

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the fiscal year ended December 31, 2005
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from _____ to _____

Commission file number 0-21513

DXP Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Texas

76-0509661

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas 77040

(Address of principal executive offices)

Registrant's telephone number, including area code:

(713) 996-4700

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated Filer Non-accelerated filer

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

Aggregate market value of the registrant's Common Stock held by non-affiliates of registrant as of June 30, 2005: \$14,044,000.

Number of shares of registrant's Common Stock outstanding as of March 6, 2006: 4,950,115.

Documents incorporated by reference: Portions of the definitive proxy statement for the annual meeting of shareholders to be held in 2006 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 that 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. You 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 discussed 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. We cannot assure you that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. We assume no obligation and do not intend to update these forward-looking statements.

PART 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 from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Business", "Risk Factors", "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 our predecessor company was founded, 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 2003, 2004 and 2005, and identifiable assets at the close of such years for our business segments are presented in Note 12 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 customers' unique needs.

The industrial distribution market is highly fragmented. Based on 2004 sales as reported by industry sources, we were the 29th largest distributor of MRO products in the United States. 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 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:

- *Industry Consolidation.* Industrial customers have reduced the number of supplier relationships they maintain to lower total purchasing costs, improve inventory management, assure consistently high levels of customer service and enhance purchasing power. This focus on fewer suppliers has led to consolidation within the fragmented industrial distribution industry.
- *Customized Integrated Service.* As industrial customers focus on their core manufacturing or other production competencies, they increasingly are demanding customized integration services, ranging from value-added traditional distribution to integrated supply and system design, fabrication, installation and repair and maintenance services.
- *Single Source, First-Tier Distribution.* As industrial customers continue to address cost containment, there is a trend toward reducing the number of suppliers and eliminating multiple tiers of distribution. Therefore, to lower overall costs to the MRO customer, some MRO distributors are expanding their product coverage to eliminate second-tier distributors and the difficulties associated with alliances.

We currently serve as a first-tier distributor of more than 1,000,000 items of which more than 45,000 are 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 48 service centers, including two distribution centers, primarily located in the rocky mountain, mid-western, southeastern and southwestern regions of the United States.

Our fluid handling equipment line includes a full line of:

- centrifugal pumps for transfer and process service applications, such as petrochemicals, refining and crude oil production;
- rotary gear pumps for low- to medium-pressure service applications, such as pumping lubricating oils and other viscous liquids;
- plunger and piston pumps for high-pressure service applications such as salt water injection and crude oil pipeline service; and
- 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. The hose products we distribute 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. The power transmission products we distribute include speed reducers, flexible-coupling drives, chain drives, sprockets, gears, conveyors, clutches, brakes and hoses. We offer a broad range of general mill 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, hand 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 MRO products, we provide innovative pumping solutions. DXP provides engineering, fabrication and technical design to meet the capital equipment needs of our customers. DXP provides these solutions by utilizing manufacturer authorized equipment and certified personnel. Pump packages require MRO and OEM equipment and parts such as pumps, motors and valves, and consumable products such as welding supplies. DXP leverages its MRO inventories and breadth of authorized products to lower the total cost and maintain the quality of our innovative pumping solutions.

SmartSourceSM, an integrated supply program, allows a more effective and efficient way to manage the customer's supply chain needs for MRO products. The program allows the customer to transfer all or part of their supply chain needs to DXP, so the customer can focus on their core business. SmartSourceSM effectively lowers costs by outsourcing purchasing, accounting and on-site supply/warehouse management to DXP, which reduces the duplication of effort by the customer and supplier. DXP has a broad range of first-tier products to support a successful integrated supply offering. The program provides a productive, measurable solution to reduce cost and streamline procurement and sourcing operations.

Our 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, through the use of commissions, to increase sales. 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, which are 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 are authorized to distribute the manufacturers' products in specific geographic areas. All of our distribution authorizations are subject to cancellation by the manufacturer upon one-year notice or less. One manufacturer provided pump products that account for approximately 14% of our revenues. No other manufacturer provided products that accounted for 10% or more of our revenues. We believe that alternative sources of supply could be obtained in a timely manner if any distribution authorization were canceled. Accordingly, we do not believe that the loss of any one distribution authorization would have a material adverse effect on our business, financial condition or results of operations. Representative manufacturers of our products include BACOU/DALLOZ, Baldor Electric, Dodge/Reliance, Emerson, Falk, G&L, Gates, Gould's, INA/Fag Bearing, LaCross Rainfair Safety Products, Martin Sprocket, National Oilwell, Norton Abrasives, NTN, Rexnord, SKF, T. B. Woods, 3M, Timken, Torrington/Fafnir, Tyco, Union Butterfield, Viking and Wilden.

At December 31, 2005, the MRO Segment had 519 full-time employees.

Electrical Contractor Segment

The Electrical Contractor segment was formed in 1998 with the acquisition of substantially all of the assets of an electrical supply business. 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 one owned warehouse/sales facility in Memphis, Tennessee.

We acquire our products through numerous original equipment manufacturers. We are authorized to distribute the manufacturers' products in specific geographic areas. All of our distribution authorizations 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 authorization were canceled. Accordingly, we do not believe that the loss of any one distribution authorization would have a material adverse effect on our business, financial condition or results of operations. 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, 2005, the Electrical Contractor segment had 9 full-time employees.

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 might be able to supply their products in a more efficient and cost-effective manner than we can provide. 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 that we offer, we are not aware of any major competitor that offers on a non-direct mail basis a product grouping as broad as our offering. 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 that 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. We retain a portion of the risk for medical claims, general liability and property losses. The various deductibles per our insurance policies generally do not exceed \$200,000 per occurrence. There are also certain risks for which we do not maintain insurance. 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 that we maintain could have a material adverse effect on our financial condition and results of operations. The premiums for insurance have increased significantly over the past three years. This trend could continue. Additionally, we are partially self-insured for our group health plan. The cost of claims for the group health plan has increased over the past three years. This trend is expected to continue.

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 a discharge, 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 we believe is likely to have a material adverse effect on our results of operations or financial condition.

Employees

At December 31, 2005, we had 528 full-time employees. We believe that our relationship with our employees is good.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available through our Internet website (www.dxpe.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

ITEM 1A. Risk Factors

The following is a discussion of significant risk factors relevant to DXP's business that could adversely affect its financial condition or results of operations.

Our future results will be impacted by our ability to implement our growth strategy.

Our future results 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 management 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.

Our business has substantial competition and competition could adversely affect our results.

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. Competitive pressures could adversely affect DXP's sales and profitability.

The loss of or the failure to attract and retain key personnel could adversely impact our results of operations.

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.

The loss of any key supplier could adversely affect DXP's sales and profitability.

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.

A slowdown in the economy could negatively impact DXP's sales growth.

Economic and industry trends affect DXP's business. Demand for our products is subject to 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, demand for our products could be adversely impacted by changes in the markets of our customers.

Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs and/or decreases in revenues.

The proper functioning of DXP's information systems is critical to the successful operation of our business. Although DXP's information systems are protected through physical and software safeguards and remote processing capabilities exist, information systems are still vulnerable to natural disasters, power losses, telecommunication failures and other problems. If critical information systems fail or are otherwise unavailable, DXP's ability to process orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay expenses could be adversely affected.

ITEM 1B. Unresolved Staff Comments

Not applicable.

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 48 service center facilities located in Georgia, Illinois, Louisiana, Maryland, Montana, New Mexico, Ohio, Oklahoma, Tennessee, Texas, and Wyoming. The Electrical Contractor segment owns one service center facility in Tennessee. These owned facilities range from 2,500 square feet to 138,000 square feet in size. We lease facilities for terms generally ranging from one to five years. The leased facilities range from 3,200 square feet to 53,441 square feet in size. 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. Two of the facilities owned by us are pledged to secure our indebtedness.

ITEM 3. Legal Proceedings

On July 22, 2004, DXP and Ameron International Corporation, DXP's vendor of fiberglass reinforced pipe, were sued in the Twenty-Fourth Judicial District Court, Parish of Jefferson, State of Louisiana by BP America Production Company regarding the failure of Bondstrand PSX JFC pipe, a recently introduced type of fiberglass reinforced pipe which had been installed on four energy production platforms. Plaintiff alleges negligence, breach of contract, warranty and that damages exceed \$20 million. DXP believes the failures were caused by the failure of the pipe itself and not by work performed by DXP. We intend to vigorously defend these claims. Our insurance carrier has agreed, under a reservation of rights to deny

coverage, to provide a defense against these claims. The maximum amount of our insurance coverage, if any, is \$6 million. Under certain circumstances our insurance may not cover this claim.

In 2003, we were notified that we had been sued in various state courts in Nueces County, Texas. The twelve suits allege personal injury resulting from products containing asbestos allegedly sold by us. The suits do not specify what products or the dates we allegedly sold the products. Discovery is in the very early stages on these suits. Two of our insurance carriers, under a reservation of rights to deny coverage, are paying legal fees for our defense against the claims. One of these carriers, while paying our asbestos defense costs, has filed a suit asking the courts for a judgment as to whether or not the carrier is liable for the asbestos claims. We intend to vigorously defend our claim for coverage. The plaintiffs' attorney has agreed to settle all twelve suits for a nominal amount to be paid by our insurance carriers.

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 and Issuer Purchases of Equity Securities*

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
2004		
First Quarter	\$ 6.49	\$ 3.26
Second Quarter	\$ 5.46	\$ 3.66
Third Quarter	\$ 5.82	\$ 3.76
Fourth Quarter	\$ 5.49	\$ 4.17
2005		
First Quarter	\$ 5.83	\$ 4.41
Second Quarter	\$ 8.50	\$ 4.64
Third Quarter	\$ 24.83	\$ 6.54
Fourth Quarter	\$ 26.30	\$ 12.21

On March 6, 2006 we had approximately 652 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, our bank credit facility prohibits us from declaring or paying any dividends or other distributions on our capital stock except for the monthly \$0.50 per share dividend on our Series B convertible preferred stock, which amounts to \$90,000 in the aggregate per year. Accordingly, we do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, the success of our business activities, regulatory and capital requirements, our lenders, our general financial condition and general business conditions.

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, 2005 has 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,				
	2001	2002	2003	2004	2005
	(in thousands, except per share amounts)				
Consolidated Statement of Earnings Data:					
Sales	\$ 174,429	\$ 148,106	\$ 150,683	\$ 160,585	\$ 185,364
Gross Profit	43,805	37,984	38,549	39,431	49,714
Operating income	4,034	4,117	4,309	5,209	9,404
Income before income taxes	1,600	2,633	3,197	4,384	8,615
Net income	929	1,619	2,069	2,780	5,467
Per share amounts					
Basic earnings per common share	\$ 0.21	\$ 0.38	\$ 0.49	\$ 0.67	\$ 1.24
Common shares outstanding	4,072	4,072	4,072	4,027	4,349
Diluted earnings per share	\$ 0.21	\$ 0.36	\$ 0.42	\$ 0.50	\$ 0.94
Common and common equivalent shares outstanding	4,503	4,555	4,920	5,509	5,789
Consolidated Balance Sheet Data					
	As of December 31,				
	2001	2002	2003	2004	2005
Total assets	\$ 57,588	\$ 49,248	\$ 48,375	\$ 48,283	\$ 72,920
Long-term debt obligations	22,864	23,486	16,675	14,925	25,109
Shareholders' equity	8,323	8,087	10,076	12,876	19,589

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

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

General Overview

Our products and services are marketed in at least 19 states to over 25,000 customers that are engaged in a variety of industries, many of which may be countercyclical to each other. Demand for our products generally is subject to changes in the United States and global economy and economic trends affecting our customers and the industries in which they compete in particular. Certain of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry and the construction industry, are cyclical and materially affected by changes in the United States and global economy. As a result, we may experience changes in demand within particular markets, segments and product categories as changes occur in our customers' respective markets. During 2003, our performance was impacted negatively by the economic downturn, particularly the downturn in domestic manufacturing. All of our increase in sales and gross profit for 2003 compared to 2002 was due to increased sales of products for offshore energy production. Our employee headcount decreased by over ten percent during 2003 as we worked to bring our cost structure in line with our sales. During 2004 the economy improved. Our employee headcount decreased by approximately 1% during 2004. The majority of the 2004 sales increase came from increased sales of products for offshore energy production and general manufacturing. During 2005 the general economy and the oil and gas exploration and production business continued to improve. Our employee headcount increased by 17.9% as a result of two acquisitions and hiring additional personnel to support increased sales. The majority of the 2005 sales increase came from a broad based increase in sales of pumps, bearings, safety products and mill supplies to customers engaged in oilfield service, oil and gas production, mining, electricity generation and petrochemical processing. Sales by the two businesses acquired in 2005 accounted for \$7.3 million of the \$24.8 million 2005 sales increase.

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

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

Results of Operations

	Years Ended December 31,					
	2003	%	2004	%	2005	%
	(in millions, except percentages)					
Sales	\$ 150.7	100.0	\$ 160.6	100.0	\$ 185.4	100.0
Cost of sales	112.2	74.4	121.2	75.5	135.7	73.2
Gross profit	38.5	25.6	39.4	24.5	49.7	26.8
Selling, general and administrative expense	34.2	22.7	34.2	21.3	40.3	21.7
Operating income	4.3	2.9	5.2	3.2	9.4	5.1
Interest expense	1.2	0.8	0.9	0.6	1.0	0.5
Other income and minority interest	(0.1)	-	(0.1)	(0.1)	(0.2)	(0.1)
Income before income taxes	3.2	2.1	4.4	2.7	8.6	4.7
Provision for income taxes	1.1	0.7	1.6	1.0	3.1	1.7
Net income	\$ 2.1	1.4%	\$ 2.8	1.7%	\$ 5.5	3.0%
Per share						
Basic earnings per share	\$ 0.49		\$ 0.67		\$ 1.24	
Diluted earnings per share	\$ 0.42		\$ 0.50		\$ 0.94	

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

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

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

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

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

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

INCOME TAXES. As of December 31, 2005, we have recorded net deferred tax assets of \$0.9 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.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

SALES. Revenues for 2004 increased \$9.9 million, or 6.6%, to approximately \$160.6 million from \$150.7 million in 2003. Sales for the MRO segment increased \$10.0 million, or 6.7% primarily due to increased sales of products for offshore energy production and general manufacturing. Sales for the Electrical Contractor segment decreased by \$0.1 million, or 3.4%, when compared to 2003. This decline resulted from an effort to focus on sales of higher margin specialty electrical products and to be selective on sales of lower margin commodity type electrical products.

GROSS PROFIT. Gross profit as a percentage of sales decreased by approximately 1.1% for 2004, when compared to 2003. Gross profit as a percentage of sales for the MRO segment decreased to 24.3% for 2004, from 25.4% in 2003. This decrease can be attributed to increased costs incurred due to leaks discovered during pressure testing of a recently introduced type of fiberglass pipe installed on several offshore energy production platforms and the abnormal frequency and magnitude of recent vendor price increases which made it difficult to immediately pass through the increases to our customers. We are working to pass these increases to our customers. Gross profit as a percentage of sales for the Electrical Contractor segment increased to 41.9% for 2004, from 38.8% in 2003. This increase resulted from increased sales of higher margin specialty type electrical products.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for 2004 was approximately the same as for 2003. As a percentage of revenue, the 2004 expense decreased by approximately 1.4% to 21.3% from 22.7% for 2003. This decrease is attributable to an increase in productivity.

OPERATING INCOME. Operating income for 2004 increased 20.9% when compared to 2003. Operating income for the MRO segment increased 17.4% as a result of gross profit increasing more than selling, general and administrative expense increased. Operating income for the Electrical Contractor segment increased 170.7% when compared to 2003. The improved operating income for the Electrical Contractor segment is the result of reduced selling, general and administrative expense combined with increased gross profit from increased sales of higher margin specialty type electrical products.

INTEREST EXPENSE. Interest expense for 2004 decreased by 21.5%, to \$0.9 million from \$1.2 million during 2003. This decline results from a lower average debt balance for 2004 when compared to 2003.

Liquidity and Capital Resources

General Overview

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

We used approximately \$1.2 million of cash in operating activities in 2005 as compared to \$5.1 million in cash provided during 2004. This change between the two years was primarily attributable to the \$7.6 million increase in accounts receivable in 2005 compared to the \$0.3 million decline in 2004. The increase in accounts receivable in 2005 resulted from the \$17.0 million increase in sales for the fourth quarter of 2005 compared to the fourth quarter of 2004. We also used \$4.1 million of cash to pay employee taxes related to the cashless exercise of stock options. This amount was partially offset by the \$4.5 million after tax benefit of the tax deduction we received due to the exercise of stock options. The tax deduction allowed us to cease making federal tax payments for 2005 and will reduce federal tax payments in 2006.

We purchased approximately \$0.6 million of capital assets during 2005 compared to \$1.9 million for 2004. Capital expenditures during 2005 were related primarily to computer equipment, computer software, inventory handling equipment, and building improvements. The 2004 capital expenditures related primarily to an airplane and computer equipment. We purchased the airplane to increase our efficiency in marketing to a nationwide customer base and to manage our numerous remote locations. Capital expenditures for 2006 are expected to be between the amounts for 2005 and 2004.

At December 31, 2005, our long-term debt was \$26.5 million compared to total capitalization (long-term debt plus shareholders' equity) of \$46.1 million. Approximately \$20.0 million of this outstanding debt bears interest at various floating rates. Therefore, as an example, a 200 basis point increase in interest rates would increase our annual interest expense by approximately \$0.4 million.

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

During 2005, the amount available to be borrowed under our credit facility increased from \$10.0 million at December 31, 2004 to \$11.0 million at December 31, 2005. This increase in availability during 2005 resulted from an increase in the collateral value of inventory and accounts receivable, partially offset by a \$7.9 million increase in the amount borrowed under our lines of credit. The increased borrowings were used primarily to fund acquisitions. Management believes that the liquidity of our balance sheet at December 31, 2005, provides us with the ability to meet our working capital needs, scheduled principal payments, capital expenditures and Series B preferred stock dividend payments during 2006.

Credit Facility

On August 2, 2005, we entered into a new credit facility (“New Credit Facility”) which replaced the previous credit facility (“Old Credit Facility”).

The New 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) \$30.0 million, and matures July 31, 2009. The New Credit Facility is secured by receivables, inventory and intangibles. The New Credit Facility contains customary affirmative and negative covenants as well as financial covenants that are measured quarterly and require that we maintain a certain cash flow and other financial ratios.

The New Credit Facility allows us to borrow at LIBOR plus a margin ranging from 0.75% to 1.25% or prime minus a margin of 1.75% to 1.25%. At December 31, 2005, the LIBOR based rate was LIBOR plus 75 basis points. At December 31, 2005, the prime based rate was prime minus 175 basis points. The LIBOR and prime based rates under the New Credit Facility are generally 150 basis points and 175 basis points lower, respectively, than those assessed under the Old Credit Facility. At December 31, 2005, \$15 million was borrowed at an interest rate of 5.125% under the LIBOR option and \$3.2 million was borrowed at an interest rate of 5.5% under the prime option. Commitment fees of .125 percent per annum are payable on the portion of the New Credit Facility capacity not in use for borrowings at any given time. This fee is 12.5 basis points lower than the same fee under the Old Credit Facility. At December 31, 2005, we were in compliance with all covenants. In addition to the \$0.6 million of cash at December 31, 2005, we had \$11.0 million available for borrowings under the New Credit Facility at December 31, 2005.

The New Credit Facility’s principal financial covenants include:

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

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

Borrowings

	December 31,		Increase (Decrease)
	2004	2005	
	(in Thousands)		
Current portion of long-term debt	\$ 1,420	\$ 1,358	\$ (62)
Long-term debt, less current portion	14,925	25,109	10,184
Total long-term debt	<u>\$ 16,345</u>	<u>\$ 26,467</u>	<u>\$ 10,122(2)</u>
Amount available ⁽¹⁾	<u>\$ 9,998</u>	<u>\$ 10,972</u>	<u>\$ 974(3)</u>

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

(2) The funds obtained from the increase in long-term debt were primarily used to acquire two businesses.

(3) The \$1.0 million increase in the amount available is primarily a result of an increase in the collateral value of inventory and accounts receivable, partially offset by increased borrowings under the line of credit.

Performance Metrics

	December 31,		Increase (Decrease)
	2004	2005 (1)	
Days of sales outstanding (in days)	47.6	52.3	4.7
Inventory turns	7.1	6.9	(0.2)

(1) Results for businesses acquired in 2005 were annualized to compute these performance metrics.

Accounts receivable days of sales outstanding were 52.3 at December 31, 2005 compared to 47.6 days at December 31, 2004. The increase resulted primarily from the increase in sales in the fourth quarter of 2005 compared to the fourth quarter of 2004. Annualized inventory turns were 6.9 times at December 31, 2005 compared to 7.1 times at December 31, 2004. The decline in inventory turns resulted from decisions made by inventory management to increase inventory to support increased sales.

Funding Commitments

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

Contractual Obligations

The impact that our contractual obligations as of December 31, 2005 are expected to have on our liquidity and cash flow in future periods is as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt, including current Portion ⁽¹⁾	\$26,467	\$ 1,358	\$2,932	\$ 20,320	\$ 1,857
Operating lease obligations	5,773	1,826	3,114	833	-
Estimated interest payments ⁽²⁾	1,591	439	635	298	219
Total	<u>\$33,831</u>	<u>\$ 3,623</u>	<u>\$6,681</u>	<u>\$ 21,451</u>	<u>\$ 2,076</u>

(1) Amounts represent the expected cash payments of our long-term debt and do not include any fair value adjustment.

(2) Assumes interest rates in effect at December 31, 2005. Assumes debt is paid on maturity date and not replaced. Does not include interest on the revolving line of credit as borrowings under this facility fluctuate. The amounts of interest incurred for borrowings under the revolving lines of credit were \$956,000, \$654,000 and \$755,000 for 2003, 2004 and 2005, respectively. Management anticipates an increased level of interest payments on the New Credit Facility in 2006 as a result of increased interest rates and debt levels.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE's"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2005, we were not involved in any unconsolidated SPE transactions.

Indemnification

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

Discussion of Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by us in the accompanying financial statements relate to reserves for accounts receivable collectibility, inventory valuations, income taxes and self-insured medical claims. Actual results could differ from those estimates.

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Inventory

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

Income Taxes

In accordance with SFAS 109, Accounting for Income Taxes, we have recorded a net deferred tax asset of \$0.9 million as of December 31, 2005. 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.

Self-insured Medical Claims

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

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 primarily from volatility in interest rates. Our exposure to interest rate risk relates primarily to our debt portfolio. Using floating interest rate debt outstanding at December 31, 2005, a 100 basis point increase in interest rates would increase our annual interest expense by \$200,000.

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 percentages)					There- after	Total	Fair Value
	2006	2007	2008	2009	2010			
Fixed Rate								
Long-term Debt	\$ 1,088	\$ 1,155	\$ 1,254	\$ 1,015	\$ 100	\$1,857	\$6,469	\$6,469
Average Interest Rate	6.04%	6.04%	6.08%	6.02%	6.25%	6.25%	6.11%	
Floating Rate								
Long-term Debt	\$ 270	\$ 261	\$ 262	\$19,166	39	-	\$19,998	\$19,998
Average Interest Rate (1)	4.36%	4.35%	4.36%	5.46%	4.15%	-	5.32%	
Total Maturities	<u>\$ 1,358</u>	<u>\$ 1,416</u>	<u>\$ 1,516</u>	<u>\$20,181</u>	<u>\$ 139</u>	<u>\$ 1,857</u>	<u>\$26,467</u>	<u>\$26,467</u>

(1) Assumes floating interest rates in effect at December 31, 2005

ITEM 8. *Financial Statements and Supplementary Data*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of DXP Enterprises, Inc. and Subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (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. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DXP Enterprises, Inc., and Subsidiaries at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ HEIN & ASSOCIATES LLP

February 24, 2006
Houston, Texas

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

	December 31,	
	2004	2005
ASSETS		
Current assets:		
Cash	\$ 2,303	\$ 570
Trade accounts receivable, net of allowances for doubtful accounts of \$1,776 in 2004 and \$1,835 in 2005	19,126	29,279
Inventories, net	16,995	22,811
Prepaid expenses and other current assets	327	541
Federal income taxes recoverable	-	2,033
Deferred income taxes	945	968
Total current assets	<u>39,696</u>	<u>56,202</u>
Property and equipment, net	8,261	8,752
Deferred income taxes	257	-
Goodwill and other intangibles	-	7,436
Other assets	69	530
Total assets	<u>\$ 48,283</u>	<u>\$ 72,920</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,420	\$ 1,358
Trade accounts payable	12,905	15,919
Accrued wages and benefits	2,370	5,012
Customer advances	826	2,209
Federal income taxes payable	432	214
Other accrued liabilities	2,343	3,365
Total current liabilities	<u>20,296</u>	<u>28,077</u>
Long-term debt, less current portion	14,925	25,109
Deferred income taxes	-	115
Minority interest in consolidated subsidiary	186	30
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Series A preferred stock, 1/10 th vote per share; \$1.00 par value; liquidation preference of \$100 per share (\$112 at December 31, 2005); 1,000,000 shares authorized; 1,122 shares issued and outstanding	1	1
Series B convertible preferred stock, 1/10 th vote per share; \$1.00 par value; \$100 stated value; liquidation preference of \$100 per share (\$1,500 at December 31, 2005); 1,000,000 shares authorized; 17,700 shares and 15,000 shares issued, 15,000 shares outstanding and 2,700 shares and -0- shares in treasury stock, respectively	18	15
Common stock, \$0.01 par value, 100,000,000 shares authorized; 4,257,760 and 4,795,402 shares issued, 4,030,313 and 4,795,402 shares outstanding and 227,447 and -0- shares in treasury stock, respectively	41	48
Paid-in capital	2,489	1,894
Retained earnings	13,094	18,471
Treasury stock, at cost	(1,797)	-
Notes receivable from David R. Little, CEO, and James Webster, employee	(970)	(840)
Total shareholders' equity	<u>12,876</u>	<u>19,589</u>
Total liabilities and shareholders' equity	<u>\$ 48,283</u>	<u>\$ 72,920</u>

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)

	Years Ended December 31,		
	2003	2004	2005
Sales	\$ 150,683	\$ 160,585	\$ 185,364
Cost of sales	112,134	121,154	135,650
Gross profit	38,549	39,431	49,714
Selling, general and administrative expense	34,240	34,222	40,310
Operating income	4,309	5,209	9,404
Other income	65	60	56
Interest expense	(1,177)	(924)	(1,000)
Minority interest in loss of consolidated subsidiary	-	39	155
Income before provision for income taxes	3,197	4,384	8,615
Provision for income taxes	1,128	1,604	3,148
Net income	2,069	2,780	5,467
Preferred stock dividend	(90)	(90)	(90)
Net income attributable to common shareholders	\$ 1,979	\$ 2,690	\$ 5,377
Per share and share amounts			
Basic earnings per common share	\$ 0.49	\$ 0.67	\$ 1.24
Common shares outstanding	4,072	4,027	4,349
Diluted earnings per share	\$ 0.42	\$ 0.50	\$ 0.94
Common and common equivalent shares outstanding	4,920	5,509	5,789

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2003, 2004 and 2005
(In Thousands, Except Share Amounts)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Notes Receivable From Share- holders	Total
BALANCES AT								
DECEMBER 31, 2002	\$ 1	\$ 18	\$ 41	\$ 2,842	\$ 8,425	\$(1,894)	\$ (1,346)	\$ 8,087
Dividends paid	-	-	-	-	(90)	-	-	(90)
Acquisition of 46 shares of Series A Preferred Stock	-	-	-	(1)	-	-	-	(1)
Collections on notes receivable	-	-	-	-	-	-	14	14
Purchase of 515 shares of common stock	-	-	-	-	-	(3)	-	(3)
Net income	-	-	-	-	2,069	-	-	2,069
BALANCES AT								
DECEMBER 31, 2003	1	18	41	2,841	10,404	(1,897)	(1,332)	10,076
Collections on notes receivable	-	-	-	-	-	-	27	27
Dividends paid	-	-	-	-	(90)	-	-	(90)
Purchase of 359,588 shares of common stock	-	-	-	-	-	(341)	335	(6)
Exercise of stock options for 41,000 shares of common stock	-	-	-	(352)	-	441	-	89
Net income	-	-	-	-	2,780	-	-	2,780
BALANCES AT								
DECEMBER 31, 2004	1	18	41	2,489	13,094	(1,797)	(970)	12,876
Collections on notes receivable	-	-	-	-	-	-	40	40
Dividends paid	-	-	-	-	(90)	-	-	(90)
Cancellation of Series B Preferred Stock in Treasury	-	(3)	-	(267)	-	270	-	-
Purchase of 6,500 shares of common stock	-	-	-	-	-	(95)	90	(5)
Exercise of stock options for 1,122,175 shares of common stock	-	-	7	(328)	-	1,622	-	1,301
Net income	-	-	-	-	5,467	-	-	5,467
BALANCES AT								
DECEMBER 31, 2005	<u>\$ 1</u>	<u>\$ 15</u>	<u>\$ 48</u>	<u>\$ 1,894</u>	<u>\$18,471</u>	<u>\$ -</u>	<u>\$ (840)</u>	<u>\$ 19,589</u>

DXP ENTERPRISES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31		
	2003	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,069	\$ 2,780	\$ 5,467
Adjustments to reconcile net income to net cash provided by (used in) operating activities --			
Depreciation and amortization	1,058	992	990
Deferred income taxes	128	77	306
Gain on sale of property and equipment	(2)	(4)	-
Minority interest in loss of consolidated subsidiary	-	(39)	(155)
Changes in operating assets and liabilities, net of assets and liabilities acquired in business combinations:			
Accounts receivable	(1,852)	286	(7,650)
Inventories	1,247	2,150	(2,574)
Prepaid expenses and other current assets	175	112	(3,089)
Accounts payable and accrued expenses	4,100	(1,227)	5,470
Net cash provided by (used in) operating activities	<u>6,923</u>	<u>5,127</u>	<u>(1,235)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(419)	(1,866)	(572)
Purchase of businesses	-	-	(6,069)
Proceeds from the sale of property and equipment	2	6	937
Net cash used in investing activities	<u>(417)</u>	<u>(1,860)</u>	<u>(5,704)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt	147,581	155,421	145,231
Principal payments on revolving line of credit, long-term debt and notes payable	(154,542)	(157,225)	(136,755)
Acquisition of common and preferred stock	(4)	-	-
Dividends paid in cash	(90)	(90)	(90)
Proceeds from exercise of stock options	-	42	874
Payments for employee taxes related to exercise of stock options	-	-	(4,094)
Proceeds from minority interest owners of consolidated subsidiary	-	225	-
Collections on notes receivable from shareholders	14	27	40
Net cash provided by (used in) financing activities	<u>(7,041)</u>	<u>(1,600)</u>	<u>5,206</u>
(DECREASE) INCREASE IN CASH	(535)	1,667	(1,733)
CASH AT BEGINNING OF YEAR	1,171	636	2,303
CASH AT END OF YEAR	<u>\$ 636</u>	<u>\$ 2,303</u>	<u>570</u>
SUPPLEMENTAL DISCLOSURES:			
Cash paid for --			
Interest	\$ 1,209	\$ 860	984
Income taxes	\$ 60	\$ 2,126	875
Cash income tax refunds	\$ 25	\$ 16	36

Noncash activities:

Financing activities exclude the exchange on March 31, 2004 of two notes receivable from Mr. Little, Chief Executive Officer, with a face value of \$338,591 for 80,619 shares of DXP common stock.

Changes in operating assets and liabilities exclude the \$4.5 million after tax benefit of tax deductions related to stock option exercises in 2005.

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 12 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.

Receivables and Credit Risk

Trade receivables consist primarily of uncollateralized customer obligations due under normal trade terms, which usually require payment within 30 days of the invoice date. However, these payment terms are extended in select cases and many customers do not pay within stated trade terms. Payments on trade receivables are applied as indicated by customer, or to the earliest unpaid invoices.

The Company has trade receivables from a diversified customer base in the rocky mountain, southeastern and southwestern regions of the United States. The Company believes no significant concentration of credit risk exists. The Company evaluates the creditworthiness of its customers' financial positions and monitors accounts on a regular basis, but generally does not require collateral. Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically (as circumstances warrant) based upon management's best estimate of the collectibility of all such accounts. No customer represents more than 10% of consolidated sales.

Inventories

Inventories consist principally of finished goods and are priced at lower of cost or market, cost being determined using 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. 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.

The principal estimated useful lives used in determining depreciation are as follows:

Buildings	20 – 39 years
Building improvements	10 – 20 years
Furniture, fixtures and equipment	3 – 10 years
Leasehold improvements	over the shorter of the estimated useful life or the term of the related lease

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, 2004 and 2005 is as follows (in thousands):

	2004		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 2,303	\$ 2,303	\$ 570	\$ 570
Notes receivables from David R. Little, CEO, and James Webster, employee	970	705	840	628
Long-term debt, including current portion	16,345	16,345	26,467	26,467

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 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 No. 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, 2005.

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 2003, 2004 and 2005: risk-free interest rates of 4.0% for 2003, 4.5% for 2004, and 4.14% for 2005; expected lives of five to ten years, assumed volatility of 80% for 2003, 78% for 2004, and 75% for 2005; 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. The pro forma compensation expense may not be representative of future amounts because options vest over several years and generally expire upon termination of employment, and additional options may be granted in future years.

	Years Ended December 31,		
	2003	2004	2005
	(in Thousands, except per share amounts)		
Pro forma impact of fair value method (FAS 148)			
Reported net income attributable to common shareholders	\$1,979	\$2,690	\$5,377
Less: fair value impact of employee stock compensation	(70)	(100)	(115)
Pro forma net income attributable to common shareholders	<u>\$1,909</u>	<u>\$2,590</u>	<u>\$5,262</u>
Earnings per common share			
Basic – as reported	\$ 0.49	\$ 0.67	\$ 1.24
Diluted – as reported	\$ 0.42	\$ 0.50	\$ 0.94
Basic – pro forma	\$ 0.47	\$ 0.64	\$ 1.21
Diluted – pro forma	\$ 0.41	\$ 0.49	\$ 0.92

Revenue Recognition

Revenues recognized include product sales and billings for freight and handling charges. The Company recognizes product sales and billings for freight and handling charges 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. Shipping and handling costs are included in cost of sales.

The Company reserves for potential customer returns based upon the historical level of returns.

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 reserves for accounts receivable collectibility, inventory valuations, income taxes and self-insured medical claims. Actual results could differ from those estimates and such differences could be material.

The Company purchases insurance for catastrophic exposures and those risks required to be insured by law. The Company retains a portion of the risk for medical claims, general liability and property losses. The various deductibles per our insurance policies generally do not exceed \$200,000 per occurrence. There are also certain risks for which the Company does not maintain insurance. The Company accrues for the estimated outstanding balance of unpaid medical claims for our employees and their dependents based upon recent claims experience.

Impairment of Long-Lived Assets

The Company determines the realization of goodwill and other intangibles in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" and its other long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Under SFAS No. 142, the Company determines fair value using capitalization of earnings estimates and market valuation multiples for each reporting unit. Under SFAS No. 144, the Company compares the carrying value of long-lived assets to its projection of future undiscounted cash flows attributable to such assets, as well as evaluates other factors such as business trends and general economic conditions. In the event that the carrying value exceeds the future undiscounted cash flows, the Company records an impairment charge against income equal to the excess of the carrying value over the asset's fair value.

Comprehensive Income

Comprehensive income is equal to net income.

2. NEW ACCOUNTING PRONOUNCEMENTS:

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning January 1, 2006. The Company does not expect the impact of applying this guidance to be significantly different from that presented in the pro-forma disclosures in Note 1.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"). This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred in fiscal years beginning after June 15, 2005. The adoption of this standard has had no material impact on the Company's financial position and results of operations.

In December 2004, SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29" is effective for fiscal years beginning after June 15, 2005. This Statement addresses the measurement of exchange of

nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions" and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS 153 is expected to have no impact on the Company's consolidated financial statements.

3. ACQUISITIONS

All of the Company's acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying consolidated financial statements beginning on their respective dates of acquisition. The allocation of purchase price to the acquired assets and liabilities is based on estimates of fair market value and may be prospectively revised if and when additional information the Company is awaiting concerning certain asset and liability valuations is obtained, provided that such information is received no later than one year after the date of acquisition.

On August 20, 2005 the Company paid approximately \$2.4 million to purchase the assets of a pump remanufacturer. The Company made this acquisition to enhance its ability to meet customer needs for shorter lead times on selected pumps. The Company assumed \$1.0 million of liabilities and gave a \$0.5 million credit to the seller to use to purchase maintenance, repair and operating supplies from the Company. The \$2.4 million cash portion was financed using funds available under the Company's bank revolving credit facility.

On December 1, 2005 the Company purchased R. A. Mueller to expand geographically into Ohio, Indiana, Kentucky and West Virginia. The Company paid \$7.3 million (\$3.65 million cash and \$3.65 million in promissory notes payable to the former owners) and assumed approximately \$1.6 million of debt and \$1.9 million of accounts payable and other liabilities. The cash portion was financed using funds available under the Company's bank revolving credit facility.

The allocation of purchase price reflected in the December 31, 2005 consolidated balance sheet is preliminary. The initial purchase price allocations may be adjusted within one year of the purchase date for changes in the estimates of the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during 2005 (in thousands):

Accounts Receivable	\$ 2,397
Inventory	2,963
Property and equipment	1,504
Goodwill and intangibles	7,436
Other assets	529
Assets acquired	14,829
Current liabilities assumed	3,422
Non-current liabilities assumed	1,165
Net assets acquired	<u>\$ 10,242</u>

The pro forma unaudited results of operations for the Company on a consolidated basis for the years ended December 31, 2005 and 2004, assuming the consummation of the purchases as of January 1, 2004, are as follows:

	Years Ended December 31,	
	2004	2005
	In Thousands, except for per share data	
Net sales	\$184,421	\$209,568
Net income	\$ 3,190	\$ 6,287
Per share data		
Basic earnings	\$ 0.77	\$ 1.39
Diluted earnings	\$ 0.57	\$ 1.08

4. INVENTORIES:

The Company uses the LIFO method of inventory valuation for approximately 86 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,	
	2004	2005
	(in Thousands)	
Finished goods	\$20,441	\$25,740
Work in process	253	1,237
Inventories at FIFO	20,694	26,977
Less – LIFO allowance	(3,699)	(4,166)
Inventories	<u>\$16,995</u>	<u>\$22,811</u>

During 2003, 2004, and 2005, the Company experienced LIFO inventory liquidations. The effect of these liquidations was to increase gross profit by approximately \$39,000 in 2003, \$46,000 in 2004, and \$16,000 in 2005.

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

	December 31,	
	2004	2005
	(in Thousands)	
Land	\$1,549	\$1,748
Buildings and leasehold improvements	6,062	6,179
Furniture, fixtures and equipment	<u>5,575</u>	<u>6,605</u>
	13,186	14,532
Less – Accumulated depreciation and amortization	<u>(4,925)</u>	<u>(5,780)</u>
	<u>\$8,261</u>	<u>\$8,752</u>

6. LONG-TERM DEBT:

Long-term debt consisted of the following:

	December 31,	
	2004	2005
	(in Thousands)	
Credit facility:		
Working capital lines of credit	\$ 10,237	\$ 18,166
Term loan component	2,192	-
Note payable to a bank, floating rate at ninety day LIBOR plus 2.25%, collateralized by an airplane, payable in monthly installments through August 2009	1,490	1,377
Unsecured notes payable to individuals, 3.76% to 4.17% at December 31, 2005, midterm federal rate adjusted annually, payable in monthly or quarterly installments through November 2010	-	455
Unsecured notes payable to individuals, subordinate to credit facility, 6.0%, payable in monthly installments through December 2009	-	3,650
Mortgage loans payable to financial institutions, 6.25% collateralized by real estate, payable in monthly installments through January 2013	2,372	2,819
Other notes	<u>54</u>	<u>-</u>
	16,345	26,467
Less: Current portion	<u>(1,420)</u>	<u>(1,358)</u>
	<u>\$14,925</u>	<u>\$25,109</u>

On August 2, 2005, the Company entered into a credit agreement (the “Facility”) with Wells Fargo Bank, National Association. The Facility consists of a revolving credit facility that provides a \$30 million line of credit to the Company. This new line of credit replaced the Company’s prior credit facility, which was last amended and restated on June 25, 2003

and consisted of a term loan and revolving credit facility. The new Facility expires on July 31, 2009.

The Company's borrowings and letters of credit outstanding under the Facility at each month-end must be less than a borrowing base measured as of the same month-end. The borrowing base is defined under the Facility as the sum of 85% of the Company's eligible accounts receivable and 55% of the value of eligible inventory, with advances against inventory at no time exceeding more than 50% of the total borrowing base. The Company's borrowing and letter of credit capacity under the Facility at any given time is \$30 million less borrowings and letters of credit outstanding, subject to the borrowing base described above. The borrowing base for the Facility calculated as of December 31, 2005 exceeded \$30 million. At December 31, 2005 \$11.0 million was available for borrowing under the Facility.

The Facility provides for interest at LIBOR plus a margin ranging from 0.75% to 1.25% or prime minus a margin of 1.75% to 1.25%. At December 31, 2005 the LIBOR based rate was LIBOR plus 75 basis points. At December 31, 2005 the prime based rate was prime minus 175 basis points. At December 31, 2005 \$15 million was borrowed at an interest rate of 5.125% under the LIBOR option and \$3.2 million was borrowed at an interest rate of 5.5% under the prime option. Commitment fees of .125 percent per annum are payable on the portion of the Facility capacity not in use for borrowings at any given time. Borrowings under the Facility are secured by all of the Company's accounts receivable, inventory and general intangibles.

The Facility contains financial covenants defining various financial measures and levels of these measures with which the Company must comply. Covenant compliance is assessed as of each quarter-end. The Facility's principal financial covenants include:

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

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

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

2006	\$ 1,358
2007	1,416
2008	1,516
2009	20,181
2010	139
Thereafter	1,857
	<u>\$26,467</u>

7. INCOME TAXES:

The provision for income taxes consists of the following:

	Years Ended December 31,		
	2003	2004	2005
	(in Thousands)		
Current -			
Federal	\$ 980	\$ 1,505	\$ 2,749
State	20	22	93
	<u>1,000</u>	<u>1,527</u>	<u>2,842</u>
Deferred	128	77	306
	<u>\$ 1,128</u>	<u>\$ 1,604</u>	<u>\$ 3,148</u>

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

	Years Ended December 31,		
	2003	2004	2005
	(in Thousands)		
Income taxes computed at federal statutory rate	\$ 1,087	\$ 1,491	\$ 2,929
State income taxes, net of federal benefit	13	15	61
Other	28	98	158
	<u>\$ 1,128</u>	<u>\$ 1,604</u>	<u>\$ 3,148</u>

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

	December 31,	
	2004	2005
	(in Thousands)	
Net current assets	\$ 945	\$ 968
Net non-current assets (liabilities)	257	(115)
Net assets	<u>\$ 1,202</u>	<u>\$ 853</u>

Deferred tax liabilities and assets were comprised of the following:

	December 31,	
	2004	2005
	(in Thousands)	
Deferred tax assets:		
Goodwill	\$ 715	\$ 630
Allowance for doubtful accounts	604	624
Inventories	211	-
State net operating loss carryforwards	78	44
Accruals	230	414
Total deferred tax assets	<u>1,838</u>	<u>1,712</u>
Less valuation allowance	<u>(78)</u>	<u>(44)</u>
Total deferred tax assets, net of valuation allowance	<u>1,760</u>	<u>1,668</u>
Deferred tax liabilities		
Inventory	-	(20)
Property and equipment	(458)	(745)
Other	(100)	(50)
Net deferred tax asset	<u>\$ 1,202</u>	<u>\$ 853</u>

The Company believes it is more likely than not that the net deferred income tax asset as of December 31, 2005 in the amount of \$0.9 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 \$0.9 million, which expire in years 2006 through 2020. A valuation allowance has been recorded to offset the deferred tax asset related to these state tax net operating loss carryforwards. The valuation allowance represents a provision for the uncertainty as to the realization of these carryforwards. The valuation allowance decreased by \$143,000, \$141,000 and \$34,000 in the years ended December 31, 2003, 2004 and 2005, respectively.

8. 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. During 2003 the Company purchased and cancelled 46 shares of Series A preferred stock from an individual for \$20.00 per share. During 2004 the Company cancelled 2,700 shares of Series B convertible preferred stock which had been held in treasury.

Restricted Stock

The DXP Enterprises, Inc. 2005 Restricted Stock Plan authorizes the grant of 300,000 shares of common stock in the form of restricted stock awards as well as other awards. The plan was approved by shareholders on July 15, 2005. Employees, directors and consultants of DXP are eligible to participate in the plan. As of December 31, 2005 no awards have been granted under the plan. The plan provides that on each July 1 during the term of the plan, each non-employee director of DXP will be granted 3,000 shares of restricted 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 authorized the grant of options to purchase 900,000, 330,000 and 200,000 shares of the Company's common stock, respectively. In accordance with these stock option plans that were approved by the Company's shareholders, options were granted to key personnel for the purchase of shares of the Company's common stock 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. No future grants will be made under these stock option plans. Activity during 2003, 2004 and 2005 with respect to the stock options follows:

	Shares	Options Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding at December 31, 2002	2,131,667	\$ 0.65 - \$ 12.00	\$2.10	
Granted at market price	30,000	\$ 1.40 - \$ 1.40	\$1.40	\$1.17
Cancelled or expired	(64,350)	\$ 7.50 - \$ 12.00	\$11.08	
Outstanding at December 31, 2003	2,097,317	\$ 0.65 - \$ 12.00	\$1.82	
Granted at market price	30,000	\$ 4.53 - \$ 4.53	\$4.53	\$3.74
Exercised	(41,000)	\$ 1.00 - \$ 1.20	\$1.03	
Cancelled or expired	(362,950)	\$ 1.64 - \$ 12.00	\$1.75	
Outstanding at December 31, 2004	1,723,367	\$ 0.65 - \$ 12.00	\$1.90	
Granted at market price	30,000	\$ 6.72 - \$ 6.72	\$6.72	\$5.43
Exercised	(1,122,175)	\$ 0.65 - \$ 12.00	\$2.19	
Cancelled or expired	(9,762)	\$ 12.00 - \$ 12.00	\$12.00	
Outstanding at December 31, 2005	621,430	\$ 0.92 - \$ 12.00	\$1.44	
Exercisable at December 31, 2005	598,030	\$ 0.92 - \$ 12.00	\$1.45	

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.01 to \$3.00	595,300	4.8	\$ 1.19	571,900	\$ 1.19
\$3.01 to \$6.00	10,000	8.5	4.53	10,000	4.53
\$6.01 to \$9.00	10,000	9.4	6.72	10,000	6.72
\$9.01 to \$12.00	6,130	0.0	12.00	6,130	12.00
	<u>621,430</u>	4.9	1.44	<u>598,030</u>	1.45

The options outstanding at December 31, 2005, expire between January 2006 and July 2014. The weighted average remaining contractual life was 3.6 years, 3.1 years, and 4.9 years at December 31, 2003, 2004 and 2005, respectively.

Certain Equity Related Transactions

In January 2004, the Company paid a former officer of the Company \$100,000 to terminate a stock option agreement between the Company and the former officer. The terminated stock option agreement provided for the former officer to purchase 359,000 shares of the Company's common stock at \$1.64 per share.

On March 31, 2004, DXP exchanged two of the notes receivable from Mr. Little, Chief Executive Officer, with a face value of \$338,591, including accrued interest, for 80,619 shares of DXP's common stock held by three trusts for the benefit of Mr. Little's children. The shares were valued at the \$4.20 per share closing market price on March 31, 2004.

In 2003, 2004 and 2005 DXP purchased 515, 588 and 6,500 shares of common stock from James Webster, an employee, for approximately \$2,100, \$2,800 and \$94,510, respectively. The shares purchased were valued at the closing market price on the date of each purchase in 2003 and 2004 and at the average closing market price for the twenty days immediately preceding the date of purchase in 2005. The purchase price of each purchase was applied to reduce the note receivable from Mr. Webster.

During 2004 and 2005 employees and directors of DXP exercised non-qualified stock options. DXP receives a tax deduction for the amount of gain recognized by the individuals exercising the options. The after tax benefit of the tax deduction is accounted for as an increase in paid-in capital. DXP issued the shares out of treasury stock for the option exercises until treasury shares were reduced to zero in 2005. During 2005 DXP withheld shares from a cashless option exercise to cover \$4.1 million of employee taxes paid by DXP which were related to the cashless option exercise.

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 for the years ended December 31, 2003, 2004 and 2005.

	2003	2004	2005
	(in Thousands, except per share amounts)		
Basic:			
Basic weighted average shares outstanding	4,072	4,027	4,349
Net income	\$2,069	\$2,780	\$5,467
Convertible preferred stock dividend	90	90	90
Net income attributable to common shareholders	\$1,979	\$2,690	\$5,377
Per share amount	\$ 0.49	\$ 0.67	\$ 1.24
Diluted:			
Basic weighted average shares outstanding	4,072	4,027	4,349
Net effect of dilutive stock options - based on the treasury stock method	428	1,062	1,020
Assumed conversion of convertible preferred stock	420	420	420
Total common and common equivalent shares outstanding	4,920	5,509	5,789
Net income attributable to common shareholders	\$1,979	\$2,690	\$5,377
Convertible preferred stock dividend	90	90	90
Net income for diluted earnings per share	\$2,069	\$2,780	\$5,467
Per share amount	\$ 0.42	\$ 0.50	\$ 0.94

9. COMMITMENTS AND CONTINGENCIES:

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 2005, for non-cancelable leases are as follows (in thousands):

2006	\$ 1,826
2007	1,634
2008	1,480
2009	721
2010	112
Thereafter	-
	<u>\$ 5,773</u>

Rental expense for operating leases was \$1,544,000, \$1,667,000 and \$1,905,000 for the years ended December 31, 2003, 2004 and 2005 respectively.

In 2004, DXP and DXP's vendor of fiberglass reinforced pipe were sued in Louisiana by a major energy company regarding the failure of Bondstrand PSX JFC pipe, a recently introduced type of fiberglass reinforced pipe which had been installed on four energy production platforms. Plaintiff alleges negligence, breach of contract, warranty and that damages exceed \$20 million. DXP believes the failures were caused by the failure of the pipe itself and not by work performed by DXP. DXP intends to vigorously defend these claims. DXP's insurance carrier has agreed, under a reservation of rights to deny coverage, to provide a defense against these claims.

In 2003, DXP was notified that it had been sued in various state courts in Nueces County, Texas. The suits allege personal injury resulting from products containing asbestos allegedly sold by the Company. The suits do not specify products or the dates the Company allegedly sold the products. Discovery is in the very early stages on these suits. Two of the Company's insurance carriers, under a reservation of rights to deny coverage, are paying legal fees for the Company's defense against the claims. One of these carriers, while paying the Company's asbestos defense costs, has filed a suit asking the courts for a judgment as to whether or not the carrier is liable for the asbestos claims. The Company intends to vigorously defend the Company's claim for coverage. The plaintiffs' attorney has agreed to settle all twelve suits for a nominal amount to be paid by the Company's insurance carriers.

10. EMPLOYEE BENEFIT PLANS:

The Company offers a 401(k) plan which is eligible to substantially all employees. The Company has elected to match employee contributions at a rate of 50 percent up to 4 percent of salary deferral. The Company contributed \$297,000, \$298,000, and \$325,000 to the 401(k) plan in the years ended December 31, 2003, 2004 and 2005, respectively.

11. RELATED-PARTY TRANSACTIONS:

Prior to 2002, the Board of Directors of the Company had approved the Company making advances and loans to the CEO. During 2001 the advances and loans to the CEO 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. On March 31, 2004, DXP exchanged two of the notes receivable from the CEO, with a value of \$338,591 including accrued interest, for 80,619 shares of DXP's common stock held by three trusts for the benefit of Mr. Little's children. The shares were valued at \$4.20 per share, the closing market price of the common stock on March 31, 2004. The balance of the remaining note was \$880,000 and \$840,000 at December 31, 2004 and 2005, respectively. The note is secured by 677,267 shares of the Company's common stock. The note receivable is reflected as a reduction of shareholders' equity. The note has not been modified or amended since 2001.

12. 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 an electrical supply business in 1998. All business segments operate 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 to the Company's segments is as follows:

	MRO	Electrical Contractor	Total
		(in Thousands)	
2003			
Sales	\$ 148,206	\$ 2,477	\$ 150,683
Operating income	4,210	99	4,309
Income (loss) before tax	3,265	(68)	3,197
Identifiable assets	46,370	2,005	48,375
Capital expenditures	406	13	419
Depreciation and amortization	1,029	29	1,058
Interest expense	1,010	167	1,177
2004			
Sales	\$ 158,191	\$ 2,394	\$ 160,585
Operating income	4,941	268	5,209
Income before tax	4,271	113	4,384
Identifiable assets	46,183	2,100	48,283
Capital expenditures	1,859	7	1,866
Depreciation and amortization	961	31	992
Interest expense	774	150	924
2005			
Sales	\$ 182,979	\$ 2,385	\$ 185,364
Operating income	9,097	307	9,404
Income before tax	8,452	163	8,615
Identifiable assets	71,321	1,599	72,920
Capital expenditures	572	-	572
Depreciation and amortization	973	17	990
Interest expense	856	144	1,000

13. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Summarized quarterly financial information for the years ended December 31, 2003, 2004 and 2005 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions, except per share amounts)			
2003				
Sales	\$ 37.5	\$ 37.7	\$ 40.4	\$ 35.1
Gross profit	9.5	9.5	10.3	9.2
Net income	0.5	0.4	0.7	0.5
Earnings per share - diluted	0.10	0.10	0.13	0.09
2004				
Sales	\$ 37.9	\$ 42.1	\$ 42.9	\$ 37.7
Gross profit	9.6	10.1	9.9	9.8
Net income	0.7	0.7	0.7	0.6
Earnings per share - diluted	0.12	0.13	0.13	0.12
2005				
Sales	\$ 41.8	\$ 45.5	\$ 43.4	\$ 54.7
Gross profit	11.0	12.2	11.5	15.0
Net income	0.8	1.5	1.1	2.1
Earnings per share - diluted	0.15	0.26	0.18	0.36

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*

None.

ITEM 9A. *Controls and Procedures*

As of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15e promulgated under the Securities Exchange Act of 1934) was evaluated by our management with the participation of our President and Chief Executive Officer, David R. Little (principal executive officer), and our Senior Vice President and Chief Financial Officer, Mac McConnell (principal financial officer). Messrs. Little and McConnell have concluded that our disclosure controls and procedures are effective, as of the end of the period covered by this Annual Report on Form 10-K, to help ensure that information we are required to disclose in reports that we file with the SEC is accumulated and communicated to management and recorded, processed, summarized and reported within the time periods prescribed by the SEC.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended December 31, 2005) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. *Other Information*

None

PART III

ITEM 10. *Directors and Executive Officers of the Registrant*

The information required by this item is incorporated by reference from the information in our definitive proxy

statement for the 2006 Annual Meeting of Shareholders that we will file with the SEC within 120 days of the end of the fiscal year to which this report relates (the “Proxy Statement”).

ITEM 11. *Executive Compensation*

The information required by this item is incorporated by reference from the information in our Proxy Statement.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this item is incorporated by reference from the information in our Proxy Statement.

ITEM 13. *Certain Relationships and Related Transactions*

The information required by this item is incorporated by reference from the information in our Proxy Statement.

ITEM 14. *Principal Auditor Fees and Services.*

The information required by this item is incorporated by reference from the information in our Proxy Statement.

PART IV

ITEM 15. *Exhibits, Financial Statement Schedules.*

(a) Documents included in this report:

1. Financial Statements (included under Item 8):

DXP Enterprises, Inc. and Subsidiaries:

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Consolidated Statements of Shareholders' Equity	20
Consolidated Statements of Cash Flows	21
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2. Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts.

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

3. Exhibits:

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

Exhibit

No. Description

- 3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to 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 security holders.
- 4.3 Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of security holders.
- +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 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).

- +10.5 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$915,974.00, made by David R. Little payable to DXP Enterprises, Inc. (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
- +10.6 Amendment No. One to DXP Enterprises, Inc. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
- 10.7 Credit Agreement by and among DXP Enterprises, Inc., as Borrower, and Wells Fargo Bank, as Bank, dated as of August 2, 2005. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Commission on August 4, 2005).
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- *+10.14 DXP Enterprises, Inc. 2005 Restricted Stock Plan.
- *21.1 Subsidiaries of the Company.
- *23.1 Consent from Hein & Associates LLP, Independent Registered Public Accounting Firm.
- *31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.
- *31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.
- *32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

+ Indicates a management contract or compensation plan or arrangement.

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

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

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

We have audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of DXP Enterprises, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated February 24, 2006. 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
February 24, 2006

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
DXP ENTERPRISES, INC.

Years Ended December 31, 2005, 2004 and 2003
(in thousands)

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance At End of Year
Year ended December 31, 2005					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,776	\$ 273	\$ 48 ⁽³⁾	\$ 262 ⁽¹⁾	\$ 1,835
Valuation allowance for deferred tax assets	\$ 78	\$ -	\$ -	\$ 34 ⁽²⁾	\$ 44
Year ended December 31, 2004					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,420	\$ 492	\$ -	\$ 136 ⁽¹⁾	\$ 1,776
Valuation allowance for deferred tax assets	\$ 219	\$ -	\$ -	\$ 141 ⁽²⁾	\$ 78
Year ended December 31, 2003					
Deducted from assets accounts					
Allowance for doubtful accounts	\$ 1,235	\$ 142	\$ -	\$ (43) ⁽¹⁾	\$ 1,420
Valuation allowance for deferred tax assets	\$ 362	\$ -	\$ -	\$ 143 ⁽²⁾	\$ 219

(1) Uncollectible accounts written off, net of recoveries

(2) Reduction results from expiration or use of state net operating loss carryforwards.

(3) Reserve for receivables of acquired business.

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 9, 2006

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:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID R. LITTLE</u> David R. Little	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 9, 2006
<u>/s/ MAC McCONNELL</u> Mac McConnell	Senior Vice-President/Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2006
<u>/s/ CLETUS DAVIS</u> Cletus Davis	Director	March 9, 2006
<u>/s/ TIMOTHY P. HALTER</u> Timothy P. Halter	Director	March 9, 2006
<u>/s/ KENNETH H. MILLER</u> Kenneth H. Miller	Director	March 9, 2006

EXHIBIT INDEX

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- *31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.
- *32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

+ Indicates a management contract or compensation plan or arrangement.

Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

SEPCO Industries, Inc., a Texas Corporation

Pelican States Supply Company, Inc., a Nevada Corporation

DXP Acquisition, Inc., a Nevada corporation (doing business as Strategic Supply, Inc.)

American MRO, Inc., a Nevada Corporation

Global Pump Service and Supply, LLC, a Texas limited liability company (doing business as Certified Equipment Services or CES)

PMI Operating Company, Ltd., a Texas limited partnership

Pump – PMI LLC, a Texas limited liability corporation

R. A. Mueller, Inc. an Ohio corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation of our report dated February 24, 2006 included in this Annual Report on Form 10-K, into the Company's previously filed registration statements on Form S-8 (File Nos. 333-123698, 333-61953, 333-92875 and 333-92877).

/s/HEIN & ASSOCIATES LLP

Hein & Associates LLP

Houston, Texas

March 9, 2006

Exhibit 31.1

CERTIFICATIONS

I, David R. Little, the President and 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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2006

/s/ David R. Little

David R. Little

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

I, Mac McConnell, the Senior Vice President and Chief Financial 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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2006

/s/ Mac McConnell

Mac McConnell

Senior Vice President and

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 9, 2006

/s/David R. Little
David R. Little
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 9, 2006

/s/Mac McConnell
Mac McConnell
Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

DXP Enterprises, Inc.
2005 Restricted Stock Plan

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DXP Enterprises, Inc.
2005 Restricted Stock Plan

ARTICLE 1
Establishment, Purpose, and Duration

1.1 Establishment. DXP Enterprises, Inc., a Texas corporation (hereinafter referred to as the “Company”), establishes an equity incentive compensation plan to be known as the 2005 Restricted Stock Plan (hereinafter referred to as the “Plan”), as set forth in this document.

The Plan permits the grant of Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units and Other Stock-Based Awards. The Plan is not intended to be a plan that is subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The Plan will be interpreted, construed and administered consistent with its status as a plan that is not subject to ERISA.

Subject to approval by the Company’s shareholders, the Plan will become effective as of July 15, 2005 (the “Effective Date”).

1.2 Purpose of the Plan. The purpose of the Plan is to provide a means whereby Employees, Directors, and Third Party Service Providers of the Company develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. A further purpose of the Plan is to provide a means through which the Company may attract able persons to become Employees or serve as Directors or Third Party Service Providers of the Company and to provide a means whereby those individuals upon whom the responsibilities of the successful administration and management of the Company are of importance, can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company.

1.3 Duration of the Plan. Unless sooner terminated as provided herein, the Plan shall terminate ten years from the Effective Date. After the Plan is terminated, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan’s terms and conditions.

ARTICLE 2
Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 “Affiliate” means any corporation, partnership, limited liability company or partnership, association, trust or other entity or organization which, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, “control (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (i) to vote more than fifty percent (50%) of the securities having ordinary voting power for the election of directors of the controlled entity or organization, or (ii) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.

2.2 “Annual Award Limit” or “Annual Award Limits” have the meaning set forth in Section 4.3.

2.3 “Award” means, individually or collectively, a grant under this Plan of Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units or Other Stock-Based Awards, in each case subject to the terms of this Plan.

2.4 “Award Agreement” means either (i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (ii) a written statement issued by the Company to a Participant describing the terms and provisions of such Award.

2.5 “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.6 “Board” or “**Board of Directors**” means the Board of Directors of the Company.

2.7 “Change of Control,” for all purposes of this Plan, means the occurrence of any one or more of the following events following the date on which the applicable Award is granted:

(a) a report on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) shall be filed with the Securities and Exchange Commission pursuant to the Exchange Act and that report discloses that any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), is the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of 20 percent or more of the outstanding Voting Stock;

(b) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), shall purchase securities pursuant to a tender offer or exchange offer to acquire any Voting Stock (or any securities convertible into Voting Stock) and, immediately after consummation of that purchase, that person is the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of 20 percent or more of the outstanding Voting Stock (such person's beneficial ownership to be determined, in the case of rights to acquire Voting Stock, pursuant to paragraph (d) of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act);

(c) the consummation of:

(i) a merger, consolidation or reorganization of the Company with or into any other person if as a result of such merger, consolidation or reorganization, 50 percent or less of the combined voting power of the then-outstanding securities of such other person immediately after such merger, consolidation or reorganization are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such merger, consolidation or reorganization;

(ii) any sale, lease, exchange or other transfer of all or substantially all the assets of the Company and its consolidated subsidiaries to any other person if as a result of such sale, lease, exchange or other transfer, 50 percent or less of the combined voting power of the then-outstanding securities of such other person immediately after such sale, lease, exchange or other transfer are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such sale, lease, exchange or other transfer; or

(iii) a transaction immediately after the consummation of which any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act) would be the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of more than 50 percent of the outstanding Voting Stock;

(iv) the stockholders of the Company approve the dissolution of the Company; or

(v) during any period of 12 consecutive months, the individuals who at the beginning of that period constituted the Board shall cease to constitute a majority of the Board, unless the election, or the nomination for election by the Company's stockholders, of each director of the Company first elected during such period was approved by a vote of at least a two-thirds majority of the directors of the Company then still in office who were directors of the Company at the beginning of any such period.

2.8 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time.

2.9 “Committee” means the compensation committee of the Board, or any other committee designated by the Board to administer this Plan. The members of the Committee shall be Nonemployee Directors and Outside Directors appointed from time to time by and shall serve at the discretion of the Board.

2.10 “Company” means DXP Enterprises, Inc., a Texas corporation, and any successor thereto as provided in ARTICLE 16 herein.

2.11 “Covered Employee” means a Participant who is a “covered employee,” as defined in section 162(m) of the Code and the regulations promulgated under section 162(m) of the Code, or any successor statute.

2.12 “Director” means any individual who is a member of the Board of Directors of the Company.

2.13 “Disability” means a mental or physical disability of the Participant which, in the opinion of a physician selected by the Committee, (i) shall prevent the Participant from adequately performing his services as an Employee, Third Party Service Provide or Director and (ii) can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months.

2.14 “Effective Date” has the meaning set forth in Section 1.1.

2.15 “Employee” means any employee of the Company, its Affiliates, and/or Subsidiaries.

2.16 “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.17 “Extraordinary Items” means (i) extraordinary, unusual, and/or nonrecurring items of gain or loss; (ii) gains or losses on the disposition of a business; (iii) changes in tax or accounting regulations or laws; or (iv) the effect of a merger or acquisition, all of which must be identified in the audited financial statements, including footnotes, or Management Discussion and Analysis section of the Company’s annual report.

2.18 “Fair Market Value” or “FMV” means on the date in question (a) the closing price of the Stock on that date (or, if there was no sale on such date, the next preceding date on which there was such a sale) on the principal securities exchange on which the Stock is listed; or (b) if the Stock is not listed on a securities exchange, an amount as determined by the Committee in its sole discretion.

2.19 “Insider” shall mean an individual who is, on the relevant date, an officer, Director, or more than ten percent (10%) Beneficial Owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.

2.20 “Net Income” means the consolidated net income after taxes for the Plan Year, as reported in the Company’s annual report to shareholders or as otherwise reported to shareholders.

2.21 “Nonemployee Director” means a Director who is not an Employee.

2.22 Other Stock-Based Award” means an equity-based or equity-related Award not otherwise described by the terms of this Plan, granted pursuant to ARTICLE 8.

2.23 “Outside Director” means a member of the Board who qualifies as an outside director as defined for purposes of section 162(m) of the Code.

2.24 “Participant” means any eligible person as set forth in ARTICLE 5 to whom an Award is granted.

2.25 “Performance-Based Compensation” means compensation under an Award that satisfies the requirements of section 162(m) of the Code for deductibility of remuneration paid to Covered Employees.

2.26 “Performance Measures” means measures as described in ARTICLE 9 on which the performance goals are based and which are approved by the Company’s shareholders pursuant to this Plan in order to qualify Awards as Performance-Based Compensation.

2.27 “Performance Period” means the period of time during which the performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

2.28 “Performance Share” means an Award granted to a Participant, as described in ARTICLE 7.

2.29 “Performance Unit” means an Award granted to a Participant, as described in ARTICLE 7.

2.30 “Period of Restriction” means the period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in ARTICLE 6.

2.31 “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

2.32 “Plan” means the DXP Enterprises, Inc. 2005 Restricted Stock Plan.

2.33 “Plan Year” means the calendar year.

2.34 “Restriction Period” means the period of time that a Restricted Stock or Restricted Unit Award is subject to restrictions as specified by the Committee pursuant to ARTICLE 6.

2.35 “Restricted Stock” means an Award granted to a Participant pursuant to ARTICLE 6.

2.36 “Restricted Stock Unit” means an Award granted to a Participant pursuant to ARTICLE 6, except no Shares are actually awarded to the Participant on the date of grant.

2.37 “Retire” or “Retirement” means the, in the case of an Employee, the termination of the Employee’s employment relationship with the Company and all Affiliates after attaining the age of 65, and, in the case of a Director, cessation of the Director’s services as a Director after completing either six full terms or six years of service as a Director.

2.38 “Share” means a share of Stock.

2.39 “Stock” means the common stock of the Company, \$.01 par value or, in the event that the outstanding shares of common stock are later changed into or exchanged for a different class of stock or securities of the Company or another corporation, that other stock or security.

2.40 “Subsidiary” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, a proprietary interest of more than fifty percent (50%) by reason of stock ownership or otherwise.

2.41 “Third Party Service Provider” means any consultant, agent, advisor, or independent contractor who renders services to the Company, a Subsidiary, or an Affiliate that (a) are not in connection with the offer and sale of the Company’s securities in a capital raising transaction, and (b) do not directly or indirectly promote or maintain a market for the Company’s securities.

2.42 “Voting Stock” means Shares the holders of which are entitled to vote for the election of directors, but excluding Shares entitled to so vote only upon the occurrence of a contingency unless that contingency shall have occurred.

ARTICLE 3

Administration

3.1 General. The Committee shall be responsible for administering the Plan, subject to this Article and the other provisions of the Plan. The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participants, the Company, and all other interested persons.

3.2 Authority of the Committee. The Committee shall have full and exclusive discretionary power to interpret the terms and the intent of the Plan and any Award Agreement or other agreement or document ancillary to or in connection with the Plan, to determine eligibility for Awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering the Plan as the Committee may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions, including the terms and conditions set forth in Award Agreements, and, subject to ARTICLE 14, adopting modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries and other jurisdictions in which the Company, its Affiliates, and/or its Subsidiaries operate.

3.3 Delegation. The Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Subsidiaries and Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any person to whom it has delegated duties or powers as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. The Committee may, by resolution, authorize one or more officers of the Company to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; (b) designate Third Party Service Providers to be recipients of Awards; and (c) determine the size of any such Awards; provided, however, (i) the Committee shall not delegate such responsibilities to any such officer for Awards granted to an Employee that is considered an Insider; (ii) the resolution providing such authorization sets forth the total number of Awards such officer(s) may grant; and (iii) the officer(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

ARTICLE 4

Shares Subject to the Plan and Maximum Awards

4.1 Number of Shares Available for Awards. Subject to adjustment as provided in Section 4.4 herein, the maximum number of Shares available for issuance to Participants under the Plan (the “Share Authorization”) is three hundred thousand (300,000) shares.

4.2 Share Usage. Shares covered by an Award shall only be counted as used to the extent they are actually issued. If any Shares subject to an Award are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award, the Shares shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for Awards under the Plan. If any Shares subject to an Award are withheld by the Company for income or employment taxes, the Shares, shall not become available for grant under the Plan. The maximum number of Shares available for issuance under the Plan shall not be reduced to reflect any dividends that are reinvested into additional Shares or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units. The Shares available for issuance under the Plan may be authorized and unissued Shares or treasury Shares.

4.3 Annual Award Limits. Unless and until the Committee determines that an Award to a Covered Employee shall not be designed to qualify as Performance-Based Compensation, the following limits (each an “Annual Award Limit” and, collectively, “Annual Award Limits”) shall apply to grants of such Awards under the Plan:

(a) Restricted Stock or Restricted Stock Units: The maximum aggregate grant with respect to Awards of Restricted Stock or Restricted Stock Units in any one Plan Year to any one Participant shall be twenty thousand (20,000) Shares plus the amount of the Participant's unused applicable Annual Award Limit for Restricted Stock or Restricted Stock Units as of the close of the previous Plan Year.

(b) Performance Units or Performance Shares: The maximum aggregate Award of Performance Units or Performance Shares that a Participant may receive in any one Plan Year shall be twenty thousand (20,000) Shares, or equal to the value of twenty thousand (20,000) Shares determined as of the date of vesting or payout, as applicable, plus the amount of the Participant's unused applicable Annual Award Limit for Performance Units or Performance Shares as of the close of the previous Plan Year.

(c) Other Stock-Based Awards. The maximum aggregate grant with respect to other Stock-Based Awards pursuant to Section 8.1 in any one Plan Year to any one Participant shall be twenty thousand (20,000) Shares, or equal to the value of twenty thousand (20,000) Shares determined as of the date of vesting or payout, as applicable, plus the amount of the Participant's unused applicable Annual Award Limit Other Stock-Based Awards as of the close of the previous Plan Year.

4.4 Adjustments in Authorized Shares. In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Annual Award Limits, and other value determinations applicable to outstanding Awards.

The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any Awards under the Plan to reflect or related to such changes or distributions and to modify any other terms of outstanding Awards, including modifications of performance goals and changes in the length of Performance Periods. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

Subject to the provisions of ARTICLE 14, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

ARTICLE 5 Eligibility and Participation

5.1 Eligibility. Individuals eligible to participate in this Plan include all Employees, Directors, and Third Party Service Providers.

5.2 Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible individuals, those to whom Awards shall be granted and shall determine, in its sole discretion, the nature of, any and all terms permissible by law, and the amount of each Award.

ARTICLE 6 Restricted Stock and Restricted Stock Units

6.1 Grant of Restricted Stock or Restricted Stock Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted

Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

6.2 Restricted Stock or Restricted Stock Unit Agreement. Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

6.3 Transferability. Except as provided in this Plan or an Award Agreement, the Shares of Restricted Stock and/or Restricted Stock Units granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Award Agreement (and in the case of Restricted Stock Units until the date of delivery or other payment), or upon earlier satisfaction of any other conditions, as specified by the Committee, in its sole discretion, and set forth in the Award Agreement or otherwise at any time by the Committee. All rights with respect to the Restricted Stock and/or Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant, except as otherwise provided in an Award Agreement or at any time by the Committee.

6.4 Other Restrictions. The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units.

To the extent deemed appropriate by the Committee, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

Except as otherwise provided in this Article, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations), at the close of the Restriction Period, or as soon as practicable thereafter, Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion shall determine; provided, however, that, unless expressly provided in an Award Agreement and the requirements of section 409A of the Code are satisfied, such payment shall be made no later than 2½ months following the end of the calendar year in which all conditions and restriction applicable to the Units have been satisfied or lapse.

6.5 Certificate Legend. In addition to any legends placed on certificates pursuant to Section 6.4, each certificate representing Shares of Restricted Stock granted pursuant to the Plan may bear a legend such as the following or as otherwise determined by the Committee in its sole discretion:

THE SALE OR TRANSFER OF SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE, WHETHER VOLUNTARY, INVOLUNTARY, OR BY OPERATION OF LAW, IS SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN THE DXP ENTERPRISES, INC. 2005 RESTRICTED STOCK PLAN, AND IN THE ASSOCIATED AWARD AGREEMENT. A COPY OF THE PLAN AND SUCH AWARD AGREEMENT MAY BE OBTAINED FROM DXP ENTERPRISES, INC.

6.6 Rights as Stockholder. Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction and the right to receive distributions made with respect to such Shares; provided, however, that any Shares or any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock as to which the restrictions have not yet lapsed shall be

subject to the same restrictions as such Restricted Stock. A Participant shall have no voting or dividend rights with respect to any Restricted Stock Units granted hereunder.

6.7 Termination of Employment. Subject to Section 6.8, each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

6.8 Minimum Vesting. Except for certain limited situations (including the death, Disability or Retirement of the Participant, or a Change of Control), or special circumstances determined by the Committee (such as the achievement of performance objectives) Restricted Stock Awards or Restricted Stock Units subject solely to continued employment restrictions of Employees shall have a Restriction Period of not less than three years from date of grant (but permitting pro rata vesting over such time); provided, that the provisions of this Section shall not be applicable to any grants to new hires to replace forfeited awards from a prior employer, grants of Restricted Stock in payment of Performance Awards, or grants to Nonemployee Directors. Subject to the foregoing three-year minimum vesting requirement, the Committee may, in its sole discretion and subject to the limitations imposed under section 162(m) of the Code and the regulations thereunder in the case of a Restricted Stock Award intended to comply with the performance-based exception under section 162(m) of the Code, waive the forfeiture period and any other conditions set forth in any Award Agreement subject to such terms and conditions as the Committee shall deem appropriate.

6.9 Section 83(b) Election. The Committee may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under section 83(b) of the Code. If a Participant makes an election pursuant to section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to file promptly a copy of such election with the Company.

ARTICLE 7

Performance Units/Performance Shares

7.1 Grant of Performance Units/Performance Shares. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Units and/or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

7.2 Value of Performance Units/Performance Shares. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/Performance Shares that will be paid out to the Participant.

7.3 Earning of Performance Units/Performance Shares. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive payout on the value and number of Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

7.4 Form and Timing of Payment of Performance Units/Performance Shares. Payment of earned Performance Units/Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units/Performance Shares in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Units/Performance Shares at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period; provided, however, that, unless expressly provided in an Award Agreement and the requirements of section 409A of the Code are satisfied, such payment shall be made no later than

2½ months following the end of the calendar year which contains the close of the applicable Performance Period. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

7.5 Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

7.6 Nontransferability. Except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, Performance Units/Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise determined at any time by the Committee, a Participant's rights under the Plan shall be exercisable during his or her lifetime only by such Participant.

ARTICLE 8 Other Stock-Based Awards

8.1 Other Stock-Based Awards. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

8.2 Value of Other Stock-Based Awards. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish performance goals in its discretion. If the Committee exercises its discretion to establish performance goals, the number Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met.

8.3 Payment of Other Stock-Based Awards. Payment, if any, with respect to an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash or Shares as the Committee determines; provided, however, that, unless expressly provided in an Award Agreement and the requirements of section 409A of the Code are satisfied, no later than 2½ months following the end of the calendar year in which any restrictions lapse or performance goals are met.

8.4 Termination of Employment. Subject to Section 8.5, the Committee shall determine the extent to which the Participant shall have the right to receive Other Stock-Based Awards following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, such provisions may be included in an agreement entered into with each Participant, but need not be uniform among all Awards of Other Stock-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

8.5 Minimum Vesting. Except for certain limited situations (including the death, Disability or Retirement of the Participant or a Change of Control), Other Stock Unit Awards subject solely to continued employment restrictions of employees of the Company or any Subsidiary shall be subject to restrictions imposed by the Committee for a period of not less than three years from date of grant (but permitting pro rata vesting over such time); provided, that such restrictions shall not be applicable to any grants of Other Stock Unit Awards in payment of Performance Awards.

8.6 Nontransferability. Except as otherwise determined by the Committee, no Other Stock-Based Awards may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided by the Committee, a Participant's rights under the Plan, if exercisable, shall be exercisable during his or her lifetime only by such Participant. With respect to those Other Stock-Based Awards, if any, that are permitted to be transferred to another person, references in the Plan to exercise or payment of such Awards by or to the Participant shall be deemed to include, as determined by the Committee, the Participant's permitted transferee.

ARTICLE 9

Performance Measures

9.1 Performance Measures. Unless and until the Committee proposes for shareholder vote and the shareholders approve a change in the general Performance Measures set forth in this Article, the performance goals upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures:

- (a) Net earnings or net income (before or after taxes);
- (b) Earnings per share;
- (c) Net sales growth;
- (d) Net operating profit;
- (e) Return measures (including, but not limited to, return on assets, capital, equity, or sales);
- (f) Cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital);
- (g) Earnings before or after taxes, interest, depreciation, and/or amortization;
- (h) Gross or operating margins;
- (i) Productivity ratios;
- (l) Share price (including, but not limited to, growth measures and total shareholder return);
- (k) Expense targets;
- (l) Margins;
- (m) Operating efficiency;
- (n) Market share; and
- (o) Customer satisfaction.

Any Performance Measure(s) may be used to measure the performance of the Company, Subsidiary, and/or Affiliate as a whole or any business unit of the Company, Subsidiary, and/or Affiliate or any combination thereof, as the Committee may deem appropriate, or any of the above Performance Measures as compared to the performance of a group of comparator companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select Performance Measure (j) above as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this Article.

9.2 Evaluation of Performance. The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation or claim judgments or settlements, (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results, (d) any reorganization and restructuring programs, (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year, (f) acquisitions or divestitures, and (g) foreign exchange gains and losses. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of section 162(m) of the Code for deductibility.

9.3 Adjustment of Performance-Based Compensation. Awards that are designed to qualify as Performance-Based Compensation, and that are held by Covered Employees, may not be adjusted upward. The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

9.4 Committee Discretion. In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of section 162(m) of the Code and base vesting on Performance Measures other than those set forth in Section 9.1.

ARTICLE 10 Nonemployee Director Awards

10.1 Automatic Nonemployee Director Awards. Subject to the terms and provisions of the Plan, each Non-Employee Director who is a director of the Company on any July 1 while this Plan is in effect shall be granted on each such July 1 three thousand (3,000) Shares of Restricted Stock.

10.2 Lapse of Restrictions.

(a) Generally. On the June 30 following the date of the grant of a Restricted Stock Award to a Nonemployee Director pursuant to Section 10.1, the restrictions on 100 percent of the Shares issued under the Award shall lapse so that on the anniversary of the date of grant, the Shares subject to the Award shall be 100% vested.

(b) Cessation of Service. If a Nonemployee Director ceases to be a director of the Company for any reason other than his death, Disability or Retirement, any Restricted Stock Award granted to such Nonemployee Director pursuant to Section 10.1 that is then-restricted shall be immediately forfeited. If the Nonemployee Director ceases to be a director of the Company due to his death, Disability or Retirement, all restrictions on his Restricted Stock Awards granted pursuant to Section 10.1 shall immediately lapse.

ARTICLE 11 Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 12 Rights of Participants

12.1 Employment. Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries, to terminate any Participant's employment or service on the Board or to the Company at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her employment or service as a Director or Third Party Service Provider for any specified period of time.

Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries and, accordingly, subject to ARTICLES 3 and 14, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates, and/or its Subsidiaries.

12.2 Participation. No individual shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

12.3 Rights as a Shareholder. Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

ARTICLE 13 Change of Control

13.1 Change of Control of the Company. Upon the occurrence of a Change of Control, unless otherwise specifically prohibited under applicable laws or by the rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Committee shall determine otherwise in the Award Agreement:

(a) Any Restriction Period and restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse;

(b) the target payout opportunities attainable under all outstanding Awards of performance-based Restricted Stock, performance-based Restricted Stock Units, Performance Units, and Performance Shares, shall be deemed to have been fully earned based on targeted performance being attained as of the effective date of the Change of Control;

(c) the vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Change of Control; and

(d) to the extent permitted under Section 409A of the Code and unless otherwise provided in an Award Agreement, all Awards shall be paid out to Participants within thirty (30) days following the effective date of the Change of Control; provided that the Committee has the authority in its sole discretion to pay all or any portion of the value of any Shares distributable in cash.

ARTICLE 14 Amendment, Modification, Suspension, and Termination

14.1 Amendment, Modification, Suspension, and Termination. Subject to Section 14.3, the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any Award Agreement in whole or in part; provided, however, that no amendment of the Plan shall be made without shareholder approval if shareholder approval is required by law, regulation, or stock exchange rule.

14.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.4 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

14.3 Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

ARTICLE 15 Withholding

15.1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes,

domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

15.2 Share Withholding. With respect to withholding required upon the lapse of restrictions on Restricted Stock and Restricted Stock Units, or upon the achievement of performance goals related to Performance Shares, or any other taxable event arising as a result of an Award granted hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to, but not more than, the minimum statutory total tax that could be imposed on the transaction. All such elections shall be irrevocable, made in writing, and signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate. In the event a Participant exercises an election under this Section and only satisfies the minimum statutory withholding requirement imposed on the relevant transaction in part, the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the remaining amount of the required minimum statutory withholding amount.

ARTICLE 16

Successors

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 17

General Provisions

17.1 Compliance with Section 409A of the Code. This Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with section 409A of the Code, including regulations or other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of this Plan that would cause the grant of an Award or the payment, settlement or deferral thereof to fail to satisfy section 409A of the Code shall be amended to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code.

17.2 Forfeiture Events.

(a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause, termination of the Participant's provision of services to the Company, Affiliate, and/or Subsidiary, violation of material Company, Affiliate, and/or Subsidiary policies, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates, and/or its Subsidiaries.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, or if the Participant is one of the persons subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, the Participant shall reimburse the Company the amount of any payment in settlement of an Award earned or accrued during the twelve-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever just occurred) of the financial document embodying such financial reporting requirement.

17.3 Legend. The certificates for Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

17.4 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

17.5 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

17.6 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

17.7 Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

(a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and

(b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

17.8 Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17.9 Investment Representations. The Committee may require any person receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the person is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

17.10 Employees Based Outside of the United States. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company, its Affiliates, and/or its Subsidiaries operate or have Employees, Directors, or Third Party Service Providers, the Committee, in its sole discretion, shall have the power and authority to:

(a) Determine which Affiliates and Subsidiaries shall be covered by the Plan;

(b) Determine which Employees, Directors and/or Third Party Service Providers outside the United States are eligible to participate in the Plan;

(c) Modify the terms and conditions of any Award granted to Employees, Directors and/or Third Party Service Providers outside the United States to comply with applicable foreign laws;

(d) Establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section by the Committee shall be attached to this Plan document as appendices; and

(e) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals.

Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate applicable law.

17.11 Uncertificated Shares. To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

17.12 Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company, and/or its Subsidiaries, and/or Affiliates may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company, and/or its Subsidiaries, and/or Affiliates under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company, a Subsidiary, or an Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, a Subsidiary, or an Affiliate, as the case may be and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan.

17.13 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

17.14 Retirement and Welfare Plans. Neither Awards made under the Plan nor Shares or cash paid pursuant to such Awards, except pursuant to Covered Employee Annual Incentive Awards, may be included as “compensation” for purposes of computing the benefits payable to any Participant under the Company’s or any Subsidiary’s or Affiliate’s retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a participant’s benefit.

17.15 Nonexclusivity of the Plan. The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

17.16 No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (i) limit, impair, or otherwise affect the Company’s or a Subsidiary’s or an Affiliate’s right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

17.17 Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Texas, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

17.18 Indemnification. Each person who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with ARTICLE 3 shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company’s approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability, or expense is a result of his or her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.