

**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, 2002**

*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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the registrant's Common Stock held by non-affiliates of registrant as of June 28, 2002: \$2,150,783.

Number of shares of registrant's Common Stock outstanding as of March 15, 2003: 4,071,685

Documents incorporated by reference: Portions of the definitive proxy statement for the annual meeting of shareholders to be held in 2003 are incorporated by reference into Part III hereof.

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### DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places, including Item 1. "Business," Item 3. "Legal Proceedings" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements and changing prices and market conditions. This report identifies other factors that could cause such differences. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

## 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 two segments: MRO and Electrical Contractor. Sales and operating income for 2000, 2001 and 2002, 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, bearing, 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, bearing, power transmission equipment, general mill, safety supply and electrical products. Based on 2001 sales as reported by industry sources, we were the 32nd largest distributor of MRO products in the United States.

The industrial distribution market is highly fragmented, with the 250 largest distributors accounting for less than 15% of the total United States market during 2000. 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 our 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, bearing, 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, National Oilwell, SKF, Torrington/Fafnir, Timken, NTN, Dodge/Reliance, Falk, Gates, Martin Sprocket, T. B. Woods, Emerson, Rexnord, Baldor Electric, Union Butterfield, 3M, Fag Bearing, Tyco, BACOU/DALLOZ, Norton Abrasives, and LaCross Rainfair Safety Products.

At December 31, 2002, the MRO Segment has 501 full-time employees.

### **ELECTRICAL CONTRACTOR SEGMENT**

The Electrical Contractor segment was formed in 1998 with the acquisition of substantially all of the assets of two electrical supply businesses. During August 2001, we sold the majority of the assets of one of the two businesses which comprised the Electrical Contractor segment. 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 two warehouse/sales facilities in Memphis, Tennessee.

The Electrical Contractor segment sells a broad range of products from over 100 vendors. Significant vendors include Cutler-Hammer, Cooper, Killark, 3M, General Electric and Allied. To meet prompt delivery demands of its customers, this segment maintains large inventories. The majority of sales are on open account.

At December 31, 2002, the Electrical Contractor segment had 12 full-time employees.

### **MANAGEMENT INFORMATION SYSTEMS**

During 2002, we completed the installation of a common operating and financial system which is used by all of our locations. We use this computer system 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, our computer system has the flexibility to integrate with the customer's maintenance, accounting and management systems. Our system allows for real-time reporting of industrial products used by work order, department and individual, as well as on-line stock inquiry and order-status reports. Our system supports advanced functions, such as EDI, customized billing, end user reporting, facsimile transmission, bar coding and preventative maintenance.

### **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 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 which we provide. 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, 2002, we had 513 full-time employees. We believe that our relationship with our employees is good.

## **RISK FACTORS**

### **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 our existing geographic areas and adding new customers. Our ability to implement this strategy will depend on our success in selling more to existing customers, acquiring new customers, hiring qualified sales persons, 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 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.

### **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.

### **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 43 branch distribution facilities located in Georgia, Louisiana, Maryland, Montana, New Mexico, Oklahoma, Tennessee, Texas, and Wyoming. The Electrical Contractor segment owns 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 one to five years. The leases provide for periodic specified rental payments and certain leases are renewable at our option. We believe that our facilities are suitable and adequate for the needs of our existing business. 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, for approximately \$2.8 million in cash. We sold another 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 our 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

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

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

	HIGH	LOW
	----	---
2001		
First Quarter.....	\$1.00	\$ .056
Second Quarter.....	\$1.60	\$0.62
Third Quarter.....	\$1.40	\$1.00
Fourth Quarter.....	\$1.10	\$0.70
2002		
First Quarter.....	\$1.45	\$0.85
Second Quarter.....	\$2.24	\$0.97
Third Quarter.....	\$1.25	\$0.75
Fourth Quarter.....	\$1.21	\$0.70

On March 15, 2003, we had approximately 670 holders of record for outstanding shares of our 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 our capital stock except for limited dividends on our preferred stock. Accordingly, we do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, the success of our business activities, regulatory and capital requirements, our general financial condition and general business conditions.

#### ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial data set forth below for each of the years in the five-year period ended December 31, 2002 have been derived from our audited consolidated financial statements. 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.



## YEARS ENDED DECEMBER 31,

	1998	1999	2000	2001	2002
(IN THOUSANDS EXCEPT FOR PER SHARE DATA)					
CONSOLIDATED STATEMENTS OF EARNINGS DATA:					
Sales .....	\$ 209,379	\$ 184,685	\$ 182,642	\$ 174,429	\$ 148,106
Gross profit .....	54,147	46,879	45,507	43,805	37,984
Operating income (loss)(1)(3) .....	8,143	2,899	(7,752)	4,034	4,117
Income (loss) before income taxes(4) .....	5,004	415	(9,031)	1,600	2,633
Income (loss) before cumulative effect of a change in accounting principle .....	2,874	(118)	(7,358)	929	1,619
Cummulative effect of a change in accounting principle, net of tax .....	--	--	--	--	(1,729)
Net income (loss) .....	2,874	(118)	(7,358)	929	(110)
Preferred stock dividend .....	(90)	(90)	(90)	(90)	(90)
Net income (loss) attributable to common shareholders .....	2,784	(208)	(7,448)	839	(200)
Per share and share amounts before cumulative effect of a change in accounting principle					
Basic earnings (loss) per common share .....	\$ 0.67	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ 0.38
Common shares outstanding(2) .....	4,159	4,075	4,072	4,072	4,072
Diluted earnings (loss) per share .....	\$ 0.51	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ 0.36
Common and common equivalent shares outstanding (2) .....	5,596	4,075	4,072	4,503	4,555
Cummulative effect of a change in accounting principle per share-basic and diluted .....	\$ --	\$ --	\$ --	\$ --	\$ (0.42)
Basic earnings (loss) per share .....	\$ 0.67	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ (0.05)
Common shares outstanding .....	4,159	4,075	4,072	4,072	4,072
Diluted earnings (loss) per share .....	\$ 0.51	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ (0.05)
Common and common equivalent shares outstanding (2) .....	5,596	4,075	4,072	4,503	4,072

	1998	1999	2000	2001	2002
(IN THOUSANDS)					

## CONSOLIDATED BALANCE SHEET DATA:

Total assets .....	\$ 80,389	\$ 72,922	\$ 66,280	\$ 57,588	\$ 49,248
Long-term debt obligations .....	42,910	36,780	28,476	22,864	23,486
Shareholders' equity .....	15,540	15,499	7,971	8,323	8,087

(1) 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.

(2) 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 July 17, 1998.

(3) Year ended December 31, 2000 includes non-recurring charges of \$10,791,000; refer to Note 3 of the Notes to the Consolidated Financial Statements for further information.

(4) Year ended December 31, 2000 includes one-time gains of \$2.0 million from the sale of two MRO warehouse facilities.

## **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

	YEAR ENDED DECEMBER 31,					
	2000	%	2001	%	2002	%
	(IN MILLIONS, EXCEPT PERCENTAGES)					
Sales .....	\$ 182.6	100.0%	\$ 174.4	100.0%	\$ 148.1	100.0%
Cost of sales .....	137.1	75.1	130.6	74.9	110.1	74.3
Gross Profit .....	45.5	24.9	43.8	25.1	38.0	25.7
Operating expenses:						
Selling, general and administrative .....	42.5	23.3	39.8	22.8	33.9	22.9
Non-recurring operating charges .....	10.8	5.9	--	--	--	--
Operating (loss) income .....	(7.8)	(4.3)	4.0	2.3	4.1	2.8
Interest expense .....	3.7	2.0	2.5	1.4	1.6	1.1
Other income .....	(2.5)	(1.4)	(0.1)	--	(0.1)	(0.1)
(Loss) income before income taxes .....	(9.0)	(4.9)	1.6	0.9	2.6	1.8
(Benefit) provision for income taxes .....	(1.7)	(0.9)	0.7	0.4	1.0	0.7
(Loss) income before cumulative effect of a change in accounting principle .....	\$ (7.3)	(4.0)%	\$ 0.9	0.5%	\$ 1.6	1.1%
Per share amounts before cumulative effect of a change in accounting principle						
Basic (loss) earnings per common share .	\$ (1.83)		\$ 0.21		\$ 0.38	
Diluted (loss) earnings per share .....	\$ (1.83)		\$ 0.21		\$ 0.36	

### YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

**SALES.** Revenues for 2002 decreased \$26.3 million, or 15.1%, to approximately \$148.1 million from \$174.4 million in 2001. Sales for the MRO segment decreased \$20.9 million, or 12.6% primarily due to slowing of the overall economy. Reduced sales of bearing products accounted for approximately one half of the decline in sales for the MRO segment. Sales for the Electrical Contractor segment decreased by \$5.4 million, or 65.8%, when compared to 2001. This decrease is the result of the sale, during August 2001, of the majority of the assets of a business in San Antonio, Texas, which accounted for approximately two thirds of the sales of the Electrical Contractor segment, combined with a slow down in the construction business for electrical contractors.

**GROSS PROFIT.** Gross profit as a percentage of sales increased by approximately 0.5% for 2002, when compared to 2001. The increase can be primarily attributed to increased margins for the Electrical Contractor segment. Gross profit as a percentage of sales for the Electrical Contractor segment increased to 37.5% for 2002, up from 23.5% in 2001. This increase resulted from the sale of the business in San Antonio, Texas which had lower gross profit margins. Gross profit as a percentage of sales for the MRO segment increased to 25.4% for 2002, up from 25.2% for 2001. This increase can be primarily attributed to increased margins in fluid handling products sold by the MRO segment.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expense for 2002 decreased by approximately \$5.9 million, or 14.8%, when compared to 2001. This decrease is primarily attributable to reduced

litigation costs, communication expenses, bad debt expense, payroll and payroll related expenses. As a percentage of revenue, the 2002 Selling, general and administrative expense increased by approximately 0.1% to 22.9% from 22.8% for 2001. This increase is primarily attributable to non-variable costs being spread over a smaller revenue amount.

**OPERATING INCOME.** Operating income for 2002 increased by approximately \$0.1 million, or 2.1%, when compared to 2001. This increase is the net of a \$0.2 million decrease in operating income for the MRO segment and a \$0.3 million improvement in operating income for the Electrical Contractor segment. The reduced operating income for the MRO segment is the result of lower sales and gross profit partially offset by reduced selling, general and administrative expenses. The improvement for the Electrical Contractor segment is primarily the result of the sale during August 2001 of the business in San Antonio, Texas, which was not profitable.

**INTEREST EXPENSE.** Interest expense for 2002 decreased by \$0.9 million to \$1.6 million from \$2.5 million for 2001. This decline results from lower interest rates for 2002 when compared to 2001 as well as a lower average debt balance.

**INCOME TAXES.** As of December 31, 2002, we have recorded net deferred tax assets of \$1.4 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, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000**

**SALES.** Sales for 2001 decreased \$8.2 million, or 4.5%, to approximately \$174.4 million from \$182.6 million in 2000. Sales for the MRO segment decreased \$4.5 million, or 2.6% primarily due to slowing of the overall economy. Sales for the Electrical Contractor segment decreased by \$3.7 million, or 31%, when compared to 2000. This decrease is the result of the sale, during August 2001, of the majority of the assets of a business which comprised approximately two thirds of the sales of the Electrical Contractor segment combined with a slow down in the construction business for electrical contractors.

**GROSS PROFIT.** Gross profit as a percentage of sales was 25.1% for 2001, up from 24.9% for 2000. Gross profit as a percentage of sales for the MRO segment increased to 25.2% for 2001, up from 25.0% in the comparable period of 2000. This increase can be primarily attributed to increased margins in fluid handling equipment sold by the MRO segment. Gross profit as a percentage of sales for the Electrical Contractor segment decreased to 23.5% for 2001, down from 24.4% for the comparable period of 2000. This decline resulted from lower margin sales associated with a slowdown in the construction business for electrical contractors.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative expense for 2001 declined \$2.7 million, or 6.3%, to approximately \$39.8 million from \$42.5 million in 2000. As a percentage of revenue, the 2001 expense declined to 22.8% from 23.3 % for 2000. This decrease is primarily attributable to reduced compensation related expenses resulting from reduced headcount.

**OPERATING INCOME.** Excluding the \$10.8 million of non-recurring operating charges recorded in the fourth quarter of 2000, operating income for 2001 increased \$1.0 million, \$0.3 million for the Electrical Contractor segment and \$0.7 million for the MRO segment, when compared to the same period in 2000. This improved operating income for the MRO segment is primarily the result of reduced selling, general and administrative expenses. The operating loss for the Electrical Contractor segment decreased to \$0.2 million for 2001, from \$0.5 million for 2000, excluding the \$4.5 million of non-recurring charges in 2000. The reduced operating loss for the Electrical Contractor segment results from the sale during August 2001 of the majority of the assets of a business which was not profitable.

**INTEREST EXPENSE.** Interest expense for 2001 decreased by \$1.3 million to \$2.5 million from \$3.7 million for 2000. This decline results from lower interest rates as well as a lower average debt balance for 2001 when compared to 2000.

**OTHER INCOME.** Other income was approximately \$2.4 million lower in 2001 than in 2000 due primarily to \$2.0 million of gains on the sale of two warehouse facilities during 2000.

**NET INCOME.** Excluding the non-recurring charges and the gains on the sale of two warehouse facilities in 2000, net income increased by approximately \$1.6 million in 2001 from a loss of approximately \$0.7 million in 2000.

## **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 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 and a term loan with various of our subsidiaries.

The Credit Facility provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$35.0 million, and matures April 1, 2004. Interest accrues at prime plus 1/2% on approximately \$30.5 million of the Credit Facility, and prime plus 1 1/2% on the term portion of the Credit Facility. The prime rate at December 31, 2002, was 4.25%. 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. 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, 2002, we were in compliance with these covenants. Although we expect to be able to comply with the 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. In addition to the \$1.2 million of cash at December 31, 2002, we had \$2.5 million available for borrowings under the amended credit facility at December 31, 2002.

We generated cash in operating activities of approximately \$2.5 million in 2002 as compared to \$7.1 million in cash provided during 2001. This change between the two years is primarily attributable to accounts receivable decreasing by \$1.2 million in 2002, versus accounts receivable declining by \$5.6 million in 2001.

We used cash in investing activities of approximately \$0.4 million during 2002 as compared to approximately \$0.5 million in cash generated in 2001. This decrease is primarily attributed to the sale of certain assets of the Electrical Contractor segment for \$1.1 million in cash in 2001. We had capital expenditures of approximately \$0.4 million for the fiscal year ended December 31, 2002, as compared to \$0.7 million during 2001. Capital expenditures during 2002 were related primarily to computer equipment. Capital expenditures during 2001 were primarily related to computer software and computer equipment.

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 2003. 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, 2004. We will need to extend the maturity of, or replace our Credit Facility on or before April 1, 2004. 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 acquisitions 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.

### **DISCUSSION OF CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues

and expenses during the reporting period. The significant estimates made by us in the accompanying financial statements relate to reserves for accounts receivable collectibility, inventory valuations and self-insured medical claims. Actual results could differ from those estimates.

Critical accounting policies are those that are both most important to the portrayal of a company's financial position and results of operations, and require management's subjective or complex judgments. Below is a discussion of what we believe are our critical accounting policies. Also, see Note 1 of the Notes to the Consolidated Financial Statements.

### **Revenue Recognition**

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

### **Allowance for Doubtful Accounts**

Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically (as circumstances warrant) based upon the expected collectibility of all such accounts.

### **Inventory**

Inventory consists principally of finished goods and is priced at lower of cost or market, cost being determined using both the first-in, first-out (FIFO) and the last-in, first out (LIFO) method. Reserves are provided against inventory for estimated obsolescence based upon the aging of the inventory and market trends.

### **Income Taxes**

In accordance with SFAS 109, Accounting for Income Taxes, we have recorded a net deferred tax asset of \$1.4 million as of December 31, 2002. We believe it is more likely than not that this net deferred tax asset will be realized based primarily on the assumption of future taxable income.

Management periodically re-evaluates these estimates as events and circumstances change. Together with the effects of the matters discussed above, these factors may significantly impact the Company's results of operations from period-to-period.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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

### **INFLATION**

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

### **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 (in thousands except for percentages)					
	2003	2004	2005	2006	2007	THEREAFTER
<b>Fixed Rate</b>						
Long-term Debt	\$ 461	\$ 285	\$ 135	\$ 91	\$ 97	\$ 2,148
Average Interest Rate	8.11%	8.31%	7.91%	6.65%	6.65%	6.27%
<b>Floating Rate</b>						
Long-term Debt	\$ 1,164	\$ 20,730	\$ --	\$ --	\$ --	\$ --
Average Interest Rate	5.75%	4.91%	--	--	--	--
Total Maturities	\$ 1,625	\$ 21,015	\$ 135	\$ 91	\$ 97	\$ 2,148

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

**INDEPENDENT AUDITOR'S REPORT**

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. and Subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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 audit provides 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, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

*/s/ HEIN + ASSOCIATES LLP*

*March 14, 2003  
Houston, Texas*

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with DXP Enterprises, Inc.'s 2001 consolidated financial statements previously filed on Form 10-K. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K.

## **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, 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2001. 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 audit 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 audit provides 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, 2001, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

*/s/ ARTHUR ANDERSEN LLP*

*March 22, 2002  
Houston, Texas*



**DXP ENTERPRISES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands, Except Share Amounts)

	December 31,	
	2001	2002
ASSETS		
CURRENT ASSETS:		
Cash .....	\$ 2,260	\$ 1,171
Trade accounts receivable, net of allowance for doubtful accounts of \$1,784 in 2001 and \$ 1,235 in 2002 .....	18,757	17,560
Inventories, net .....	22,922	20,392
Prepaid expenses and other current assets .....	284	429
Deferred income taxes .....	1,714	899
Total current assets .....	45,937	40,451
PROPERTY AND EQUIPMENT, net .....	8,820	8,034
OTHER ASSETS:		
Intangible assets, net of accumulated amortization of \$281 in 2001 .....	2,469	--
Deferred income taxes .....	--	508
Other assets .....	362	255
Total assets .....	\$ 57,588	\$ 49,248
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable and accrued expenses .....	\$ 16,979	\$ 14,057
Accrued wages and benefits .....	1,033	1,192
Current portion of long-term debt .....	7,273	1,625
Other liabilities .....	866	801
Total current liabilities .....	26,151	17,675
LONG-TERM DEBT, less current portion .....	22,864	23,486
DEFERRED INCOME TAXES .....	250	--
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Series A preferred stock, 1/10th vote per share; \$1.00 par value; liquidation preference of \$100 per share (\$117 at December 31, 2002); 1,000,000 shares authorized, 2,992 and 1,168 shares issued and outstanding, respectively .....	2	1
Series B convertible preferred stock, 1/10th vote per share; \$1.00 par value; \$100 stated value; liquidation preference of \$100 per share (\$1,500 at December 31, 2002); 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 .....	2,877	2,842
Retained earnings .....	8,625	8,425
Treasury stock; 188,775 common and preferred shares, at cost .....	(1,894)	(1,894)
Notes receivable from shareholders .....	(1,346)	(1,346)
Total shareholders' equity .....	8,323	8,087
Total liabilities and shareholders' equity .....	\$ 57,588	\$ 49,248

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

**DXP ENTERPRISES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31		
	2000	2001	2002
Sales .....	\$ 182,642	\$ 174,429	\$ 148,106
Cost of sales .....	137,135	130,624	110,122
Gross profit .....	45,507	43,805	37,984
Operating expenses:			
Selling, general and administrative expenses .....	42,468	39,771	33,867
Non-recurring operating charges .....	10,791	--	--
Total operating expenses .....	53,259	39,771	33,867
Operating (loss) income .....	(7,752)	4,034	4,117
Other income .....	2,468	46	146
Interest expense .....	(3,747)	(2,480)	(1,630)
(Loss) income before income taxes .....	(9,031)	1,600	2,633
(Benefit) provision for income taxes .....	(1,673)	671	1,014
(Loss) income before cumulative effect of a change in accounting principle .....	(7,358)	929	1,619
Cumulative effect of a change in accounting principle, net of \$740 tax benefit .....	--	--	(1,729)
Net (loss) income .....	(7,358)	929	(110)
Preferred stock dividend .....	(90)	(90)	(90)
Net (loss) income attributable to common shareholders .....	\$ (7,448)	\$ 839	\$ (200)
Per share and share amounts before cumulative effect of a change in accounting principle			
Basic (loss) earnings per common share .....	\$ (1.83)	\$ 0.21	\$ 0.38
Common shares outstanding .....	4,072	4,072	4,072
Diluted (loss) earnings per share .....	\$ (1.83)	\$ 0.21	\$ 0.36
Common and common equivalent shares outstanding .....	4,072	4,503	4,555
Cumulative effect of a change in accounting principle per share-basic and diluted .....	\$ --	\$ --	\$ (0.42)
Basic (loss) income per share .....	\$ (1.83)	\$ 0.21	\$ (0.05)
Common shares outstanding .....	4,072	4,072	4,072
Diluted (loss) income per share .....	\$ (1.83)	\$ 0.21	\$ (0.05)
Common and common equivalent shares outstanding .....	4,072	4,503	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)

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS
BALANCES AT DECEMBER 31, 1999 .....	\$ 2	\$ 18	\$ 41	\$ 2,877	\$ 15,234
(as restated)					
Increase in notes receivable .....	--	--	--	--	--
Dividends paid .....	--	--	--	--	(90)
Net loss .....	--	--	--	--	(7,358)
BALANCES AT DECEMBER 31, 2000 .....	\$ 2	\$ 18	\$ 41	\$ 2,877	\$ 7,786
Increase in notes receivable .....	--	--	--	--	--
Dividends paid .....	--	--	--	--	(90)
Net income .....	--	--	--	--	929
BALANCES AT DECEMBER 31, 2001 .....	\$ 2	\$ 18	\$ 41	\$ 2,877	\$ 8,625
Dividends paid .....	--	--	--	--	(90)
Acquisition of 1,824 shares of Series A Preferred Stock .....	(1)	--	--	(35)	--
Net loss .....	--	--	--	--	(110)
BALANCES AT DECEMBER 31, 2002 .....	\$ 1	\$ 18	\$ 41	\$ 2,842	\$ 8,425

	TREASURY STOCK	NOTES RECEIVABLE	TOTAL
BALANCES AT DECEMBER 31, 1999 .....	\$ (1,894)	\$ (779)	\$ 15,499
(as restated)			
Increase in notes receivable .....	--	(80)	(80)
Dividends paid .....	--	--	(90)
Net loss .....	--	--	(7,358)
BALANCES AT DECEMBER 31, 2000 .....	\$ (1,894)	\$ (859)	\$ 7,971
Increase in notes receivable .....	--	(487)	(487)
Dividends paid .....	--	--	(90)
Net income .....	--	--	929
BALANCES AT DECEMBER 31, 2001 .....	\$ (1,894)	\$ (1,346)	\$ 8,323
Dividends paid .....	--	--	(90)
Acquisition of 1,824 shares of Series A Preferred Stock .....	--	--	(36)
Net loss .....	--	--	(110)
BALANCES AT DECEMBER 31, 2002 .....	\$ (1,894)	\$ (1,346)	\$ 8,087

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

**DXP ENTERPRISE, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31		
	2000	2001	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income .....	\$ (7,358)	\$ 929	\$ (110)
Adjustments to reconcile net income (loss) to net cash provided by operating activities--			
Cumulative effect of a change in accounting principle, net of tax	--	--	1,729
Depreciation and amortization .....	1,945	1,381	1,160
Charge for write-off of fixed assets .....	2,331	--	--
Charge for impairment of goodwill and associated assets .....	8,460	--	--
Deferred income taxes .....	(2,622)	1,232	796
Loss (gain) on sale of property and equipment .....	(1,921)	5	4
Changes in operating assets and liabilities			
Accounts receivable .....	(3,754)	5,620	1,197
Inventories .....	(413)	(700)	585
Prepaid expenses and other current assets .....	(272)	(48)	(37)
Accounts payable and accrued expenses .....	3,281	(1,280)	(2,827)
Net cash (used in) provided by operating activities .....	(323)	7,139	2,497
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment .....	(1,232)	(691)	(379)
Proceeds from sale of property and equipment .....	3,232	--	--
Net proceeds on the sale of certain electrical contractor segment assets .....	--	1,172	--
Net cash provided by (used in) investing activities .....	2,000	481	(379)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from debt .....	179,886	176,652	151,861
Principal payments on revolving line of credit, long-term debt and notes payable .....	(181,720)	(184,666)	(154,942)
Acquisition of preferred stock .....	--	--	(36)
Dividends paid in cash .....	(90)	(90)	(90)
Net cash used in financing activities .....	(1,924)	(8,104)	(3,207)
(DECREASE) INCREASE IN CASH .....	(247)	(484)	(1,089)
CASH AT BEGINNING OF YEAR .....	2,991	2,744	2,260
CASH AT END OF YEAR .....	\$ 2,744	\$ 2,260	\$ 1,171
<b>SUPPLEMENTAL DISCLOSURES:</b>			
Cash paid for --			
Interest .....	\$ 3,488	\$ 2,396	\$ 1,635
Income taxes .....	\$ 837	\$ 179	\$ 152
Cash income tax refunds .....	--	\$ 797	\$ 109

**Noncash activities:**

Changes in inventories and principal payments on debt excludes the \$1.9 million noncash reduction of inventory cost and debt associated with a litigation settlement recorded in 2002. See Note 7.

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 two segments:

Maintenance, Repair and Operating (MRO) and Electrical Contracting. See Note 13 for discussion of the business segments.

#### **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.

#### **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. Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically (as circumstances warrant) based upon the expected collectibility of all such accounts. No customer represents more than 10% of consolidated sales.

#### **INVENTORIES**

Inventories consist principally of finished goods and is priced at lower of cost or market, cost being determined using both the first-in, first-out (FIFO) and the last-in, first-out (LIFO) method. Reserves are provided against inventories for estimated obsolescence based upon the aging of the inventories and market trends.

#### **PROPERTY 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 and equipment is computed using the straight-line method and certain accelerated methods for financial reporting purposes. Useful lives assigned to property 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 consisted of goodwill which, prior to January 1, 2002, was amortized over 35 years using the straight-line method.

#### **FEDERAL INCOME TAXES**

The Company utilizes the asset and liability method of 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.

#### **CASH AND CASH EQUIVALENTS**

The Company's presentation of cash includes cash equivalents. Cash equivalents are defined as short-term investments with maturity dates of ninety days or less at time of purchase.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

A summary of the carrying and the fair value of financial instruments at December 31, 2001 and 2002, is as follows (in thousands):

	2001		2002	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash	\$ 2,260	\$ 2,260	\$ 1,171	\$ 1,171
Receivables from officers and employees	1,301	552	1,348	871
Long-term debt, including current portion	30,137	30,137	25,111	25,111

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.

## STOCK-BASED COMPENSATION

The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock options. Accordingly, no compensation expense has been recognized for the stock option plans. SFAS No. 148, "Accounting for Stock- Based Compensation--Transition and Disclosure," requires disclosure of pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized.

Pursuant to SFAS No. 148, the Company, for purposes of its pro forma disclosure in Note 9, determined its compensation expense in accordance with the Black-Scholes option-pricing model.

## REVENUE RECOGNITION

The Company recognizes revenue when an agreement is in place, price is fixed, title for product passes to the customer or services have been provided, and collectibility is reasonably assured.

## 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, reserves for inventory valuations and self-insured medical claims. Actual results could differ from those estimates.

## RECLASSIFICATIONS

Certain 2000 and 2001 amounts have been reclassified to conform with the 2002 presentation. These include preferred stock previously classified as "temporary" equity outside of shareholders' equity (not mandatorily redeemable) and notes receivable from shareholders previously presented as an asset. None of the reclasses affected the Company's operating results.

## 2. NEW ACCOUNTING PRONOUNCEMENTS:

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 \$5.1 million; an increase in cost of sales of \$5.1 million; a decrease in selling, general and administrative expenses of, \$1.0 million; and a decrease in other income of \$1.0 million in the year ended December 31, 2000.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142 changes the treatment of goodwill by no longer amortizing goodwill, and instead requiring, at least annually, an assessment for impairment by applying a fair-value based test. However, other identifiable intangible assets are to be separately recognized and amortized. The statement is effective for fiscal years beginning after December 15, 2001. All of the Company's goodwill pertained to one reporting unit as defined in SFAS 142. The goodwill was tested for impairment during the first quarter of 2002 as required by SFAS 142 upon adoption based upon the expected present value of future cash flows approach. As a result of this valuation process as well as the application of the remaining provisions of SFAS 142, the Company recorded a transitional impairment loss of \$2.5 million before income taxes (\$1.7 million after income taxes). This write-off was reported as a cumulative effect of a change in accounting principle in the Company's consolidated statement of operations as of January 1, 2002. This adoption of the statement has resulted in the elimination of approximately \$79,000 of annual goodwill amortization subsequent to December 31, 2001.

The following table discloses the Company's net income (loss), assuming it excluded goodwill amortization (in thousands, except per share data):

	YEARS ENDED DECEMBER 31,		
	2000	2001	2002
Net (loss) income	\$ (7,358)	\$ 929	\$ (110)
Add back:			
Goodwill amortization, net of income taxes	52	52	--
Adjusted net (loss) income	\$ (7,306)	\$ 981	\$ (110)
Basic (loss) earnings per share	\$ (1.83)	\$ 0.21	\$ (0.05)
Add back:			
Goodwill amortization, net of income taxes	0.01	0.01	--
Adjusted basic (loss) earnings per share	\$ (1.82)	\$ 0.22	\$ (0.05)
Diluted (loss) earnings per share	\$ (1.83)	\$ 0.21	\$ (0.05)
Add back:			
Goodwill amortization, net of income taxes	0.01	0.01	--
Adjusted diluted (loss) earnings per share	\$ (1.82)	\$ 0.22	\$ (0.05)

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The purpose of this statement is to develop consistent accounting for asset retirement obligations and related costs in the financial statements and provide more information about future cash outflows, leverage and liquidity regarding retirement obligations and the gross investment in long-lived assets. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will implement SFAS No. 143 on January 1, 2003. The impact of such adoption is not anticipated to have a material effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion), This Statement also amends Accounting Research Board No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for subsidiaries for which control is likely to be temporary. The Company adopted SFAS No. 144 on January 1, 2002. The adoption did not have a material effect on the Company's financial statements.

### 3. NON-RECURRING OPERATING CHARGES IN 2000::

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, as of December 31, 1999, 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. DIVESTITURES:

During the first quarter of 2000, the Company completed the sale of a MRO fabrication and warehouse facility 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.

During August 2001, the Company sold the majority of the assets of one of the two businesses which comprised the Electrical Contractor segment for approximately \$1.1 million in cash. There was no gain or loss on the sale since the consideration was equal to the net book value of the assets sold.

### 5. INVENTORIES:

The Company uses the LIFO method of inventory valuation for approximately 80 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,	
	2001	2002
	( IN THOUSANDS )	
Finished goods	\$ 25,454	\$ 23,268
Work in process	921	720
Inventories at FIFO	26,375	23,988
Less--- LIFO allowance	( 3,453 )	( 3,596 )
Inventories	\$ 22,922	\$ 20,392



## 6. PROPERTY AND EQUIPMENT:

Property and equipment are comprised of the following:

	DECEMBER 31,	
	2001	2002
	( IN THOUSANDS )	
Land	\$ 1,549	\$ 1,549
Buildings and leasehold improvements	6,624	6,199
Furniture, fixtures and equipment	5,628	4,970
	13,801	12,718
Less-- Accumulated depreciation and amortization	(4,981)	(4,684)
	\$ 8,820	\$ 8,034
	=====	=====

## 7. LONG-TERM DEBT:

Long-term debt consisted of the following:

	DECEMBER 31	
	2001	2002
	( IN THOUSANDS )	
Long-term debt--		
Credit facility:		
Working capital lines of credit .....	\$ 18,625	\$ 17,374
Term loan component .....	8,571	4,519
Subordinated note payable .....	2,045	--
Notes payable to finance companies, 7.74% to 10.14%, collateralized by warehouse equipment, furniture and fixtures, payable in monthly installments through September 2005 .....	777	639
Mortgage loans payable to insurance companies, 6.25% to 8.93%, collateralized by real estate, payable in monthly installments through January 2013 .....	119	2,579
	30,137	25,111
Less-Current portion .....	(7,273)	(1,625)
	\$ 22,864	\$ 23,486
	=====	=====

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.

The Credit Facility provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$35.0 million, and matures April 1, 2004. Interest accrues at prime plus 1/2% on approximately \$30.5 million of the Credit Facility, and prime plus 1 1/2% on the term portion of the Credit Facility. The prime rate averaged, 9.23%, 6.91%, and 4.62% during 2000, 2001, and 2002, respectively, and at December 31, 2002, was 4.25%. The Credit Facility is secured by receivables, inventories, 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, 2002, the Company was in compliance with these covenants. In addition to the \$1.2 million of cash at December 31, 2002, the Company had \$2.5 million available for borrowings under the Credit Facility at December 31, 2002. Although the Company expects to be able to comply with the covenants, including the financial covenants, of the Credit Facility, there can be no assurance that in the future it will be able to do so or that its 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):

2003.....	\$ 1 ,625
2004.....	21,015
2005.....	135
2006.....	91
2007.....	97
Thereafter.....	2,148
	-----
	\$ 25,111
	=====

On May 13, 2002, the Company finalized the settlement of the dispute regarding the adjustment of the purchase price paid to the seller of a MRO business acquired by the Company in 1997. Under the terms of the settlement agreement, the Company paid \$0.1 million to the seller, the Company retained ownership of the inventory acquired in 1997 remaining on hand, and the \$2.0 million subordinated note payable by the Company to the seller was cancelled. From September 30, 2000 through December 31, 2001, the balances outstanding under the subordinated note and a \$5.8 million secured line of credit were in default and included in current maturities of long-term debt. Since March 31, 2002, the balance outstanding under the \$5.8 million secured line of credit is included in long-term debt. The balance of the subordinated note, less the \$0.1 million settlement payment, was recorded as of March 31, 2002, as a reduction of the cost of the inventory acquired in 1997 remaining on hand.

#### 8. INCOME TAXES:

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

	YEARS ENDED DECEMBER 31,		
	2000	2001	2002
	-----	-----	-----
Current --		(IN THOUSANDS)	
Federal .....	\$ 329	\$ (621)	\$ 168
State .....	620	60	50
	-----	-----	-----
	949	(561)	218
Deferred - Federal .....	(2,622)	1,232	796
	-----	-----	-----
	\$ (1,673)	\$ 671	\$ 1,014
	=====	=====	=====

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:

	YEARS ENDED DECEMBER 31,		
	2000	2001	2002
	(IN THOUSANDS)		
Income taxes computed at federal statutory rate .....	\$ (3,071)	\$ 544	\$ 895
State income taxes, net of federal benefit .....	410	40	33
Nondeductible goodwill amortization .....	903	--	--
Other .....	85	87	86
	\$ (1,673)	\$ 671	\$ 1,014
	=====	=====	=====

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

	DECEMBER 31,	
	2001	2002
	(IN THOUSANDS)	
Net current assets .....	\$ 1,714	\$ 899
Net noncurrent assets (liabilities) .....	(250)	508
	\$ 1,464	\$ 1,407
	=====	=====

Deferred tax liabilities and assets were comprised of the following:

	DECEMBER 31,	
	2001	2002
	(IN THOUSANDS)	
Deferred tax assets --		
Goodwill .....	\$ 132	\$ 886
Allowance for doubtful accounts .....	607	420
Inventories .....	709	188
Net operating loss carryforward (expires in 2021) .....	102	170
Accruals .....	287	208
Other .....	9	13
Total deferred tax assets .....	1,846	1,885
Deferred tax liability --		
Property and equipment .....	(382)	(378)
Other .....	--	(100)
Net deferred tax asset .....	\$ 1,464	\$ 1,407
	=====	=====

The Company believes it is more likely than not that the net deferred income tax asset as of December 31, 2002 in the amount of \$1.4 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 \$7.6 million, which expire in years 2003 through 2020. A valuation allowance has been recorded to offset the deferred tax asset related to these state tax net operating loss carryforwards.

## 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 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 the Company's 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 2000, 2001 and 2002 with respect to the stock options follows:

	Shares	Option Price Per Share		Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding at December 31, 1999	1,501,088	\$ 1.48	-- \$ 12.00	\$ 2.83	
Granted at market price	253,057	\$ 1.00	-- \$ 2.50	\$ 1.59	\$1.40
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	
Granted at market price	75,000	\$ 0.65	-- \$ 1.23	\$ 0.84	\$0.70
Granted above market price	285,500	\$ 1.00	-- \$ 1.00	\$ 1.00	\$0.48
Canceled or expired	(162,553)	\$ 1.00	-- \$ 12.00	\$ 3.07	
Outstanding at December 31, 2001	1,912,342	\$ 0.65	-- \$ 12.00	\$ 2.26	
Granted at market price	223,500	\$ 0.92	-- \$ 1.20	\$ 0.98	\$0.81
Canceled or expired	(4,175)	\$12.00	-- \$ 12.00	\$12.00	
Outstanding at December 31, 2002	2,131,667	\$ 0.65	-- \$ 12.00	\$ 2.10	
Exercisable at December 31, 2002	1,890,044	\$ 0.65	-- \$ 12.00	\$ 2.22	

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.01 to \$3.00	1,997,557	4.6	\$ 1.51	1,755,934	\$ 1.56
\$3.01 to \$6.00	12,000	6.4	4.44	12,000	4.44
\$6.01 to \$9.00	2,000	0.7	7.50	2,000	7.50
\$9.01 to \$12.00	120,110	1.8	11.58	120,110	11.58
	2,131,667	4.4	2.10	1,890,044	2.22

The outstanding options at December 31, 2002, expire between February 2003 and September 2012, or 90 days after termination of full-time employment. The weighted average remaining contractual life was 5.0 years, 4.8 years, and 4.4 years at December 31, 2000, 2001 and 2002, respectively.

## Earnings Per Share

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 computation of basic and diluted earnings per share before cumulative effect of a change in accounting principle for the years ended December 31, 2000, 2001, and 2002.

	2000	2001	2002
<b>Basic:</b>			
Basic weighted average shares outstanding .....	4,071,685	4,071,685	4,071,685
(Loss) income before cumulative effect of a change in accounting principle .....	\$ (7,358,000)	\$ 929,000	\$ 1,619,000
Convertible preferred stock dividend .....	90,000	90,000	90,000
Net (loss) income attributable to common shareholders before cumulative effect of a change in accounting principle .....	\$ (7,448,000)	\$ 839,000	\$ 1,529,000
Per share amount .....	\$ (1.83)	\$ 0.21	\$ 0.38
<b>Diluted:</b>			
Basic weighted average shares outstanding .....	4,071,685	4,071,685	4,071,685
Net effect of dilutive stock options-- based on the treasury stock method .....	--	11,404	63,000
Assumed conversion of convertible preferred stock .....	--	420,000	420,000
Total .....	4,071,685	4,503,089	4,554,685
(Loss) income attributable common shareholders before cumulative effect of a change in accounting principle .....	\$ (7,448,000)	\$ 839,000	\$ 1,529,000
Convertible preferred stock dividend .....	--	90,000	90,000
(Loss) income for diluted earnings per share before cumulative effect of a change in accounting principle .....	\$ (7,448,000)	\$ 929,000	\$ 1,619,000
Per share amount .....	\$ (1.83)	\$ 0.21	\$ 0.36

For 2000, stock options and the convertible stock would be anti-dilutive and are excluded from the computation of diluted earnings per share.

## STOCK-BASED COMPENSATION

The Company has elected to follow APB No. 25, and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 148 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. No compensation expense was recognized under APB No.25 during the three years ended December 31, 2002.

Pro forma information regarding net income and earnings per share is required by SFAS No. 148 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 2000, 2001 and 2002: risk-free interest rates of 6.4 percent for 2000, 5.0% for 2001, and 3.9% for 2002; expected lives of five to ten years, assumed volatility of 140% for 2000, 122% for 2001, and 82% for 2002; 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. 148 had been applied.

	2000		2001		2002	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net (loss) income attributable to common shareholders (in thousands) .....	\$ (7,448)	\$ (7,809)	\$ 839	\$ 730	\$ (200)	\$ (365)
Basic (loss) earnings per common share .....	\$ (1.83)	\$ (1.92)	\$ 0.21	\$ 0.18	\$ (0.05)	\$ (0.09)
Diluted (loss) earnings per common share ....	\$ (1.83)	\$ (1.92)	\$ 0.21	\$ 0.18	\$ (0.05)	\$ (0.09)

#### 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, 2002, for non-cancelable leases are as follows (in thousands):

2003 .....	1,356
2004 .....	1,214
2005 .....	920
2006 .....	578
2007 .....	407
Thereafter .....	619
	-----
	\$5,094
	=====

Rental expense for operating leases was \$2,550,909, \$1,717,145, and \$1,438,478 for the years ended December 31, 2000, 2001, and 2002, 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 its business, financial condition or results of operations.

#### 11. EMPLOYEE BENEFIT PLANS:

Prior to 2002 DXP provided an employee stock ownership plan (ESOP) to substantially all employees. The Company did not make any contributions to the ESOP during the three years ended December 31, 2002. The ESOP distributed all assets of the ESOP, including 862,000 shares of the Company's common stock, to participants during 2002. 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 \$386,000, \$365,000, and \$338,000 to the 401(k) plan in the years ended December 31, 2000, 2001, and 2002, respectively.

#### 12. RELATED-PARTY TRANSACTIONS:

The chief executive officer (the "CEO") of the Company has personally guaranteed up to \$500,000 of the obligations of the Company under the Credit Facility. Additionally, certain shares held in trust for the CEO's children are pledged to secure the Credit Facility.

In previous years, the Board of Directors of the Company had approved the Company making advances and loans to the CEO. The total outstanding balance of such loans and advances including accrued interest was \$763,897 at December 31, 2000. During April 2001, the Company's bank lender for the Credit Facility loaned \$455,000 to the Company, which in turn was advanced to the CEO, who then retired his personal loan with the lender. During 2001 the advances and loans were

consolidated into three notes receivable, each bearing interest at 3.97 percent per annum and due December 30, 2010. Accrued interest is due annually. The total balance of the notes was \$1,251,238 at December 31, 2001 and 2002. The notes are partially secured by 224,100 shares of the Company's common stock, options to purchase 800,000 shares of the Company's common stock and real estate. This note receivable is reflected as a reduction of shareholders' equity.

### 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, bearing, 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. During August 2001, the Company sold the majority of the assets of one of the two businesses which comprised the Electrical Contractor segment. Historically, the business which was sold accounted for approximately two thirds of the sales of the Electrical Contractor segment. 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	TOTAL
	-----	-----	-----
		(IN THOUSANDS)	
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
Interest expense .....	3,581	166	3,747
2001			
Sales .....	\$ 166,216	\$ 8,213	\$ 174,429
Operating income (loss) .....	4,364	(330)	4,034
Identifiable assets .....	56,536	2,398	58,934
Capital expenditures .....	691	--	691
Depreciation & amortization .....	1,350	31	1,381
Interest expense .....	2,329	151	2,480
2002			
Sales .....	\$ 145,295	\$ 2,811	\$ 148,106
Operating income (loss) .....	4,151	(34)	4,117
Identifiable assets .....	48,448	2,146	50,594
Capital expenditures .....	379	--	379
Depreciation & amortization .....	1,133	27	1,160
Interest Expense .....	1,590	40	1,630

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, 2000, 2001 and 2002 is as follows:

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
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-diluted .....	0.15	0.03	0.05	(2.08)
2001				
Sales .....	\$ 46.9	\$ 45.7	\$ 43.2	\$ 38.6
Gross profit .....	11.6	11.6	10.9	9.7
Net income .....	0.2	0.2	0.3	0.2
Earnings per share-diluted .....	0.04	0.05	0.06	0.05
2002				
Sales .....	\$ 37.6	\$ 37.2	\$ 38.4	\$ 34.9
Gross profit .....	9.6	9.6	9.8	9.0
Income before cumulative effect of a change in accounting principle .....	0.4	0.4	0.4	0.4
Net (loss) income .....	(1.4)	0.4	0.4	0.4
Earnings (loss) per share before cumulative effect of a change in accounting principle-diluted .....	0.08	0.09	0.09	0.10
(Loss) earnings per share-diluted .....	(0.34)	0.09	0.09	0.10

The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each quarter's computation is based on the weighted average number of shares outstanding during the quarter, the weighted average stock price during the quarter and the dilutive effects of the convertible preferred stock in each quarter.

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

Arthur Andersen LLP ("Andersen") served as independent auditors for the fiscal years ended December 31, 1997 through 2001. In response to Andersen's legal problems, on June 3, 2002 the Audit Committee decided, with the approval of the Board of Directors, that effective June 6, 2002 DXP would no longer engage Andersen as independent auditors and that as of June 6, 2002 Hein + Associates LLP would be appointed as independent auditors for the year ended December 31, 2002.

The reports of Andersen on DXP consolidated financial statements for the past two years did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During DXP's two most recent fiscal years and through June 6, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference thereto in connection with its report on DXP's consolidated financial statements for such years; and there were no reportable events as such term is used in Item 304 (a) (1) (v) of Regulation S-K.

DXP provided Andersen with a copy of the foregoing disclosures. A letter from Andersen was included as Exhibit 16 to Form 8-K, filed June 6, 2002, stating its agreement with such statements.



During DXP's two most recent fiscal years and through June 6, 2002, DXP did not consult Hein + Associates LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304 (a) (2) (i) and (ii) of Regulation S-K.

### 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 2003 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.

#### ITEM 14 CONTROLS AND PROCEDURES

Based on their evaluations as of a date within 90 days of the filing date of this report, the chief executive officer and chief financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission.

There have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described in the preceding paragraph.

#### ITEM 15. 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, INC. AND SUBSIDIARIES:	
Independent Auditor's Reports.....	15
Consolidated Financial Statements	
Consolidated Balance Sheets.....	17
Consolidated Statements of Operations.....	18
Consolidated Statements of Shareholders' Equity.....	19
Consolidated Statements of Cash Flows.....	20
Notes to Consolidated Financial Statements.....	21

##### 2. Financial Statement Schedules:

#### Schedule II - Valuation and Qualifying Accounts.

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

##### (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 38), 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.

**INDEPENDENT AUDITOR'S REPORT  
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Shareholders DXP Enterprises, Inc.  
Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of DXP Enterprises, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated March 14, 2003. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 15 herein ( Schedule II-Valuation and Qualifying Accounts) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects with the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ HEIN + ASSOCIATES LLP  
HEIN + ASSOCIATES LLP

Houston, Texas  
March 14, 2003

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
DXP ENTERPRISES, INC.  
December 31, 2002  
(in thousands)

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions (1)	Balance At End of Year
Year Ended December 31, 2002					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$ 1,784	\$ 276	\$ --	\$ 825	\$ 1,235
Year Ended December 31, 2001					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$ 1,888	\$ 131	\$ --	\$ 235	\$ 1,784
Year Ended December 31, 2000					
Deducted from assets accounts:					
Allowance for doubtful accounts:	\$ 1,535	\$ 734	\$ --	\$ 381	\$ 1,888

(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: March 24, 2003*

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 (Principal Executive Officer)	March 24, 2003
	----- David R. Little		
/s/	MAC McCONNELL	Senior Vice-President/Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2003
	----- Mac McConnell		
/s/	CLETUS DAVIS	Director	March 24, 2003
	----- Cletus Davis		
/s/	TIMOTHY P. HALTER	Director	March 24, 2003
	----- Timothy P. Halter		
/s/	KENNETH H. MILLER	Director	March 24, 2003
	----- Kenneth H. Miller		

## CERTIFICATIONS

I, David R. Little, the Chief Executive Officer of DXP Enterprises, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of DXP Enterprises, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 24, 2003

*/s/ David R. Little*  
*David R. Little*  
*Chief Executive Officer*

I, Mac McConnell, the Chief Financial Officer of DXP Enterprises, Inc., certify that:

1. I have reviewed this annual report on Form 10-Q of DXP Enterprises, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly presents in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date this annual report (the "Evaluation Date"); and
  - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 24, 2003

*/s/ Mac McConnell  
Mac McConnell  
Chief Financial Officer*

## 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 21.1 to the Registrant's Annual Report on Form 10-K, filed with the Commission on March 31, 1999).
*23.1	-- Consent from Hein + Associates LLP.
*99.1	-- Certifications Pursuant to Section 906 to the Sarbanes-Oxley Act of 2002.

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.

+ Indicates a management contract or compensation plan or arrangement.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

As independent public accountants, we hereby consent to the incorporation by reference of our report dated March 14, 2003 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/ HEIN + ASSOCIATES LLP*

*Houston, Texas*

*March 24, 2003*

**Exhibit 99.1**

**CERTIFICATIONS PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of DXP Enterprises, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Little, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects the financial condition and results of operations of the Company

*/s/David R. Little*

*David R. Little  
Chairman of the Board, President and  
Chief Executive Officer  
March 24, 2003*

In connection with the Annual Report of DXP Enterprises, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mac McConnell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Mac McConnell*

*Mac McConnell  
Senior Vice President and  
Chief Financial Officer  
March 24, 2003*