feet in

size. Those facilities that are not owned by us 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 our option. We believe that if the leases for any of our facilities were not renewed, other suitable facilities could be leased with no material adverse effect on our business, financial condition or results of operations. All of the facilities owned by us are pledged to secure our indebtedness.

On March 15, 2000, we completed the sale of a MRO fabrication and warehouse facility in Houston, Texas, for approximately \$2.8 million in cash. Additionally, we sold a MRO warehouse facility during the second quarter of 2000 for \$0.7 million.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are party to various legal proceedings arising in the ordinary course of its business. We believe that the outcome of any of these proceedings will not have a material adverse effect on our 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".

We have received a letter from the Nasdaq Stock Market, Inc. notifying us that our Common Stock has not met the minimum bid price requirement of at least \$1.00 per share for 30 consecutive trading days under the Nasdaq National Market rules. Since the bid price of the Common Stock did not reach at least \$1.00 for a minimum of 10 consecutive trading days by April 16, 2001, the Nasdaq staff will provide us with a written notice that our Common Stock will be delisted. At that time, we may appeal the Nasdaq's staff's determination pursuant to the Nasdaq rules.

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 -----
1999		
First Quarter.....	\$ 10.00	\$ 6.00
Second Quarter.....	7.00	3.50
Third Quarter.....	5.88	0.75
Fourth Quarter.....	4.91	1.53
2000		
First Quarter.....	3.75	2.09
Second Quarter.....	2.75	0.88
Third Quarter.....	1.38	1.00
Fourth Quarter.....	1.50	0.50

On March 30, 2001 there were 670 holders of record of outstanding shares of Common Stock.

We anticipate that future earnings will be retained to finance the continuing development of our business. In addition, the Credit Facility prohibits us from declaring or paying any dividends or other distributions on its capital stock except for limited dividends on its preferred stock. Accordingly, we do 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 our Board of Directors and will depend upon, among other things, future earnings, the success of our business activities, regulatory and capital requirements, our general financial condition and general business conditions.

ITEM 6. SELECTED FINANCIAL DATA

We are 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, we had no operations and our only assets consisted of \$1,000 cash. The Reorganization has been accounted for as a recapitalization of SEPCO. The selected historical consolidated financial data set forth below for each of the years in the five-year period ended December 31, 2000 have been derived from our audited consolidated financial statements, 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,				
	1996	1997	1998	1999	2000
	----	----	----	----	----
	(IN THOUSANDS EXCEPT FOR PER SHARE DATA)				
CONSOLIDATED STATEMENTS OF EARNINGS DATA:					
Sales	\$126,192	\$174,448	\$209,379	\$184,685	\$182,642
Gross profit(1).....	31,988	44,249	54,147	46,879	45,507
Operating income (loss) (1)(2)(5).....	3,358	7,434	8,143	2,899	(7,752)
Income (loss) before income taxes.....	1,635	4,670	5,004	415	(9,031)
Net income (loss).....	.890	2,768	2,874	(118)	(7,358)
Preferred stock dividend.....	(119)	(103)	(90)	(90)	(90)
Net income (loss) attributable to common shareholders.....	.771	2,665	2,784	(208)	(7,448)
Basic earnings (loss) per common share.....	\$.0.19	\$ 0.65	\$ 0.67	\$ (0.05)	\$ (1.83)
Common shares outstanding(4).....	3,997	4,082	4,159	4,075	4,072
Diluted earnings (loss) per share.....	\$.0.18	\$ 0.49	\$ 0.51	\$ (0.05)	\$ (1.83)
Common and common equivalent shares outstanding(3) (4).....	4,857	5,703	5,596	4,075	4,072

	YEAR ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
	----	----	----	----	----
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Total assets.....	\$44,791	\$67,385	\$81,081	\$73,701	\$67,139
Long-term debt obligations.....	22,300	33,395	42,910	36,780	28,476
Shareholders' equity(3).....	10,973	13,544	16,120	16,166	8,718

(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. We disposed of approximately \$1,100,000 of excess inventory in December 1996 that we had accumulated through prior acquisitions of product groups that were subject to shelf-life restrictions.

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

(3) Shareholders' equity and number of shares (3) used to compute earnings per share have 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.

(5) Year ended December 31, 2000 includes non-recurring charges of \$10,791,000; refer to "Management's Discussion and Analysis" for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

GENERAL

Our 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 our products generally is subject to changes in the United States economy and economic trends affecting our customers and the industries in which they compete in particular. Certain of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry and the construction industry, are cyclical and materially affected by changes in the economy. As a result, we may experience changes in demand within particular markets, segments and product categories as changes occur in our customers' respective markets.

Our growth strategy in the past focused on a combination of acquisitions, such as the acquisition of the Electrical Contractor Segment, and internal growth. We have curtailed our acquisition efforts and are focusing on internal growth. Key elements of our internal growth strategy include leveraging existing customer relationships, expanding product offerings to new and existing customers, reducing costs through consolidated purchasing programs and centralized product distribution centers, centralizing certain customer service and inside sales functions, reducing costs by converting selected branches from full warehouse and customer service operations to sales centers, designing and implementing innovative solutions to address the procurement and supply needs of our customers and using our traditional distribution and integrated supply capabilities to increase sales in each area. Results will be dependent on our success in executing our internal growth strategy and, to the extent we complete any acquisitions, our ability to integrate such acquisitions.

RESULTS OF OPERATIONS

	Years Ended December 31,					
	1998	%	1999	%	2000	%
	(in millions, except percentages)					
Sales	\$ 209.3	100.0%	\$ 184.7	100.0%	\$ 182.6	100.0%
Cost of sales	155.2	74.2%	137.8	74.6%	137.1	75.1%
Gross Profit	54.1	25.8%	46.9	25.4%	45.5	24.9%
Operating expenses:						
Selling, general and administrative	46.0	22.0%	44.0	23.8%	42.5	23.3%
Non-recurring operating charges	--	--	--	--	10.8	5.9%
Operating income (loss)	8.1	3.9%	2.9	1.6%	(7.8)	-4.3%
Interest expense	3.7	1.8%	3.7	2.0%	3.7	2.0%
Other income	(0.6)	-0.3%	(1.2)	-0.7%	(2.5)	-1.4%
Income (loss) before income taxes	5.0	2.4%	0.4	0.2%	(9.0)	-4.9%
Provision (benefit) for income taxes	2.1	1.0%	0.5	0.3%	(1.7)	0.9%
Net income (loss)	\$ 2.9	1.4%	\$ (0.1)	-0.1%	(7.3)	-4.0%

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

SALES. Revenues for 2000 decreased 1.1% to approximately \$182.6 million from \$184.7 million in 1999. The Valve Segment, which was sold during the third quarter of 1999, generated revenues in 1999 of \$3.7 million. Excluding these revenues, current year revenues actually increased by \$1.6 million when

compared to 1999. Sales for the MRO Segment increased \$3.0 million, or 1.8%, primarily due to an improvement in the oil and gas industry. Sales for the Electrical Contractor Segment declined by \$1.4 million, or 10%, as a result of employee turnover and continued loss of market share to competitors.

GROSS PROFIT. Gross profit as a percentage of sales declined by approximately 0.5% for 2000, when compared to 1999, on a consolidated basis and for the MRO Segment. The majority of this decline occurred at a one location operation, which was acquired prior to 1999. This operation serves primarily one customer. Gross profit as a percentage of sales for the Electrical Contractor Segment remained relatively constant for 2000, when compared to 1999, as the segment maintained gross margin but lost market share..

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for 2000 declined by approximately \$1.5 million when compared to 1999. As a percentage of revenue, the 2000 expense declined by approximately 0.5% to 23.3% from 23.8% for 1999.

NON-RECURRING OPERATING CHARGES. In the fourth quarter of 2000, we recorded \$10.8 million of non-recurring operating charges. These charges consist of an \$8.5 million charge for the impairment of goodwill and other assets associated with acquisitions completed before 1999, a \$2.0 million charge to write-off fixed assets of computer systems which are being replaced and facilities which have been closed, and \$0.3 million of accruals primarily associated with future rent on closed facilities. Approximately \$4.5 million and \$6.3 million of this charge pertained to the Electrical Contracting Segment and MRO Segment, respectively.

As a result of increasingly poor financial results for the acquired operations, we evaluated our recoverability of goodwill and other assets recorded in connection with all of our acquisitions. All of our acquisitions were completed prior to 1999. These operations have been experiencing declining revenues and declining operating margins. We determined that the expected future undiscounted cash flows of four acquisitions were below their carrying value. In accordance with SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of", during the fourth quarter of 2000, we adjusted the carrying value of these assets to their estimated fair value, which resulted in a non-cash impairment charge of approximately \$8.5 million.

OPERATING INCOME. Excluding the \$10.8 million of nonrecurring operating charges, operating income for 2000 increased \$0.1 million when compared to 1999. This increase is the net of a \$0.5 million increase in operating income for the MRO Segment, a \$0.1 million increase in operating loss for the Electrical Contractor Segment and a \$0.3 million decline in operating income resulting from the sale of the Valve Segment. The improved operating income, exclusive of nonrecurring charges, for the MRO segment is the result of increased sales and reduced selling, general and administrative expenses. The increased loss for the Electrical Contractors Segment is the result of the continued loss of market share and a 10% decrease in sales.

INTEREST EXPENSE. Interest expense for 2000 remained constant when compared to 1999. Although our average outstanding debt balance between the two years was lower in 2000 compared to 1999, the increased interest rates we paid as a result of amending the Credit Facility combined with the market increase in interest rates and default interest rate, resulted in interest expense remaining relatively constant.

OTHER INCOME. Other income for 2000 was approximately \$1.3 million higher than in 1999 due primarily to the sale of two MRO facilities during 2000 for approximately \$3.5 million. Gains on the sale of these properties were approximately \$2.0 million.

INCOME TAXES. As of December 31, 2000, we have recorded net deferred tax assets of \$2.7 million representing the future tax benefits of certain accruals not currently deductible. We believe it is more likely than not that the deferred tax assets will be realized as these reserves are recovered and reduce future taxable income. For information concerning the provision for current and deferred income taxes as well as information regarding differences between the effective tax rates and statutory rates, see Note 8 of the Notes to the Consolidated Financial Statements.

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

SALES. Revenues for 1999 decreased 11.8% to approximately \$184.7 million from \$209.3 million in 1998. Our acquisitions during 1998, which included the Electrical Contractor Segment, accounted for \$20.4 million in revenues during 1999. The Valve Segment, 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 operations acquired in 1998 and the Valve Segment sold during 1999, 1999 revenues decreased by 11.5% to \$160.4 million from \$181.2 million in 1998. This 11.5% decrease in revenues for the MRO Segment, excluding the 1998 acquisitions, 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. Revenues for the Electrical Contracting Segment for 1999 declined slightly from 1998 even though 1998 revenues include less than nine months of operations since dates of acquisition. This decline resulted from employee turnover associated with the change in ownership.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for 1999 decreased by approximately \$2.0 million, or 4.3%, 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 by 1.8% to 23.8% as compared to 22.0% in 1998. This was due primarily to the decrease in revenue volume which outpaced the expense reduction effort undertaken by us during 1999.

OPERATING INCOME. Operating income for 1999 decreased by \$5.2 million, to \$2.9 million, from \$8.1 million in 1998. This decline is primarily due to the fact that the decrease in revenue volume outpaced the expense reduction efforts undertaken by us. This decrease is the net of a \$4.3 million decrease in operating income for the MRO Segment, a \$1.2 million decrease to a \$0.5 million operating loss for the Electrical Contracting Segment and a \$0.3 million increase in operating income for the Valve Segment. The decline in operating income for the MRO Segment resulted primarily from the decline in sales combined with the fact that costs did not decline commensurate with the sales decline. Operating income for the Electrical Contracting Segment resulted from sales declining faster than costs.

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

LIQUIDITY AND CAPITAL RESOURCES

General

As a distributor of MRO products and electrical contractor products, we require significant amounts of working capital to fund inventories and accounts receivable. Additional cash is required for capital items such as information technology and warehouse equipment. We also require cash to pay our lease obligations and to service our debt

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 consists of three secured lines of credit with various subsidiaries of the Company and a term loan.

Under the terms of the asset purchase agreement associated with the acquisition of a business in 1997, we can require the seller to adjust the purchase price for certain inventory remaining unsold as of July 1, 2000. We notified the seller that the adjustment of the purchase price exceeds the \$2,045,000 balance of the subordinated note payable. As of July 1, 2000, we suspended principal and interest payments on the note. The seller has notified our bank lender that we were in default on the subordinated note. Our bank lender notified us that the default on the subordinated note caused us to be in default on one of its secured lines of credit in the amount of \$5.4 million. However, we have entered into a forbearance agreement with our bank lender whereby the bank lender agreed to forebear taking any action on defaults under the \$5.4 million secured line of credit. The bank lender can terminate the forbearance agreement at any time. The \$5.4 million balance of the secured line of credit and the \$2.0 million balance of the subordinated note have been included in current maturities of long-term debt at December 31, 2000.

In our opinion, should the \$5.4 million secured line of credit be demanded upon termination of the forbearance agreement, we would be able to refinance the obligation or liquidate it through the proceeds from asset sales or property refinancing. We intend to aggressively pursue our claims against the seller under the provisions of the asset purchase agreement. The subordinated note provides for an interest rate of prime plus four percent if the note is in default. We believe the subordinated note will either be paid off using funds obtained from the seller in settlement of our claims or the subordinated note will be offset against our claims. However, there can be no assurance that we will be successful in collecting the funds due under our claims or in offsetting the subordinated note against our claims..

Subsequent to December 31, 2000, we amended the Credit Facility with our bank lender effective December 31, 2000, which now provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$35.0 million, and matures April 1, 2002, except for the \$5.4 million secured line of credit which is in default and callable anytime under the forbearance agreement previously discussed. Interest accrues at prime plus 1/2% on the revolving portion of the Credit Facility and prime plus 1 1/2% on the term portion of the Credit Facility. The prime rate at December 31, 2000, was 9.5%. The Credit Facility is secured by receivables, inventory, real estate and machinery and equipment. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that are measured monthly and require that we maintain a certain cash flow and other financial ratios. In addition to the \$2.7 million of cash at December 31, 2000, after the bank lender waived compliance with certain financial ratios, we had \$0.4 million available for borrowings under the amended credit facility at December 31, 2000.

From time to time we have not been in compliance with certain covenants under the Credit Facility, including the monthly minimum earnings requirement and the monthly fixed charge coverage ratio. At December 31, 2000, we were not in compliance with these covenants. The lender has provided waivers to us regarding the compliance with these covenants through December 31, 2000, except for the \$5.4 million secured line of credit. The lender also reduced the minimum monthly earnings requirement throughout 2001.

We used cash in operating activities of approximately \$0.3 million in 2000 as compared to \$10.5 million in cash provided during 1999. This change between the two years is primarily attributable to accounts receivable and inventory declining in 1999, thus providing cash versus accounts receivable and inventory increasing in 2000, thus using cash. Fourth quarter 1999 sales were \$9.0 million below fourth quarter 1998 sales. Fourth quarter 2000 sales were \$4.5 million greater than fourth quarter 1999 sales. These changes in sales trends account for the changes in the balances of inventory and receivables.

We generated cash through investing activities of approximately \$2.0 million during 2000 as compared to \$1.4 million in cash used in 1999. This increase was primarily attributed to the sales of certain of our fabrication and warehouse properties in Houston, Texas, for approximately \$3.5 million in cash. We also had capital expenditures of approximately \$1.2 million for the fiscal year ended December 31, 2000, as compared to \$2.2 million during the same period of 1999. Capital expenditures during 2000 were related primarily to leasehold improvements associated with the relocation of two of our MRO facilities (\$0.5 million), computer equipment and the development of an e-commerce website (\$0.7 million) which was subsequently written off. Capital expenditures during 1999 were primarily related to the purchase of furniture and fixtures and a telephone system (\$1.0 million) for our corporate headquarters as well as the purchase of computer equipment and software (\$0.9 million).

Our internal cash flow projections indicate our cash generated from operations and available under our Credit Facility will meet our normal working capital needs during 2001. However, we will require additional debt or equity financing to meet our future debt service obligations, which may include additional bank debt or the public or private sale of equity or debt securities. In connection with such financing, we may be required to issue securities that substantially dilute the interest of our shareholders. As described above, all of our Credit Facility matures on or before April 1, 2002. Therefore, to keep amounts borrowed under the Credit Facility classified in our balance sheet as long-term, we must comply with related covenants and renew and extend or replace the Credit Facility during 2001. However, we may not be able to renew and extend or replace the Credit Facility. Any extended or replacement facility may have higher interest costs, less borrowing capacity, more restrictive conditions and could involve equity dilution. Our ability to obtain a satisfactory credit facility may depend, in part, upon the level of our asset base for collateral purposes, our future financial performance and our ability to obtain additional equity.

We would require additional capital to fund any future acquisitions. At this time, we do not plan to grow through acquisitions unless the market price of our common stock rises to levels that will make acquisition accretive to our earnings or we generate excess cash flow. We also may pursue additional equity or debt financing to fund future acquisitions, although we may not be able to obtain additional financing on attractive terms.

ACCOUNTING PRONOUNCEMENTS

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. We reviewed our revenue recognition procedures and are satisfied that we are in compliance with this SAB.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities (SFAS No. 133)". This statement requires the fair value of derivatives be recorded as assets or liabilities. Gains or losses resulting from changes in the fair values of derivatives would be accounted for currently in earnings or comprehensive income depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. SFAS No. 133, as amended, is effective for us beginning January 1, 2001. We adopted the statement effective January 1, 2001; there was no impact on our financial results as we were not a party to any derivative instruments.

In 2000, the Emerging Issues Task Force of the FASB reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" and Issue 00-14, "Accounting for Certain Sales Incentives", (collectively, "the Issues"). We adopted the Issues in the fourth quarter of 2000 and have restated our quarterly and annual financial statements to conform to the requirements of the Issues. There was no effect on net income as a result of the adoption of the Issues. The net effect of the adoption of the Issues was an increase in net sales of \$5.9 million, \$4.8 million and \$5.1 million; an increase in cost of sales of \$5.8 million, \$4.7 million and \$5.1 million; a decrease in selling, general and administrative expenses of \$0.6 million, \$0.6 million and \$1.0 million; and a decrease in other income of \$0.7 million, \$0.7 million and \$1.0 million in the years ended December 31, 1998, 1999 and 2000, respectively.

INFLATION

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk results from volatility in interest rates. This risk is monitored and managed.

Our exposure to interest rate risk relates primarily to our debt portfolio. To limit interest rate risk on borrowings, we target a portfolio within certain parameters for fixed and floating rate loans taking into consideration the interest rate environment and our forecasted cash flow. This policy limits exposure to rising interest rates and allows us to benefit during periods of falling interest rates. Our interest rate exposure is generally limited to our Credit Facility. See "Liquidity and Capital Resources."

The table below provides information about the Company's market sensitive financial instruments and constitutes a forward-looking statement.

PRINCIPAL AMOUNT BY EXPECTED MATURITY

	2001	2002	2003	2004	2005	THEREAFTER
Fixed Rate Long-term Debt	\$2,551,082	\$ 321,565	\$328,076	\$174,395	\$12,634	\$36,828
Average Interest Rate	7.21%	8.06%	8.06%	8.27%	8.92%	8.93%
Floating Rate Long-term Debt	\$7,124,559	\$27,601,586	\$ --	\$ --	\$ --	\$ --
Average Interest Rate	10.24%	10.30%	0.00%	0.00%	0.00%	0.00%
Total Maturities	\$9,675,641	\$27,923,151	\$328,076	\$174,395	\$12,634	\$36,828

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, 1999 and 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DXP Enterprises, Inc., and Subsidiaries at December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

April 17, 2001
Houston, Texas

DXP ENTERPRISES, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	DECEMBER 31	
	1999	2000
	----	----
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ 2,991	\$ 2,744
Trade accounts receivable, net of allowance for doubtful accounts of \$1,535 in 1999 and \$ 1,888 in 2000.....	20,794	24,377
Inventories.....	24,238	23,504
Prepaid expenses and other.....	644	578
Deferred income taxes.....	635	1,308
	-----	-----
Total current assets.....	49,302	52,511
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, net.....	12,931	9,314
OTHER ASSETS:		
Intangible assets, net of accumulated amortization of \$2,554 in 1999 and \$203 in 2000.....	10,068	2,547
Receivables from officers and employees	764	811
Deferred income taxes.....	--	1,388
Other.....	636	568
	-----	-----
	11,468	5,314
	-----	-----
Total assets.....	\$ 73,701	\$ 67,139
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable and accrued liabilities.....	\$ 15,570	\$ 18,498
Accrued wages and benefits.....	1,086	999
Current portion of long-term debt.....	3,206	9,675
Other accrued liabilities.....	220	661
	-----	-----
Total current liabilities.....	20,082	29,833
	-----	-----
LONG-TERM DEBT, less current portion.....	36,780	28,476
DEFERRED INCOME TAXES.....	561	--
EQUITY SUBJECT TO REDEMPTION:		
Series A preferred stock, 1,122 shares.....	112	112
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, 15,000 shares outstanding and 2,700 shares in treasury stock.....	18	18
Common stock, \$.01 par value, 100,000,000 shares authorized; 4,257,760 shares issued and 4,071,685 shares are outstanding and 186,075 shares in treasury stock.....	41	41
Paid-in capital.....	2,765	2,765
Retained earnings.....	15,234	7,786
Treasury stock, 188,775 common and preferred shares, at cost.....	(1,894)	(1,894)
	-----	-----
Total shareholders' equity.....	16,166	8,718
	-----	-----
Total liabilities and shareholders' equity.....	\$ 73,701	\$ 67,139
	=====	=====

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		
	1998	1999	2000
Sales	\$209,379	\$184,685	\$182,642
Cost of Sales.....	155,232	137,806	137,135
	-----	-----	-----
Gross Profit.....	54,147	46,879	45,507
Operating Expenses:			
Selling, General and Administrative Expenses.....	46,004	43,980	42,468
Non-recurring Operating Charges.....	--	--	10,791
	-----	-----	-----
Total Operating Expenses.....	46,004	43,980	53,259
Operating Income (Loss).....	8,143	2,899	(7,752)
Other Income.....	548	1,224	2,468
Interest Expense.....	(3,687)	(3,708)	(3,747)
	-----	-----	-----
Income (Loss) Before Income Taxes.....	5,004	415	(9,031)
Provision (Benefit) for Income Taxes.....	2,130	533	(1,673)
	-----	-----	-----
Net Income (Loss).....	2,874	(118)	(7,358)
Series B Preferred Stock Dividend.....	(90)	(90)	(90)
	-----	-----	-----
Net Income (Loss) Attributable to Common Shareholders.....	\$ 2,784	\$ (208)	\$ (7,448)
	=====	=====	=====
Basic Earnings (Loss) per Common Share.....	\$.67	\$ (.05)	\$ (1.83)
	=====	=====	=====
Common Shares Outstanding.....	4,159	4,075	4,072
	=====	=====	=====
Diluted Earnings (Loss) per Share.....	\$.51	\$ (.05)	\$ (1.83)
	=====	=====	=====
Common and Common Equivalent Shares Outstanding.....	5,596	4,075	4,072
	=====	=====	=====

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, 1997.....	2	18	40	1,406	12,658	(580)	13,544
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	1,422	15,442	(804)	16,120
Dividends paid.....	--	--	--	--	(90)	--	(90)
Elimination of remaining common stock 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	\$ 2,765	\$ 15,234	\$ (1,894)	\$ 16,166
Dividends paid.....	--	--	--	--	(90)	--	(90)
Net loss.....	--	--	--	--	(7,358)	--	(7,358)
BALANCE AT DECEMBER 31, 2000.....	\$ 2	\$ 18	\$ 41	\$ 2,765	\$ 7,786	\$ (1,894)	\$ 8,718

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		
	1998	1999	2000
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ 2,874	\$ (118)	\$ (7,358)
Adjustments to reconcile net income (loss) to net cash provided by operating activities--			
Depreciation and amortization.....	1,820	2,016	1,945
Charge for write-off of fixed assets.....	--	--	2,331
Charge for impairment of goodwill and associated assets...	--	--	8,460
Compensation expense related to stock option plans.....	--	39	--
Deferred income taxes.....	(64)	(32)	(2,622)
Loss (gain) on sale of property and equipment.....	47	(45)	(1,921)
Changes in operating assets and liabilities--			
Trade accounts receivable.....	5,484	3,099	(3,754)
Inventories.....	(142)	4,688	(413)
Prepaid expenses and other.....	(1,237)	(349)	(272)
Trade accounts payable and accrued liabilities.....	(3,121)	1,230	3,281
	-----	-----	-----
Net cash provided by (used in) operating activities.....	5,661	10,528	(323)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of net assets.....	(12,521)	--	--
Purchase of property and equipment.....	(3,859)	(2,226)	(1,232)
Proceeds from sale of property and equipment.....	26	850	3,232
Other.....	44	--	--
	-----	-----	-----
Net cash provided by (used in) investing activities.....	(16,310)	(1,376)	2,000
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings from debt.....	219,011	182,887	179,886
Principal payments on revolving line of credit, long-term and subordinated debt and notes payable to bank.....	(207,175)	(189,592)	(181,720)
Issuance of common stock.....	16	99	--
Acquisition of preferred and common stock.....	(224)	(1,090)	--
Dividends paid in cash.....	(90)	(90)	(90)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	11,538	(7,786)	(1,924)
	-----	-----	-----
INCREASE (DECREASE) IN CASH.....	889	1,366	(247)
CASH AT BEGINNING OF YEAR.....	736	1,625	2,991
	-----	-----	-----
CASH AT END OF YEAR.....	\$ 1,625	\$ 2,991	\$ 2,744
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES:			
Cash paid for--			
Interest.....	\$ 3,687	\$ 3,708	\$ 3,488
	=====	=====	=====
Income taxes.....	\$ 2,986	\$ 394	\$ 837
	=====	=====	=====

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. and subsidiaries (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 organized into three segments: Maintenance, Repair and Operating (MRO), Electrical Contracting and Valve (sold in 1999). See Note 13 for discussion of the business segments.

RECENT OPERATIONS AND LIQUIDITY

The Company sustained a net loss of \$7,358,000 during 2000 mainly as a result of non-recurring operating charges of \$10,800,000 discussed in Note 4 below. This operating loss coupled with a default on a subordinated note payable caused the Company to be in violation under the Credit Facility with its bank lender, all of which is discussed in Note 7 below. The Company has reclassified the subordinated note and a portion of its debt under the Credit Facility to a current liability. Amendments and waivers were obtained from the bank lender extending the maturity date on the remainder of the Credit Facility to April 1, 2002 and waiving noted events of default. Under the amended Credit Facility the Company has \$0.4 million available for additional borrowings at December 31, 2000, in addition to the \$2.7 million of cash on hand at December 31, 2000.

Our internal cash flow projections indicate cash generated from operations and available under the Credit Facility will meet normal working capital needs during 2001. However, we will require additional debt or equity financing to meet our future debt service obligations, which may include additional bank debt or the public or private sale of equity or debt securities. As described above, our Credit Facility matures on April 1, 2002. Therefore, to keep amounts borrowed thereunder classified as long-term, we must comply with related covenants and renew and extend or replace the Credit Facility.

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 sells to and has trade receivables from 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 regular basis, but does not require collateral. No customer represents more than 10% of consolidated sales.

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 the straight-line method and certain accelerated methods 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 goodwill which is amortized over 35 years using the straight-line method.

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, 2000, is as follows:

	CARRYING VALUE	FAIR VALUE
	-----	-----
	(IN THOUSANDS)	
Cash.....	\$ 2,744	\$ 2,744
Notes receivable from officers and employees.....	811	811
Long-term debt, including current portion.....	38,151	38,151

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 and 1999 amounts have been reclassified to conform with the 2000 presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS:

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.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities (SFAS No. 133)". This statement requires the fair value of derivatives be recorded as assets or liabilities. Gains or losses resulting from changes in the fair values of derivatives would be accounted for currently in earnings or comprehensive income depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. SFAS No. 133, as amended, is effective for the Company beginning January 1, 2001. The Company adopted the statement effective January 1, 2001; there was no impact as the Company was not a party to any derivative instruments.

In 2000, the Emerging Issues Task Force of the FASB reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" and Issue 00-14, "Accounting for Certain Sales Incentives", (collectively, "the Issues"). The Company adopted the Issues in the fourth quarter of 2000 and has restated its quarterly and annual financial statements to conform to the requirements of the Issues. There was no effect on net income as a result of the adoption of the Issues. The net effect of the adoption of the Issues was an increase in net sales of \$5.9 million, \$4.8 million and \$5.1 million; an increase in cost of sales of \$5.8 million, \$4.7 million and \$5.1 million; a decrease in selling, general and administrative expenses of \$0.6 million, \$0.6 million and \$1.0 million; and a decrease in other income of \$0.7 million, \$0.7 million and \$1.0 million in the years ended December 31, 1998, 1999 and 2000, respectively.

3. NON-RECURRING OPERATING CHARGES:

The non-recurring operating charges recorded at December 31, 2000, consist of an \$8.5 million charge for the impairment of goodwill and other assets associated with acquisitions completed before 1999, a \$2.0 million charge to write-off fixed assets of computer systems which are being replaced and facilities which have been closed, and \$0.3 million of accruals primarily associated with future rent on closed facilities. Approximately \$4.5 million and \$6.3 million of this charge pertained to the Electrical Contracting segment and the MRO Segment, respectively.

As a result of increasingly poor financial results of certain acquired operations, the Company evaluated the recoverability of goodwill and other assets recorded in connection with all of the Company's acquisitions. All of the Company's acquisitions were completed prior to 1999. The Company determined that the expected future undiscounted cash flows of four acquisitions were below their carrying value. These operations have been experiencing declining revenues and margins. In accordance with SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of", during the fourth quarter of 2000, the Company adjusted the carrying value of these assets to their estimated fair value, which resulted in a non-cash impairment charge of approximately \$8.5 million.

4. ACQUISITIONS AND DIVESTITURES:

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 its Valve Segment for approximately \$2.65 million; this sale price consisted of \$2.04 million in cash, a \$.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. The results of operations of all acquisitions are included since the date of purchase in the historical financial statements.

During the first quarter of 2000, the Company completed the sale of certain of its MRO fabrication and warehouse properties in Houston, Texas, for approximately \$2.8 million in cash. A gain of

approximately \$1.7 million was recorded as a result of the sale. The Company sold an additional MRO warehouse facility during the second quarter of 2000 for approximately \$0.7 million, resulting in a gain of approximately \$0.3 million. These gains are included in other income.

Had such transactions been consummated as of January 1, 1998, the pro-forma effects on the results of operations would not have been significant. Accordingly, selected unaudited consolidated financial information for the Company on a pro-forma basis is not presented.

5. 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	
	1999	2000

	(IN THOUSANDS)	
Finished goods.....	\$ 25,259	\$ 25,770
Work in process.....	2,208	985

Inventories at FIFO.....	27,467	26,755
Less--LIFO allowance.....	(3,229)	(3,251)

Inventories.....	\$ 24,238	\$ 23,504
	=====	=====

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. No such liquidation of inventory occurred in 2000.

6. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are comprised of the following:

	DECEMBER 31	
	1999	2000

	(IN THOUSANDS)	
Land.....	\$ 1,834	\$ 1,320
Buildings and leasehold improvements...	8,543	5,263
Furniture, fixtures and equipment.....	13,513	9,812

	23,890	16,395
Less--Accumulated depreciation and amortization.....	(10,959)	(7,081)

	\$ 12,931	\$ 9,314
	=====	=====

7. LONG-TERM DEBT:

Long-term debt consists of the following:

	DECEMBER 31	
	1999	2000

	(IN THOUSANDS)	
Long-term debt--		
Credit facility:		
Working capital lines of credit, including		
\$5.4 million subject to a forbearance agreement....	\$21,425	\$24,825
Term loan component.....	13,013	9,789
Note payable to insurance company, 10.125%, collateralized by real property, payable in monthly installments through December 2006.....	1,354	--

Subordinated note payable, 7.0% payable in monthly installments through June 2003.....	2,050	2,045
Notes payable to finance company, 8.30%, collateralized by warehouse equipment, payable in monthly installments through April 2004.....	--	474
Notes payable to finance company, 7.74% to 8.21%, collateralized by furniture and fixtures, payable in monthly installments through April 2004.....	722	570
Other.....	1,422	448
	-----	-----
	39,986	38,151
Less--Current portion.....	(3,206)	(9,675)
	-----	-----
	\$36,780	\$28,476
	=====	=====

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 consists of three secured lines of credit with various subsidiaries of the Company and a term loan.

Under the terms of the asset purchase agreement associated with the acquisition of a MRO business in 1997, the Company can require the seller to adjust the purchase price for certain inventory remaining unsold as of July 1, 2000. The Company notified the seller that the adjustment of the purchase price exceeds the \$2,045,000 balance of the subordinated note payable. As of July 1, 2000, the Company suspended principal and interest payments on the note. The seller has notified the Company's bank lender that the Company is in default on the subordinated note. The Company's bank lender notified the Company that the default on the subordinated note caused the Company to be in default on one of its secured lines of credit in the amount of \$5.4 million. However, the Company and the bank lender have entered into a forbearance agreement whereby the bank lender agreed to forebear taking any action on defaults under the \$5.4 million secured line of credit. The bank lender can terminate the forbearance agreement at anytime. The \$5.4 million balance of the secured line of credit and the \$2.0 million balance of the subordinated note have been included in current maturities of long-term debt at December 31, 2000.

In management's opinion, should the \$5.4 million secured line of credit be demanded upon termination of the forbearance agreement, the Company would be able to refinance the obligation or liquidate it through the proceeds from asset sales or property refinancing. The Company intends to aggressively pursue the Company's claims against the seller under the provisions of the asset purchase agreement. The subordinated note provides for an interest rate of prime plus four percent if the note is in default. Management believes the subordinated note will either be paid off using funds obtained from the seller in settlement of the Company's claims or the subordinated note will be offset against its claims. However, there can be no assurance that the Company will be successful in collecting the funds due under its claims or in offsetting the subordinated note against its claims..

Subsequent to December 31, 2000, the Company and its bank amended the Credit Facility effective December 31, 2000, which now provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$35.0 million, and matures April 1, 2002, except for the \$5.4 million secured line of credit which is in default and callable at anytime under the forbearance agreement previously discussed. Interest accrues at prime plus 1/2% on the revolving portion of the Credit Facility and prime plus 1 1/2% on the term portion of the Credit Facility. The prime rate averaged 8.40%, 8.00% and 9.20% during 1998, 1999 and 2000, respectively, and at December 31, 2000, was 9.5%. The Credit Facility is secured by receivables, inventory, real estate and machinery and equipment. 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 including the minimum earnings requirement and the fixed charge coverage ratio. At December 31, 2000, the Company was not in compliance with these covenants. The bank lender has provided waivers to the Company regarding compliance with the covenants through December 31, 2000, except for the \$5.4 million secured line of credit. The bank lender also reduced the minimum monthly earnings requirement throughout 2001 and extended the maturity of the Credit Facility to April 1, 2002. In addition to the \$2.7 million of cash at December 31, 2000, after the bank lender waived compliance with certain financial ratios, the Company had \$0.4 million available for borrowings under the amended credit facility at December 31, 2000. Although we expect 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 we will be able to do so or that our lender will be willing to waive such non-compliance or further amend such covenants.

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

2001.....	9,675
2002.....	27,924
2003.....	328
2004.....	174
2005.....	13
Thereafter.....	37

	\$38,151
	=====

8. INCOME TAXES:

The provision (benefit) for income taxes consists of the following:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	-----	-----	-----
	(IN THOUSANDS)		
Current--			
Federal	\$ 1,794	\$ 156	\$ 329
State	400	409	620
	-----	-----	-----
	2,194	565	949
Deferred--			
Federal	(64)	(32)	(2,622)
	-----	-----	-----
	\$ 2,130	\$ 533	\$ (1,673)
	=====	=====	=====

The difference between income taxes computed at the federal statutory income tax rate of 34% and the provision (benefit) for income taxes is as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	-----	-----	-----
	(IN THOUSANDS)		
Income taxes computed at federal statutory			
rate	\$ 1,701	\$ 141	\$ (3,071)
State income taxes, net of federal benefit	264	250	410
Nondeductible goodwill amortization	92	82	903
Other	73	60	85
	-----	-----	-----
	\$ 2,130	\$ 533	\$ (1,673)
	=====	=====	=====

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

	DECEMBER 31	
	1999	2000
	-----	-----
	(IN THOUSANDS)	
Net current assets	\$ 635	\$1,308
Net noncurrent (liabilities) assets	(561)	1,388
	-----	-----
Net asset	\$ 74	\$2,696
	=====	=====

Deferred tax liabilities and assets were comprised of the following:

	DECEMBER 31	
	1999	2000
	(IN THOUSANDS)	
Deferred tax assets--		
Amortization of goodwill	3	1,476
Unamortized rent reduction	12	2
Allowance for doubtful accounts	407	701
Section 263A inventory costs	226	215
Inventory valuation reserves	--	390
Other	(13)	--
	-----	-----
Total deferred tax assets	635	2,784
	-----	-----
Deferred tax liability--		
Difference between financial and tax depreciation of assets acquired	\$(561)	\$(88)
	-----	-----
Net deferred tax asset	\$ 74	\$ 2,696
	=====	=====

The Company believes it is more likely than not that the net deferred income tax asset as of December 31, 2000 in the amount of \$2.7 million will be realized based primarily on the assumption of future taxable income. The Company has certain state tax net operating loss carryforwards aggregating approximately \$4.7 million, which expire in years 2001 through 2019. The losses are from operations which were acquired prior to 1999. A valuation allowance has been recorded to offset the deferred tax asset related to this carryforward.

9. SHAREHOLDERS' EQUITY:

SERIES A AND B 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. No stock was issued in 2000.

STOCK SPLIT

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

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 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

The DXP Enterprises, Inc. 1999 Employee Stock Option Plan, the DXP Enterprises, Inc. Long-term Incentive Plan and the DXP Enterprises, Inc. Director Stock Option Plan authorize the grant of options to purchase 500,000, 330,000 and 200,000 shares of the Company's shares, respectively. In accordance with these stock option plans which were approved by shareholders, options are granted to key personnel for the purchase of the Company's shares at prices not less than the fair market value of the shares on the dates of grant. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. Activity during 1998, 1999 and 2000 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--\$12.00	\$ 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--\$12.00	\$ 3.32
Granted.....	33,000	4.25--\$ 6.88	5.88
Canceled or expired.....	(104,912)	2.31--\$12.00	9.21
Outstanding at December 31, 1999.....	1,501,088	\$1.48--\$12.00	\$ 2.83
Granted.....	253,057	1.00--\$ 2.50	1.59
Canceled or expired.....	(39,750)	2.50--\$12.00	9.59
Outstanding at December 31, 2000.....	1,714,395	\$1.00--\$12.00	\$ 2.60
Exercisable at December 31, 2000.....	1,471,255	\$1.00--\$12.00	\$ 2.18

OPTIONS OUTSTANDING

RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 2000	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
\$1.00 to \$3.00	1,553,057	5.2	\$ 1.75
\$3.01 to \$6.00	12,000	8.4	4.44
\$6.01 to \$9.00	10,000	4.0	7.25
\$9.01 to \$12.00	139,338	2.2	11.64
	1,714,395	5.0	\$ 2.60

OPTIONS EXERCISABLE

NUMBER EXERCISABLE AT DECEMBER 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE
1,400,000	\$ 1.75
7,020	4.36
4,000	7.25
60,235	11.67
1,471,255	\$ 2.18

The outstanding options at December 31, 2000, expire between May 2001 and September 2010, or 90 days after termination of full-time employment. The weighted average remaining contractual life was 4.8 years, 3.8 years and 5.0 years at December 31, 1998, 1999 and 2000, respectively.

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, 1998, 1999 and 2000:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Common stock outstanding, beginning of period	4,157,361	4,156,806	4,071,685
Weighted average common stock issued in stock option exercise	15,150	--	--
Less: weighted average treasury shares repurchased	(13,192)	(81,814)	--
Shares used in computing basic earnings per share	4,159,319	4,074,992	4,071,685
Dilutive effect of stock options, net of assumed repurchase of treasury stock	1,016,430	--	--
Dilutive effect of convertible preferred stock	420,000	--	--
Shares used in computing diluted earnings per share ..	5,595,749	4,074,992	4,071,685

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense is recognized if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Compensation expense recognized under APB 25 was \$0, \$39,000 and \$0 in 1998, 1999 and 2000, respectively.

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 1998, 1999 and 2000: risk-free interest rates of 6.0 percent for 1998 and 1999 and 6.4% for 2000; expected lives of five to ten years, assumed volatility of 18.4% for 1998 and 1999 and 140% for 2000; 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.

	1998		1999		2000	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income (loss) attributable to common shareholders (in thousands).....	\$ 2,784	\$ 2,616	\$ (208)	\$ (430)	\$ (7,448)	\$ (7,809)
Basic earnings (loss) per common share.....	\$.67	\$.63	\$ (.05)	\$ (.09)	\$ (1.83)	\$ (1.92)
Diluted earnings (loss) per common share.....	\$.51	\$.48	\$ (.05)	\$ (.09)	\$ (1.83)	\$ (1.92)

10. COMMITMENTS AND CONTINGENCIES:

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 2000, for noncancelable leases are as follows (in thousands):

2001.....	\$ 1,783
2002.....	1,320
2003.....	1,080
2004.....	727
2005.....	456
Thereafter.....	1,235

	\$ 6,601
	=====

Rental expense for operating leases was \$1,949,130, \$2,143,067 and \$2,550,909 for the years ended December 31, 1998, 1999 and 2000, respectively.

From time to time the Company is 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 our business, financial condition or results of operations.

11. EMPLOYEE BENEFIT PLANS:

DXP provides an employee stock ownership plan (ESOP) to substantially all employees. Employer contributions are at the discretion of the board of directors. The ESOP held 862,000 shares of the Company's common stock at December 31, 2000. The Company expensed contributions for the ESOP of \$150,000 in 1998 and 1999. The Company also offers a 401(k) plan which is eligible to substantially all employees. The Company matches employee contributions at a rate of 50 percent up to 4 percent of salary deferral. The Company contributed to the 401(k) plan \$214,000, \$132,000 and \$386,000 in the years ended December 31, 1998, 1999 and 2000, respectively.

12. RELATED-PARTY TRANSACTIONS:

The Company has made two loans to an executive officer in the amounts of \$149,910 and \$58,737, respectively, each bearing interest at 9 percent per annum. The total outstanding balance of such loans including accrued interest was \$209,914 at December 31, 1999, and \$241,935 at December 31, 2000.

An executive officer of the Company, who is also a shareholder, has personally guaranteed up to \$500,000 of the obligations of the Company under the Credit Facility. Additionally, certain shares held in trust for this executive officer's children are also pledged to secure the line of credit. The Board of Directors of the Company has approved the Company making advances upon future bonuses to this same executive, not to exceed the amount of the monthly principal and interest payments on a personal \$500,000 loan to this executive made by the lender. Additionally, the Company from time to time has made noninterest-bearing advances to this officer. As of December 31, 1999 and 2000, the outstanding advances amounted to \$473,871 and \$537,973, respectively. As of April 16, 2001, the lender has loaned \$455,000 to the Company, which in turn was advanced to the officer, who then retired his personal loan with the lender.

13. SEGMENT DATA:

The MRO Segment is engaged in providing maintenance, repair and operating 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, power transmission equipment, general mill, safety supply and electrical products categories. The Electrical Contractor Segment sells 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, to electrical contractors. The Company began offering electrical products to electrical contractors following its acquisition of the assets of two electrical supply businesses

in 1998. The assets of the Valve Segment were sold in July, 1999. As a result, the Company no longer competes in the valve and valve automation business. The Valve Segment sold pneumatic, hydraulic and electric actuators for critical or high-pressure service applications or remote valve operation applications, to operators of refineries and pipelines.

All business segments operate primarily in the United States.

The high degree of integration of the Company's operations necessitates the use of a substantial number of allocations and apportionments in the determination of business segment information. Sales are shown net of intersegment eliminations.

Financial information relating the Company's segments is as follows:

	MRO	ELECTRICAL CONTRACTOR	VALVE	TOTAL
	-----	-----	-----	-----
	(IN THOUSANDS)			
1998				
Sales	\$ 186,079	\$ 13,759	\$9,541	\$ 209,379
Operating income	7,415	715	13	8,143
Identifiable assets	67,326	9,363	4,392	81,081
Capital expenditures	3,842	13	4	3,859
Depreciation & amortization	1,581	190	49	1,820
1999				
Sales	\$ 167,636	\$ 13,354	\$3,695	\$ 184,685
Operating income (loss)	3,088	(483)	294	2,899
Identifiable assets	64,889	8,812	--	73,701
Capital expenditures	2,218	8	--	2,226
Depreciation & amortization	1,784	211	21	2,016
2000				
Sales	170,685	11,957	--	182,642
Operating loss	(2,725)	(5,027)	--	(7,752)
Identifiable assets	62,144	4,995	--	67,139
Capital expenditures	1,201	31	--	1,232
Depreciation & amortization	1,771	174	--	1,945

Operating income for 2000 for the MRO segment and the Electrical Contractor Segment include non-recurring operating charges of \$6.3 million and \$4.5 million, respectively.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for the years ended December 31, 1998, 1999 and 2000 is as follows:

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	-----	-----	-----	-----
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
1998				
Sales	\$ 50.4	\$ 54.2	\$ 53.8	\$ 51.0
Gross profit	12.6	13.7	14.0	13.7
Net income	0.9	1.1	0.7	0.2
Earnings per share-assuming dilution	0.15	0.20	0.13	0.03
1999				
Sales	\$ 49.7	\$ 47.6	\$ 45.4	\$ 42.0
Gross profit	12.9	11.8	11.7	10.5
Net income (loss)	0.3	(0.4)	0.1	(0.1)
Earnings (loss) per share-assuming dilution	0.05	(0.10)	0.02	(0.02)
2000				
Sales	\$ 45.1	\$ 45.1	\$ 46.0	\$ 46.5
Gross profit	10.9	11.3	11.6	11.7
Net income (loss)	0.7	0.1	0.2	(8.4)
Earnings (loss) per share-assuming dilution	0.15	0.03	0.05	(2.06)

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 2001 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 (included under Item 8):

	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

2. Financial Statement Schedules:

Report of Independent Public Accountants on Supplementary Data

Schedule II - Valuation and Qualifying Accounts.

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

(b) REPORTS ON FORM 8-K:

None.

(c) EXHIBITS:

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 37), which index is incorporated herein by reference.

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.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTARY DATA**

To DXP Enterprises, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of DXP Enterprises, Inc. and subsidiaries included in this Annual Report on Form 10-K and have issued our report thereon dated April 17, 2001, in which we expressed an unqualified opinion. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Valuation and Qualifying Accounts Schedule (Schedule II) below is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

ARTHUR ANDERSEN LLP

Houston, Texas
April 17, 2001

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
DXP ENTERPRISES, INC.
DECEMBER 31, 2000
(in thousands)**

Description -----	Balance at Beginning of Year -----	Charged to Costs and Expenses -----	Charged to Other Accounts -----	Deductions(1) -----	Balance At End of Year -----
Year Ended December 31, 2000					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$1,535	\$734	\$--	\$381	\$1,888
Year Ended December 31, 1999					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$1,155	\$794	\$--	\$414	\$1,535
Year Ended December 31, 1998					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$814	\$343	\$--	\$2	\$1,155

(1) Uncollectible accounts written off, net of recoveries

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: April 17, 2001

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	Chairman of the Board, President, Chief Executive Officer and Director	April 17, 2001
	----- David R. Little	(Principal Executive Officer)	
/s/	MAC McCONNELL	Senior Vice-President/Finance and Chief Financial Officer	April 17, 2001
	----- Mac McConnell	(Principal Financial and Accounting Officer)	
/s/	CLETUS DAVIS	Director	April 17, 2001
	----- Cletus Davis		
/s/	KENNETH H. MILLER	Director	April 17, 2001
	----- Kenneth H. Miller		
/s/	THOMAS V. ORR	Director	April 17, 2001
	----- Thomas V. Orr		

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 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).
10.8	-- 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).

EXHIBIT
NUMBER

DESCRIPTION

- 10.9 -- 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).
- 10.10 -- 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).
- 10.11 -- 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).
- 10.12 -- 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).
- 10.13 -- 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).
- 10.14 -- 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).
- 10.15 -- 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).
- +10.16 -- 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).

EXHIBIT
NUMBER

DESCRIPTION

- 10.17 -- 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).
- 10.18 -- 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).
- 10.19 -- 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).
- 10.20 -- 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).
- 10.21 -- 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).
- 10.22 -- May 1999 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements Dated May 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 March 31, 1999).
- 10.23 -- 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).
- 10.24 -- 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).
- 10.25 -- 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).
- 10.26 -- 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).
- 10.27 -- 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).

EXHIBIT
NUMBER

DESCRIPTION

- 10.28 -- 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).
- 10.29 -- 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).
- 10.30 -- 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).
- 10.31 -- 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).
- 10.32 -- 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).
- 10.33 -- 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).
- 10.34 -- 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).
- 10.35 -- 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).
- 10.36 -- 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).
- 10.37 -- 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

EXHIBIT
NUMBER

DESCRIPTION

-
- 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).
- 10.38 -- 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).
- 10.39 -- 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).
- 10.40 -- 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).
- 10.41 -- 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).
- 10.42 -- 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).
- 10.43 -- 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).
- 10.44 -- 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).
- 10.45 -- 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).
- 10.46 -- 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).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.47	-- 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).
10.48	-- 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).
10.49	-- 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).
*21.1	-- Subsidiaries of the Company (incorporated by reference to Exhibit 2.1 to the Registrant's Annual Report on Form 10-K, filed with the Commission on April 17, 2001).
*23.1	-- Consent from Arthur Andersen LLP.

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.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated April 12, 2001 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

April 17, 2001

End of Filing

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