DXP ENTERPRISES INC
Form 10-Q
July 27, 2011

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 June 30, 2011

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	(713) 996-4700
(Address of principal executive offices)	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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

Number of shares of registrant's Common Stock outstanding as of July 25, 2011: 14,121,006.

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

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

		June 30, 2011		December 31, 2010
ASSETS				
Current assets:				
Cash	$	1,140	$	770
Trade accounts receivable, net of allowances for doubtful accounts of $4,685 in 2011 and $3,540 in 2010		114,725		99,781
Inventories, net		77,662		75,887
Prepaid expenses and other current assets		3,125		2,550
Federal income tax receivable		-		402
Deferred income taxes		4,032		5,919
Total current assets		200,684		185,309
Property and equipment, net		15,809		14,917
Goodwill		85,942		84,942
Other intangibles, net of accumulated amortization of $22,813 in 2011 and $19,603 in 2010		29,026		32,236
Non-current deferred income taxes		2,268		2,289
Other assets		932		931
Total assets	$	334,661	$	320,624
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	$	10,757	$	10,930
Trade accounts payable		66,713		55,019
Accrued wages and benefits		9,956		11,826
Customer advances		5,989		10,271
Federal income taxes payable		1,974		-
Other accrued liabilities		10,082		4,837
Total current liabilities		105,471		92,883
Long-term debt, less current portion		90,473		103,621
Shareholders' equity:				
Series A preferred stock, 1/10th vote per share; $1.00 par value;		1		1

liquidation preference of $100 per share ($112 at June 30, 2011); 1,122 shares designated, issued and outstanding				
Series B convertible preferred stock, 1/10th vote per share; $.0001 par value; $100 stated value; liquidation preference of $100 per share ($1,500 at June 30, 2011); 15,000 shares designated, issued and outstanding		-		15
Common stock, $0.01 par value, 100,000,000 shares authorized; 14,105,360 in 2011 and 14,079,608 in 2010 shares outstanding		141		140
Paid-in capital		73,320		72,616
Retained earnings		65,255		51,348
Total shareholders' equity		138,717		124,120
Total liabilities and shareholders' equity	$	334,661	$	320,624

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Sales	$ 197,675	$ 167,292	$ 380,762	$ 314,284
Cost of sales	140,410	119,389	271,070	224,426
Gross profit	57,265	47,903	109,692	89,858
Selling, general and administrative expense	43,634	38,774	84,519	73,982
Operating income	13,631	9,129	25,173	15,876
Other income	15	11	36	214
Interest expense	(1,023)	(1,604)	(2,045)	(2,598)
Income before income taxes	12,623	7,536	23,164	13,492
Provision for income taxes	5,013	2,952	9,211	5,316
Net income	7,610	4,584	13,953	8,176
Preferred stock dividend	(22)	(22)	(45)	(45)
Net income attributable to common shareholders	$ 7,588	$ 4,562	$ 13,908	$ 8,131
Basic income per share	$ 0.53	$ 0.33	$ 0.97	$ 0.60
Weighted average common shares outstanding	14,327	13,938	14,303	13,551
Diluted income per share	$ 0.50	$ 0.31	$ 0.92	$ 0.57
Weighted average common and common equivalent shares outstanding	15,167	15,198	15,143	14,615

See notes to condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30	
	2011	2010
OPERATING ACTIVITIES:		
Net income	$ 13,953	$ 8,176
Adjustments to reconcile net income to net cash provided		
by operating activities – net of acquisitions and divestitures		
Depreciation	1,732	1,885
Amortization of intangibles	3,210	2,819
Compensation expense for restricted stock	601	554
Tax benefit related to exercise of stock options and vesting of restricted stock	(97)	(250)
Deferred income taxes	1,908	(173)
Gain on sale of property and equipment	-	(188)
Changes in operating assets and liabilities, net of		
assets and liabilities acquired in business combinations:		
Trade accounts receivable	(14,944)	(8,830)
Inventories	(1,775)	9,336
Prepaid expenses and other current assets	(1,479)	(1,362)
Accounts payable and accrued expenses	13,161	8,525
Net cash provided by operating activities	16,270	20,492
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,631)	(384)
Purchase of businesses, net of cash acquired	-	(10,965)
Conversion of convertible notes to common stock	-	4,500
Proceeds from the sale of business	-	1,428
Net cash used in investing activities	(2,631)	(5,421)
CASH FLOWS FROM FINANCING ACTIVITIES:		

Proceeds from debt		104,135		45,098
Principal payments on revolving line of credit and other long-term debt		(117,456)		(58,816)
Dividends paid in cash		(45)		(45)
Proceeds from exercise of stock options		-		125
Issuance of common stock		-		10
Tax benefit related to exercise of stock options and vesting of restricted stock		97		250
Net cash used in financing activities		(13,269)		(13,378)
INCREASE IN CASH		370		1,693
CASH AT BEGINNING OF PERIOD		770		2,344
CASH AT END OF PERIOD	$	1,140	$	4,037

Purchase of businesses and proceeds from debt exclude $14 of common stock and convertible notes issued in connection with an acquisition during 2010.

See notes to condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	2011	2010	2011	2010
Net income	$ 7,610	$ 4,584	$ 13,953	$ 8,176
Gain from interest rate swap, net of income taxes	-	-	-	26
Comprehensive income	$ 7,610	$ 4,584	$ 13,953	$ 8,202

See notes to consolidated condensed 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, 2010, filed with the Securities and Exchange Commission.

NOTE 2: THE COMPANY

DXP Enterprises, Inc., a Texas corporation, was incorporated on July 26, 1996, to be the successor to SEPCO Industries, Inc.. DXP Enterprises, Inc. and its subsidiaries ("DXP" or the "Company") is engaged in the business of distributing maintenance, repair and operating ("MRO") products, equipment and service to industrial customers. The Company is organized into three segments: Service Centers, Supply Chain Services ("SCS") and Innovative Pumping Solutions ("IPS"). See Note 8 for discussion of the business segments.

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board ("FASB") issued new standards for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the manner in which the arrangement consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards were adopted in the first quarter of 2011. The adoption of these new standards did not significantly impact our consolidated financial statements.

NOTE 4: STOCK-BASED COMPENSATION

Stock Options

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. As of January 1, 2011, no options were outstanding.

Restricted Stock.

Under the 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 restricted stock granted to employees as of June 30, 2011 vest 100% one year after date of grant, 33.3% each year for three years after date of grant, 20% each year for five years after the grant date or 10% each year for ten 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 the number of whole shares calculated by dividing $75,000 by the closing price of the common stock on such July 1. The shares of restricted stock granted to non-employee directors of DXP 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 June 30, 2011:

Number of shares authorized for grants	600,000
Number of shares granted	(557,262)
Number of shares forfeited	60,176
Number of shares available for future grants	102,914
Weighted-average grant price of granted shares	$16.15

Changes in restricted stock for the six months ended June 30, 2011 were as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested at December 31, 2010	180,056	$ 16.15
Granted	62,600	$ 22.11
Forfeited	(125)	$ 17.54
Vested	(25,752)	$ 11.74
Non-vested at June 30, 2011	216,779	$ 18.39

Compensation expense, associated with restricted stock, recognized in the six months ended June 30, 2011 and 2010 was $601,000 and $554,000, respectively. Unrecognized compensation expense under the Restricted Stock Plan was $3,200,000 and $2,423,000 at June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 36 months.

NOTE 5: INVENTORY

The carrying values of inventories are as follows (in thousands):

	June 30, 2011	December 31, 2010
Finished goods	$ 73,744	$ 73,421
	3,918	2,466

Work in process		
Inventories	$ 77,662	$ 75,887

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill and other intangibles during the six months ended June 30, 2011 are as follows (in thousands):

	Total	Goodwill	Other Intangibles
Balance as of December 31, 2010	$ 117,178	$ 84,942	$ 32,236
Acquired during the year	-	-	-
Payment of earn out	1,000	1,000	-
Amortization	(3,210)	-	(3,210)
Balance as of June 30, 2011	$114,968	$ 85,942	$ 29,026

A summary of amortizable intangible assets follows (in thousands):

	As of June 30, 2011		As of December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Vendor agreements	$ 2,496	$ 894	$ 2,496	$ (831)
Customer relationships	47,363	20,302	47,363	(17,237)
Non-compete agreements	1,980	1,617	1,980	(1,535)
Total	$ 51,839	$ 22,813	$ 51,839	$ (19,603)

Other intangible assets are generally amortized on a straight line basis over the useful lives of the assets.

NOTE 7. 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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Basic:				
Weighted average shares outstanding	14,327,266	13,938,437	14,303,209	13,550,871
Net income	$ 7,610,000	$ 4,584,000	$ 13,953,000	$ 8,176,000
Convertible preferred stock dividend	(22,000)	(22,000)	(45,000)	(45,000)
Net income attributable to common shareholders	$ 7,588,000	$ 4,562,000	$ 13,908,000	$ 8,131,000
Per share amount	$ 0.53	$ 0.33	$ 0.97	$ 0.60
Diluted:				
Weighted average shares outstanding	14,327,266	13,938,437	14,303,209	13,550,871
Net effect of dilutive stock options – based on the treasury stock method	-	253	-	14,438
Assumed conversion of convertible notes	-	419,603	-	209,802
Assumed conversion of convertible preferred stock	840,000	840,000	840,000	840,000

Total		15,167,266		15,198,293		15,143,209		14,615,111
Net income attributable to common shareholders	$	7,588,000	$	4,562,000	$	13,908,000	$	8,131,000
Interest on convertible notes, after income taxes		-		95,000		-		95,000
Convertible preferred stock dividend		22,000		22,000		45,000		45,000
Net income for diluted earnings per share	$	7,610,000	$	4,679,000	$	13,953,000	$	8,271,000
Per share amount	$	0.50	$	0.31	$	0.92	$	0.57

NOTE 8: SEGMENT REPORTING

The Service Centers segment is engaged in providing maintenance, repair and operating products, equipment and integrated services, including logistics capabilities, to industrial customers. The Service Centers segment provides a wide range of MRO products in the rotating equipment, bearing, power transmission, hose, fluid power, industrial supply and safety products and services categories. The Innovative Pumping Solutions segment fabricates and assembles custom-made engineered pump packages. The Supply Chain Services segment manages all or part of customer supply chains, including inventories.

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 for the periods indicated:

	Three Months ended June 30,				Six Months ended June 30			
	Service Centers	Innovative Pumping Solutions	Supply Chain Services	Total	Service Centers	Innovative Pumping Solutions	Supply Chain Services	Total
2011								
Sales	$ 139,503	$ 21,814	$ 36,358	$ 197,675	$271,054	$38,499	$71,209	$380,762
Operating income for reportable segments	17,340	3,085	2,136	22,561	32,121	5,943	4,050	42,114
2010								
Sales	$ 117,090	$ 18,745	$ 31,457	$ 167,292	$220,385	$31,022	$62,877	$314,284
Operating income for reportable segments	14,069	2,260	1,520	17,849	23,540	4,779	3,542	31,861

A reconciliation of operating income for reportable segments to the consolidated income before taxes is as follows for the periods indicated (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Operating income for reportable segments	$ 22,561	$ 17,849	$ 42,114	$ 31,861
Adjustment for:				
Amortization of intangibles	1,604	1,520	3,210	2,819
Corporate and other expense, net	7,326	7,200	13,731	13,166
Total operating income	13,631	9,129	25,173	15,876
Interest expense, net	1,023	1,604	2,045	2,598
Other expense (income), net	(15)	(11)	(36)	(214)
Income before income taxes	$ 12,623	$ 7,536	$ 23,164	$ 13,492

NOTE 9. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Effective January 1, 2008, DXP adopted authoritative guidance for financial assets and liabilities measured on a recurring basis. This authoritative guidance applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Fair value, as defined in the authoritative guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance affects the fair value measurement of an interest rate swap to which the Company was a party until January 11, 2010, which must be classified in one of the following categories:

Level 1 Inputs

These inputs come from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs

These inputs are other than quoted prices that are observable for an asset or liability. These inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs

These are unobservable inputs for the asset or liability which require the Company's own assumptions.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following presents the changes in Level 3 liabilities for the three months and six months ended June 30, 2011 and 2010 (in thousands):

	Interest Rate Swap	
	2011	2010
Three Months Ended June 30		
Fair value at January 1	-	-
Realized and unrealized gains (losses) included in other comprehensive income	-	-
Fair value at June 30	-	-
Six Months Ended June 30		
Fair value at January 1	-	(42)
Realized and unrealized gains (losses) included in other comprehensive income	-	42
Fair value at June 30	-	-

To hedge a portion of our floating rate debt, as of January 10, 2008, DXP entered into an interest rate swap agreement with the lead bank of our credit facility. Through January 11, 2010, this interest rate swap effectively fixed the interest rate on $40 million of floating rate LIBOR borrowings under the Facility at one-month LIBOR of 3.68% plus the margin in effect under our credit facility. This swap was designated as a cash flow hedging instrument. Changes in the fair value of the swap were included in other comprehensive income. At December 31, 2010 and June 30, 2011, the accumulated derivative loss, net of income taxes, was zero.

NOTE 10: ACQUISITIONS

On April 1, 2010, DXP acquired substantially all of the assets of Quadna, Inc ("Quadna"). On December 1, 2010, DXP acquired substantially all of the assets of D&F Distributors, Inc. ("D&F"). The pro-forma results of operations for the Company on a consolidated basis for the three months and six months ended June 30, 2010 assuming the purchases were completed as of January 1, 2010 follows (in thousands, except per share data):

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Net sales	$172,927	$338,366
Net income	4,906	9,210
Per share data		
Basic earnings	$0.35	$0.68
Diluted earnings	$0.33	$0.65

NOTE 11: SUBSEQUENT EVENTS

In May 2009, the FASB issued authoritative guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The authoritative guidance provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company evaluated subsequent events through the date this report was filed with the SEC.

Effective July 25, 2011 DXP entered into a Second Amendment to Credit Facility with Wells Fargo Bank, National Association (the "Facility"). The Second Amendment reduced interest rates; deleted the Senior Leverage Ratio; increased the maximum leverage ratio to not greater than 4.00 to 1.00 as of the last day of each quarter; allows DXP to purchase, redeem and retire equity for aggregate consideration not exceeding $5.0 million; and modified covenants to increase DXP's ability to complete future acquisitions. The term loan was repaid using funds from the $150 million line of credit. The Facility provides the option of interest at LIBOR plus a margin ranging from 1.25% to 2.75%, or prime plus a margin of minus 0.25% to 1.25%. Commitment fees of 0.15% to 0.40% per annum are payable on the portion of the Facility capacity not in use for borrowings or letters of credit at any given time. The asset test is defined under the Facility as the sum of 90% of the Company's net accounts receivable, 65% of net inventory, and 50% of the net book value of non real estate property and equipment. The Facility expires on July 25, 2016.

NOTE 12: SHAREHOLDERS' EQUITY

On July 26, 2011 DXP (i) reduced the number of shares designated as Series A Preferred Stock from 1,000,000 shares to 1,122 shares (which is the number of shares of Series A Preferred Stock outstanding) and returned the remaining 998,878 shares to the status of undesignated Preferred Stock, (ii) reduced the number of shares designated as Series B Preferred Stock from 1,000,000 shares to 15,000 shares (which is the number of shares of Series B Preferred Stock outstanding) and returned the remaining 985,000 shares to the status of undesignated Preferred Stock, (iii) reduced the par value per share of the Series B Preferred Stock and undesignated Preferred Stock from $1.00 per share to $0.0001 per share. The total number of shares of stock of all classes which DXP has authority to issue is 110,000,000 of which 100,000,000 shares with a par value of $0.01 per share shall be designated common stock and 10,000,000 shares shall be designated serial preferred stock. The Preferred Stock may be divided into and issued in one or more series. Of the 10,000,000 authorized shares of Preferred Stock, (i) 1,122 shares have been designated as Series A Preferred Stock with a par value per share of $1.00, (ii) 15,000 shares have been designated as Series B Preferred Stock with a par value per share of $0.0001 and (iii) 9,983,878 shares with a par value per share of $0.0001 are available for future designation as provided herein.

ITEM 2: MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Report”) contains statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Such statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “estimates”, “will”, “should”, “pl “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and 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, our ability to affect our internal growth strategy, general economic and business conditions, developments in technology, our ability to effectively integrate businesses we may acquire, 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.. Unless the context otherwise requires, references in this Report to the "Company", "DXP", “We” or “Our” shall mean DXP Enterprises, Inc., a Texas corporation, together with its subsidiaries.

RESULTS OF OPERATIONS

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011	%	2010	%	2011	%	2010	%
Sales	$197,675	100.0	$167,292	100.0	$380,762	100.0	$314,284	100.0
Cost of sales	140,410	71.0	119,389	71.4	271,070	71.2	224,426	71.4
Gross profit	57,265	29.0	47,903	28.6	109,692	28.8	89,858	28.6
Selling, general and administrative expense	43,634	22.1	38,774	23.1	84,519	22.2	73,982	23.5
Operating income	13,631	6.9	9,129	5.5	25,173	6.6	15,876	5.1
Interest expense	(1,023)	(0.5)	(1,604)	(1.0)	(2,045)	(0.5)	(2,598)	(0.8)
Other income	15	-	11	-	36	-	214	-
Income before income taxes	12,623	6.4	7,536	4.5	23,164	6.1	13,492	4.3
Provision for income taxes	5,013	2.5	2,952	1.8	9,211	2.4	5,316	1.7
Net income	$ 7,610	3.9	$ 4,584	2.7	$ 13,953	3.7	8,176	2.6
Per share amounts								
Basic earnings per share	$ 0.53		$ 0.33		$ 0.97		$0.60	
Diluted earnings per share	$ 0.50		$ 0.31		$ 0.92		$0.57	

Three Months Ended June 30, 2011 compared to Three Months Ended June 30, 2010

SALES. Sales for the quarter ended June 30, 2011 increased $30.4 million, or 18.2%, to approximately $197.7 million from $167.3 million for the same period in 2010. Sales by D&F, acquired December 1, 2010, accounted for $6.6 million of second quarter 2011 sales. Excluding D&F sales, sales for the second quarter of 2011 increased 14.2% from 2010. Sales for the Service Centers segment increased $22.4 million, or 19.1%. Excluding D&F 2011 Service Centers segment sales of $6.6 million, Service Centers segment sales for the second quarter of 2011 increased 13.5% from 2010. This sales increase is primarily due to improvement in the U.S. economy. Sales for the Supply Chain Services segment increased by $4.9 million, or 15.6%, for the current quarter when compared to the same period in 2010. The sales increase partially resulted from sales to customers which had been added since the second quarter of 2010. Sales for the Innovative Pumping Solutions segment increased by $3.1 million, or 16.4%, for the current quarter when compared to the same period in 2010. The sales increase resulted from the improvement in the economy and the associated increase in capital spending by our customers.

GROSS PROFIT. Gross profit as a percentage of sales increased to 29.0% for the second quarter of 2011, compared to 28.6% for the same period in 2010. This increase is primarily the result of changes in product mix.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for the quarter ended June 30, 2011 increased by approximately $4.9 million when compared to the same period in 2010. A portion of the increase relates to $1.1 million of selling, general and administrative expense for D&F for 2011. Excluding D&F expenses, the increase primarily resulted from increased salaries, incentive compensation, employee benefits and travel expenses compared to 2010. As a percentage of revenue, the 2011 expense decreased to 22.1%, from 23.1% for the quarter ended June 30, 2010.

OPERATING INCOME. Operating income for the second quarter of 2011 increased 49.3% compared to the same period in 2010. Operating income for the Service Centers segment increased 23.2% primarily as a result of increased sales. Operating income for the Supply Chain Services segment increased 40.5% primarily as a result of the 15.6% increase in sales combined with selling, general and administrative expense being approximately the same in the second quarter of 2011 compared to 2010. The expense remained approximately the same despite the 15.6% sales increase primarily as the result of changes in the customer mix. Operating income for the Innovative Pumping Solutions segment increased 36.5% as a result of the 16.4% increase in sales combined with flat selling, general and administrative expense.

INTEREST EXPENSE. Interest expense for the quarter ended June 30, 2011 decreased 36% from the same period in 2010. This decrease primarily resulted from a reduction in the average debt outstanding compared to the 2010 period.

Six Months Ended June 30, 2011 compared to Six Months Ended June 30, 2010

SALES. Sales for the six months ended June 30, 2011 increased $66.5 million, or 21.2%, to approximately $380.8 million from $314.3 million for the same period in 2010. First quarter 2011 sales by Quadna, acquired April 1, 2010 and first half 2011 sales by D&F, acquired December 1, 2010, accounted for $25.3 million of 2011 sales. Excluding the Quadna and D&F sales, sales for the six months ended June 30, 2011 increased 13.1%. Sales for the Service Centers segment increased $50.7 million, or 23.0%. Excluding $9.1 million of first quarter 2011 Quadna Service Centers segment sales and first half of 2011 sales by D&F of $12.9 million, Service Centers segment sales for the six months ended June 30, 2011 increased 13.0% from the same period for 2010. This sales increase is primarily due to improvement in the industrial portion of the U.S. economy. Sales for the SCS segment increased by $8.3 million, or 13.3%, for the current six months when compared to the same period in 2010. The sales increase partially resulted from sales to customers which have been added since the second quarter of 2010. Sales for the IPS segment increased by $7.5 million, or 24.1%, for the current six months when compared to the same period in 2010. Excluding first quarter 2011 Quadna IPS sales of $3.3 million, IPS sales for the first half of 2011 increased 13.5% from the first half of 2010. The sales increase resulted from the increase in capital spending by our customers.

GROSS PROFIT. Gross profit as a percentage of sales increased to approximately 28.8% for the first half of 2011 from 28.6% for the same period in 2010. This increase is primarily the result of changes in product mix.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense for the six months ended June 30, 2011 increased by approximately $10.5 million, or 14.2%, when compared to the same period in 2010. Selling, general and administrative expense for Quadna for the first quarter of 2011 and D&F for the six months ended June 30, 2011 was $4.5 million. Excluding the Quadna and D&F expenses, the increase primarily resulted from increased salaries, incentive compensation and employee benefits. As a percentage of revenue, the 2011 expense decreased to 22.2%, from 23.5% for the six months ended June 30, 2010. This decrease primarily resulted from sales increasing 21.2% and expenses increasing only 14.2%.

OPERATING INCOME. Operating income for the first six months of 2011 increased 58.6% compared to the same period in 2010. Operating income for the Service Centers segment increased 36.5%, primarily as a result of the 23.0% increase in sales combined with an increase in gross profit as a percentage of sales. Operating income for the SCS segment increased 14.3%, primarily as a result of the 13.3% increase in sales for this segment. Operating income for the IPS segment increased 24.4% as a result of the 24.1% increase in sales for this segment.

INTEREST EXPENSE. Interest expense for the six months ended June 30, 2011 decreased by 21.3% from the same period in 2010. This decrease primarily resulted from a reduction in the average debt outstanding compared to the 2010 period.

LIQUIDITY AND CAPITAL RESOURCES

General Overview

As a distributor of MRO products, equipment and services, 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 generated $16.3 million of cash in operating activities during the first six months of 2011 as compared to generating $20.5 million during the first six months of 2010. This change between the two periods was primarily attributable to the $1.8 million increase in inventories in the 2011 period compared to the $9.3 million decrease in inventories in the 2010 period.

During the first six months of 2011, the amount available to be borrowed under our credit agreement with our bank lender (the "Facility") increased from $50.0 million at December 31, 2010 to $71.6 million at June 30, 2011. This increase in availability primarily resulted from the $13.3 million reduction in outstanding debt combined with the increase in accounts receivable and inventories which increased the amount available under the asset test.

On August 28, 2008, DXP entered into a credit agreement with Wells Fargo Bank, National Association, as lead arranger and administrative agent for the lenders (the "Facility). The Facility was amended on March 15, 2010. The March 15, 2010 amendment to the Facility significantly increased the interest rates and commitment fees applicable at various leverage ratios from levels in effect before March 15, 2010. The Facility consists of a $50 million term loan and a revolving credit facility that provides a $150 million line of credit to the Company. The term loan requires principal payments of $2.5 million per quarter beginning on December 31, 2008. The Facility matures on August 11, 2013. 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 and certain month ends for the asset test. The asset test is defined under the Facility as the sum of 85% of the Company's net accounts receivable, 60% of net inventory, and 50% of the net book value of non real estate property and equipment. The Company's borrowing and letter of credit capacity under the revolving credit portion of the Facility at any given time is $150 million less borrowings under the revolving credit portion of the facility and letters of credit outstanding, subject to the asset test described above.

On June 30, 2011, the LIBOR based rate on the revolving credit portion of the Facility was LIBOR plus 2.5%, the prime based rate on the revolving credit portion of the Facility was prime plus 1.5%, the commitment fee was 0.375%, the LIBOR based rate for the term loan was LIBOR plus 3.0% and the prime based rate for the term loan was prime plus 2.00%. At June 30, 2011, $95.5 million was borrowed under the Facility at a weighted average interest rate of approximately 2.8% under the LIBOR options and $1.2 million was borrowed at 4.75% under the prime option. The revolving credit portion of the Facility provides the option of interest at LIBOR plus a margin ranging from 2.25% to 4.00% or prime plus a margin of 1.25% to 3.00%. Commitment fees of 0.25% to 0.625% per annum are payable on the portion of the Facility capacity not in use for borrowings or letters of credit at any given time. The term loan provides the option of interest at LIBOR plus a margin ranging from 2.75% to 4.50% or prime plus a margin of 1.75% to 3.50%. Borrowings under the Facility are secured by all of the Company's accounts receivable, inventory, general intangibles and non real estate property and equipment. At June 30, 2011, we had $71.6 million available for borrowing under the Facility.

The Facility's principal financial covenants include:

Fixed Charge Coverage Ratio –The Facility requires that the Fixed Charge Coverage Ratio for the 12 month period ending on the last day of each quarter be not less than 1.50 to 1.0 with "Fixed Charge Coverage Ratio" defined as the ratio of (a) EBITDA for the 12 months ending on such date minus cash taxes, minus Capital Expenditures for such period (excluding acquisitions) to (b) the aggregate of interest expense paid in cash, scheduled principal payments in respect of long-term debt and current portion of capital leases for such 12-month period, determined in each case on a consolidated basis for DXP and its subsidiaries. At June 30, 2011, the Company's Fixed Charge Coverage Ratio was 2.84.

Leverage Ratio – The Facility requires that the Company's Leverage Ratio, determined at the end of each fiscal quarter, not exceed 3.25 to 1.0 as of the last day of each quarter. The Leverage Ratio is defined as the outstanding Indebtedness divided by EBITDA for the 12 months then ended. At June 30, 2011, the Company's Leverage Ratio was 1.76 to 1.00. The Facility requires that the Company's Senior Leverage Ratio, determined at the end of each fiscal quarter, not exceed 2.75 to 1.0 as of the last day of each fiscal quarter. The Senior Leverage Ratio is defined as the outstanding Indebtedness, minus the aggregate amount of all Subordinated Debt, divided by EBITDA for the 12 months then ended. At June 30, 2011, the Company's Senior Leverage Ratio was 1.71 to 1.00. Indebtedness is defined under the Facility for financial covenant purposes as: (a) all obligations of DXP for borrowed money including but not limited to senior bank debt, senior notes and subordinated debt; (b) capital leases; (c) issued and outstanding letters of credit; and (d) contingent obligations for funded indebtedness. Subordinated Debt is defined under the Facility for financial covenant purposes as Indebtedness which has been subordinated on terms and conditions satisfactory to the Lenders.

The following are computations of the Leverage Ratio and the Senior Leverage Ratio as of June 30, 2011 (in thousands, except for ratios):

For the Twelve Months ended June 30, 2011	Senior Leverage Ratio	Leverage Ratio
Income before taxes	$41,804	$41,804
Interest expense	4,655	4,655
Depreciation and amortization	9,806	9,806
Stock compensation expense	1,020	1,020
Pro forma acquisition EBITDA	1,207	1,207
Reduction of closed locations accrual	(407)	(407)
(A) Defined EBITDA	$58,085	$58,085
As of June 30, 2011		
Total long-term debt	$101,230	$101,230
Letters of credit outstanding	933	933
Less: Subordinated Debt	(2,610)	-
Defined Indebtedness	$99,553(B)	$102,163(C)
Senior Leverage Ratio (B)/(A)	1.71	
Leverage Ratio (C)/(A)		1.76

EBITDA as defined under the Facility for financial covenant purposes means, without duplication, for any period the consolidated net income (excluding any extraordinary gains or losses) of DXP plus, to the extent deducted in calculating consolidated net income, depreciation, amortization, other non-cash items and non-recurring items (including, without limitation, impairment charges, or asset write-offs and accruals in respect of closed locations), interest expense, and tax expense for taxes based on income and minus, to the extent added in calculating consolidated net income, any non-cash items and non-recurring items; provided that, if DXP acquires the equity interests or assets of any person during such period under circumstances permitted under the Facility, EBITDA shall be adjusted to give pro forma effect to such acquisition assuming that such transaction had occurred on the first day of such period and provided further that, if DXP divests the equity interests or assets of any person during such period under circumstances permitted under this Facility, EBITDA shall be adjusted to give pro forma effect to such divestiture assuming that such transaction had occurred on the first day of such period. Add-backs allowed pursuant to Article 11, Regulation S-X, of the Securities Act of 1933, as amended, will also be included in the calculation of EBITDA.

Borrowings

	June 30, 2011	December 31, 2010	Increase (Decrease)
	(in Thousands)		
Current portion of long-term debt	$ 10,757	$ 10,930	$ (173)
Long-term debt, less current portion	90,473	103,621	(13,148)
Total long-term debt	$ 101,230	$ 114,551	$ (13,321) (2)
Amount available	$ 71,589	$ 50,020(1)	$ 21,569 (3)

(1) Represents amount available to be borrowed at the indicated date under the Facility.
(2) The funds used to reduce debt were obtained from operations.
(3) The $21.6 million increase in the amount available is primarily a result of the $13.3 million reduction in the amount of debt outstanding combined with the increase in accounts receivable and inventories which increased the amount available under the asset test.

Performance Metrics

	June 30,		Increase
	2011	2010	(Decrease)
	(in Days)		
Days of sales outstanding	56.8	54.6	2.2
Inventory turns	7.0	6.7	0.3

Accounts receivable days of sales outstanding were 56.8 days at June 30, 2011 compared to 54.6 days at June 30, 2010. The increase resulted primarily from a change in customer mix which resulted in slower collection of accounts receivable. Annualized inventory turns were 7.0 at June 30, 2011 and 6.7 at June 30, 2010. The increase in inventory turns resulted from the increase in sales.

Funding Commitments

We believe our cash generated from operations and available under our 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.

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 collectability, inventory valuations, income taxes, self-insured liability claims and self-insured medical claims. Actual results could differ from those estimates. 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.

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