DXP ENTERPRISES INC
Form 10-Q
May 12, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH

31, 2006

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-21513

DXP ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

TEXAS	76-0509661
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7272 Pinemont, Houston TX	77040
(Address of principal executive offices)	(Zip Code)

713/996-4700

(Registrant's telephone number, including area code)

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 [X] No [ ]

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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Number of shares outstanding of each of the issuer's classes of common stock, as of May 11, 2006:

Common Stock: 5,123,134

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

DXP ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	March 31, 2006		December 31, 2005
	(Unaudited)		
ASSETS			
Current assets:			
Cash	$ 1,514		$ 570

Trade accounts receivable, net of allowances for doubtful accounts			
of $1,967 in 2004 and $1,835, respectively	32,209		29,279
Inventories, net	26,167		22,811
Prepaid expenses and other current assets	1,703		541
Federal income taxes recoverable	1,846		2,033
Deferred income taxes	896		968
Total current assets	64,335		56,202
Property and equipment, net	8,910		8,752
Goodwill and other intangibles	7,459		7,436
Other assets	584		530
Total assets	$ 81,288		$ 72,920
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$ 1,324		$ 1,358
Trade accounts payable	15,687		15,919
Accrued wages and benefits	4,856		5,012
Customer advances	3,138		2,209
Federal income taxes payable	-		214
Other accrued liabilities	3,142		3,365
Total current liabilities	28,147		28,077
Long-term debt, less current portion	28,594		25,109
Deferred income taxes	-		115
Minority interest in consolidated subsidiary	9		30
Shareholders' equity:			
Series A preferred stock, 1/10th vote per share; $1.00 par value;			

liquidation preference of $100 per share ($112 at March 31, 2006); 1,000,000 shares authorized; 1,122 shares issued and outstanding	1		1
Series B convertible preferred stock, 1/10th vote per share; $1.00 par value; $100 stated value; liquidation preference of $100 per share ($1,500 at March 31, 2006); 1,000,000 shares authorized; 15,000 shares issued and outstanding	15		15
Common stock, $0.01 par value, 100,000,000 shares authorized; 5,051,734 and 4,795,402 shares issued and outstanding, respectively	51		48
Paid-in capital	4,361		1,894
Retained earnings	20,950		18,471
Notes receivable from David R. Little, CEO	(840)		(840)
Total shareholders' equity	24,538		19,589
Total liabilities and shareholders' equity	$ 81,288		$ 72,920
See notes to condensed consolidated financial statements.			

DXP ENTERPRISES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended
	March 31,

	2006		2005
Sales	$ 62,512		$ 41,790
Cost of sales	45,159		30,821
Gross profit	17,353		10,969
Selling, general and administrative expense	12,919		9,454
Operating income	4,434		1,515
Other income	7		10
Interest expense	(363)		(244)
Minority interest in loss of consolidated subsidiary	21		63
Income before taxes	4,099		1,344
Provision for income taxes	1,597		490
Net income	2,502		854
Preferred stock dividend	23		23
Net income attributable to common shareholders	$ 2,479		$ 831
Basic income per share	$ 0.51		$ 0.20
Weighted average common shares outstanding	4,887		4,062
Diluted income per share	$ 0.44		$ 0.15
Weighted average common and common equivalent shares outstanding	5,659		5,568
See notes to condensed consolidated financial statements.			

DXP ENTERPRISES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	THREE MONTHS ENDED		
	MARCH 31		
	2006		2005
OPERATING ACTIVITIES:			
Net income	$ 2,502		$ 854
Adjustments to reconcile net income to net cash provided			
by (used in) operating activities			
Depreciation and amortization	248		232
Compensation expense on stock options and restricted stock	4		-
Benefit from deferred income taxes	(43)		(28)
Minority interest in loss of consolidated subsidiary	(21)		(63)
Tax benefit related to exercise of stock options	(1,659)		-
Changes in operating assets and liabilities:			
Trade accounts receivable	(2,930)		(3,066)
Inventories	(3,356)		(932)
Prepaid expenses and other current assets	609		(874)
Accounts payable and accrued liabilities	104		1,901
Net cash used in operating activities	(4,542)		(1,976)
INVESTING ACTIVITIES:			
Purchase of property and equipment	(406)		(91)

Net cash used in investing activities	(406)		(91)
FINANCING ACTIVITIES:			
Proceeds from debt	16,438		39,910
Principal payments on revolving line of credit and other long-term debt	(12,986)		(38,446)
Dividends paid in cash	(23)		(23)
Proceeds from exercise of stock options	461		116
Payments for payroll taxes related to exercise of stock options	(86)		-
Proceeds from sale of common stock	429		-
Tax benefit related to exercise of stock options	1,659		-
Net cash provided by financing activities	5,892		1,557
INCREASE (DECREASE) IN CASH	944		(510)
CASH AT BEGINNING OF PERIOD	570		2,303
CASH AT END OF PERIOD	$ 1,514		$ 1,793
See notes to condensed consolidated financial statements.			

DXP ENTERPRISES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. DXP Enterprises, Inc. (together with its subsidiaries, the "Company" or "DXP") believes that the presentations and disclosures herein are adequate to make the information not misleading. The condensed consolidated financial statements reflect all elimination entries and adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission.

NOTE 2: THE COMPANY

DXP, 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 Contractor.

NOTE 3: STOCK-BASED COMPENSATION

Adoption of SFAS 123(R)

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

The adoption of SFAS 123(R) resulted in stock compensation expense for the quarterly period ended March 31, 2006 of $2,200, all of which was recorded to operating expenses. This expense did not change basic or diluted earnings per share for the quarter.

The Black-Scholes option-pricing model was used to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over periods equal to the expected option term. The expected option term was calculated using the "simplified" method permitted by SAB 107.

Prior to the adoption of SFAS 123(R), the Company presented any tax benefits of deductions resulting from the exercise of stock options within operating cash flows in the condensed consolidated statements of cash flow. SFAS 123(R) requires tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options ("excess tax benefits") to be classified and reported as both an operating cash outflow and a financing cash inflow upon adoption of SFAS 123(R).

Pro-Forma Stock Compensation Expense for the Quarterly Period Ended March 31, 2005

For the quarterly period ended March 31, 2005, the Company applied the intrinsic value method of accounting for stock options as prescribed by APB 25. Since no options were granted during the quarterly period ended March 31, 2005, no compensation expense was recognized. If compensation expense had been recognized based on the estimated fair value of each option granted in accordance with the provisions of SFAS 123 as amended by Statement of Financial Accounting Standard 148, our net income would have been reduced to the following pro-forma amounts (in thousands, except per share amounts):

	Three Months Ended March 31, 2006
Net income as reported	$ 831
Deduct: Stock-based employee compensation expense, determined under SFAAS 123, net of tax	$ (2)
Net income, pro forma	$ 829
Income per share - basic, as reported	$ 0.20
Income per share - diluted, as reported	$ 0.15
Income per share - basic, pro forma	$ 0.20
Income per share - diluted, pro forma	$ 0.15

Stock Options as of the Quarterly Period Ended March 31, 2006

No future grants will be made under the Company's stock option plans. No grants of stock options have been made by the Company since July 1, 2005. No grants of stock options were made in the quarterly period ended March 31, 2005. As of March 31, 2006, all outstanding options were non-qualified stock options.

The following table summarizes stock options outstanding and changes during the quarterly period ended March 31, 2006:

	Outstanding Options						
	Number of Shares		Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value

Options outstanding at January 1, 2006	621,430	$ 1.44		
Granted	-	-		
Exercised	(232,719)	1.26		
Canceled or forfeited	(5,130)	12.00		
Options outstanding at March 31, 2006	383,581	1.40	5.37	$ 12,794,386
Options exercisable at March 31, 2006	374,481	$ 1.41		$ 12,488,990

The total intrinsic value, or the difference between the exercise price and the market price on the date of exercise, of all options exercised during the quarterly period ended March 31, 2006, was approximately $4.8 million. Cash received from stock options exercised during the quarterly period ended March 31, 2006 was $539,000.

Stock options outstanding and currently exercisable at March 31, 2006 are as follows:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Options Exercisable	Average Exercise Price
$0.92 - $2.50	363,581	5.19	$1.17	354,481	$ 1.17
$4.53 - $6.72	20,000	8.69	5.63	20,000	M.63

		383,581		5.37		$ 1.40		374,481		$ 1.41

Total estimated unrecognized compensation cost from unvested stock options as of March 31, 2006 was approximately $6,000, which is expected to be recognized over approximately nine months.

Restricted Stock.

Under a restricted stock plan approved by our shareholders in July 2005, (the "Restricted Stock Plan") directors, consultants and employees may be awarded shares of DXP's common stock. The shares of stock granted as of March 31, 2006 vest 20% a year for five years after the grant date. The Restricted Stock 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 which will vest one year after the grant date. The fair value of restricted stock awards is measured based upon the closing prices of DXP's common stock on the grant dates and is recognized as compensation expense over the vesting period of the awards.

The following table provides certain information regarding the shares authorized and outstanding under the Restricted Stock Plan at March 31, 2006:

Number of shares authorized for grants	300,000
Number of shares outstanding	6,000
Number of shares available for future grants	294,000
Weighted-average grant price of outstanding shares	$ 18.85

Changes in restricted stock for the three months ended March 31, 2006 were as follows:

	Number Of Shares		Weighted Average Grant Price
Outstanding at December 31, 2005	-		-
Granted	6,000		$ 18.85
Outstanding at March 31, 2006	6,000		$ 18.85

At March 31, 2006, there were no shares vested under the Restricted Stock Plan. Compensation expense recognized in the three months ended March 31, 2006 and 2005 was $2,000 and $0, respectively. Unrecognized compensation expense under the Restricted Stock Plan was $111,000 and $0 at March 31, 2006 and December 31, 2005, respectively.

NOTE 4: INVENTORY

The Company uses the last-in, first-out ("LIFO") method of inventory valuation for approximately 85 percent of its inventories. Remaining inventories are accounted for using the first-in, first-out ("FIFO") method. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation. The reconciliation of FIFO inventory to LIFO basis is as follows:

	March 31, 2006		December 31, 2005
	(in Thousands)		
Finished goods	$ 28,086		$ 25,740
Work in process	2,459		1,237
Inventories at FIFO	30,545		26,977
Less - LIFO allowance	(4,378)		(4,166)
Inventories	$ 26,167		$ 22,811

NOTE 5: EARNINGS PER SHARE DATA

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Three Months Ended		
	March 31		
	2006		2005
Basic:			
Weighted average shares outstanding	4,886,765		4,062,086
Net income	$ 2,502,000		$ 854,000
Convertible preferred stock dividend	(23,000)		(23,000)
Net income attributable to common shareholders	$ 2,479,000		$ 831,000

Per share amount	$ 0.51		$ 0.20
Diluted:			
Weighted average shares outstanding	4,886,765		4,062,086
Net effect of dilutive stock options - based on the treasury stock method	352,413		1,085,684
Assumed conversion of convertible preferred stock	420,000		420,000
Total	5,659,178		5,567,770
Net income attributable to common shareholders	$ 2,479,000		$ 831,000
Convertible preferred stock dividend	23,000		23,000
Net income for diluted earnings per share	$ 2,502,000		$ 854,000
Per share amount	$ 0.44		$ 0.15

NOTE 6: SEGMENT REPORTING

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 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. All business segments operate primarily in the United States.

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

	Three Months ended March 31,				
	MRO		Electrical Contractor		Total
2006					
Sales	$ 61,876		$ 636		$ 62,512
Operating income	4,381		53		4,434
Income before taxes	4,085		14		4,099

2005					
Sales	$ 41,228		$ 562		$ 41,790
Operating income	1,469		46		1,515
Income before taxes	1,333		11		1,344

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Three Months Ended March 31,						
	2006		%		2005		%
	(in thousands, except percentages and per share amounts)						
Sales	$ 62,512		100.0		$ 41,790		100.0
Cost of sales	45,159		72.2		30,821		73.8
Gross profit	17,353		27.8		10,969		26.2
Selling, general and administrative expense	12,919		20.7		9,454		22.6
Operating income	4,434		7.1		1,515		3.6
Interest expense	(363)		(0.5)		(244)		(0.6)
Minority interest in loss of consolidated subsidiary	21		-		63		0.2
Other income	7		-		10		-
Income before income taxes	4,099		6.6		1,344		3.2
Provision for income taxes	1,597		2.6		490		1.2
Net income	$ 2,502		4.0		$ 854		2.0

Per share amounts							
Basic earnings per share	$ 0.51				$ 0.20		
Diluted earnings per share	$ 0.44				$ 0.15		

Three Months Ended March 31, 2006 compared to Three Months Ended March 31, 2005

SALES. Revenues for the quarter ended March 31, 2006, increased $20.7 million, or 49.6%, to approximately $62.5 million from $41.8 million for the same period in 2005. Sales for the MRO Segment increased $20.6 million, or 50.1%, 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 improving economy and high energy prices. Sales by the two businesses acquired in 2005 accounted for $8.7 million of the 2006 sales increase. Excluding sales of the acquired businesses, sales for the MRO segment increased 29.0%. Sales for the Electrical Contractor segment increased by $0.1 million, or 13.2%, for the current quarter when compared to the same period in 2005. The sales increase resulted from the sale of more commodity type electrical products.

GROSS PROFIT. Gross profit as a percentage of sales increased by approximately 1.5% for the first quarter of 2006, when compared to the same period in 2005. Gross profit as a percentage of sales for the MRO segment increased to 27.7% for the three months ended March 31, 2006, from 26.1% in the comparable period of 2005. This increase can be primarily attributed to increased margins on pump related equipment sold by the MRO segment. Gross profit as a percentage of sales for the businesses acquired in 2005 is higher than the same for the remainder of our business and accounts for the majority of the increase in the gross profit percentage for the MRO segment. Gross profit as a percentage of sales for the Electrical Contractor segment decreased to 35.1% for the three months ended March 31, 2006, from 38.8% in the comparable period of 2005. This decrease resulted from increased sales of lower margin commodity type electrical products.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for the quarter ended March 31, 2006, increased by approximately $3.5 million when compared to the same period in 2005. The increase is primarily attributed to increased salaries, incentive compensation, employee benefits and payroll related expenses for the three months ended March 31, 2006 compared to the same period in 2005. Salaries have increased partially as a result of increased headcount due to acquisitions and hiring more sales related personnel for the purpose of increasing sales. Incentive compensation has increased as a result of increased gross profit. The majority of our employees receive incentive compensation which is based upon gross profit. Selling, general and administrative expense associated with the two businesses acquired in 2005 accounted for $1.8 million of the $3.5 million increase. As a percentage of revenue, the 2006 expense decreased by approximately 1.9% to 20.7% from 22.6% for 2005 as a result of sales increasing more than the expense increased.

OPERATING INCOME. Operating income for the first three months of 2006 increased 192.7% when compared to the same period in 2005. Operating income for the MRO segment increased 198.2% as a result of increased gross profit, partially offset by increased selling, general and administrative expense. Operating income for the Electrical Contractor segment increased 15.2% as a result of increased gross profit and reduced selling, general and administrative expense.

INTEREST EXPENSE. Interest expense for the quarter ended March 31, 2006 increased by 48.8% from the same period in 2005. This increase results from the combination of an approximate 200 basis point increase in market interest rates on floating rate debt and increased debt used to fund acquisitions and internal growth. The effect of the increase in market interest rates was partially offset by the lower margins on our new credit facility.

LIQUIDITY AND CAPITAL RESOURCES

General Overview

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

We used $2.9 million of cash in operating activities during the first three months of 2006 as compared to using $2.0 million during the first three months of 2005. This change between the two periods was primarily attributable to a larger increase in inventory in the 2006 period compared to the 2005 period.

During the first three months of 2006, the amount available to be borrowed under our loan agreement with our bank lender (the "Credit Facility") decreased from $11.0 million at December 31, 2005 to $7.1 million at March 31, 2006. This decrease in availability resulted from the $3.9 million increase in the amount borrowed under the Credit Facility. The funds obtained from the increase in long-term debt were used in operations, including increases in inventory and accounts receivable.

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 March 31, 2006, the LIBOR based rate was LIBOR plus 75 basis points. At March 31, 2006, 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 March 31, 2006, $15 million was borrowed at an interest rate of 5.5% under the LIBOR option and $7.0 million was borrowed at an interest rate of 6.0% 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 March 31, 2006, we were in compliance with all covenants. In addition to the $1.5 million of cash at March 31, 2006, we had $7.1 million available for borrowings under the New Credit Facility at March 31, 2006.

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

	March 31,		December 31,		Increase
	2006		2005		(Decrease)
	(in Thousands)				
Current portion of long-term debt	$ 1,324		$ 1,358		$ (34)
Long-term debt, less current portion	28,594		25,109		3,485
Total long-term debt	$ 29,918		$ 26,467		$ 3,451 (2)
Amount available	$ 7,089(1)		$ 10,972		$ 3,883)(3)

(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 in operations, primarily to fund the increase in inventory and accounts receivable.

(3) The $3.9 million decrease in the amount available is a result of increased borrowings under the line of credit.

Performance Metrics

	March 31,				Increase
	2006		2005		(Decrease)
	(in Days)				
	49.1		51.7		(2.6)

Days of sales outstanding					
Inventory turns	7.0		7.0		-

Accounts receivable days of sales outstanding were 49.1 at March 31, 2006 compared to 51.7 at March 31, 2005. The decrease resulted primarily from a change in customer mix which resulted in faster collection of accounts receivable. Annualized inventory turns were 7.0 at March 31, 2006 and at March 31, 2005.

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.

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	$ 10,242

The pro forma unaudited results of operations for the Company on a consolidated basis for the three months ended March 31, 2005 assuming the consummation of the purchases as of January 1, 2005, are as follows:

	Three Months Ended March 31, 2005
Net sales	$ 48,266
Net income	$ 1,063
Per share data	
Basic earnings	$ 0.25
Diluted earnings	$ 0.19

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. Below is a discussion of what we believe are our critical accounting policies.

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 and 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 $.9 million as of March 31, 2006. 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.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risk results from volatility in interest rates. Our exposure to interest rate risk relates primarily to our debt portfolio. Using floating interest rate debt outstanding at March 31, 2006, a 100 basis point change in interest rates would result in approximately a $239,000 change in annual interest expense.

ITEM 4: CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) 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 Quarterly Report on Form 10-Q, 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 March 31, 2006) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

No material developments have occurred in the asbestos related litigation or the litigation with BP America Production Company disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 1A. RISK FACTORS

No material changes have occurred in the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

DXP did not repurchase any DXP equity securities during the quarter ended March 31, 2006.

During January 2006, DXP sold 23,613 shares of common stock to an employee of DXP for $18.17 per share. The selling price for these shares was equal to the average closing price for DXP's common stock for the ten days immediately preceding the date of the sale as reported by Nasdaq. The employee paid the consideration with $215,000 in cash and the cancellation of a promissory note in the principal amount of $215,000, which note had been made by DXP payable to the employee in connection with DXP's purchase of a business in December 2005. The sale of the 23,613 shares was not registered under the Securities Act of 1933, as amended. This transaction did not involve underwriters. DXP considers these shares to have been offered and sold in a transaction not involving a public offering and, therefore, to be exempted from registration under Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

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

3.2 Bylaws (incorporated by reference to 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).

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. (Filed herewith).

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. (Filed herewith).

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. (Filed herewith).

SIGNATURES

Pursuant to the requirements 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/MAC McCONNELL

Mac McConnell

Senior Vice-President/Finance and

Chief Financial Officer

Dated: May 12, 2006

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of DXP Enterprises, Inc.;

2. Based on my knowledge, this quarterly 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 officers 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 quarterly 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 first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

1. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and 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 controls over financial reporting.

May 12, 2006

/s/ David R. Little

David R. Little

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of DXP Enterprises, Inc.;

2. Based on my knowledge, this quarterly 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 officers 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 quarterly 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

a. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

1. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies and 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 controls over financial reporting.

May 12, 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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (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 represents, in all material respects, the financial condition and results of operations of the Company.

/s/David R. Little

David R. Little

President and Chief Executive Officer

May 12, 2006

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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (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 represents, in all material respects, the financial condition and results of operations of the Company.

/s/Mac McConnell

Mac McConnell

Chief Financial Officer

May 12, 2006

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.