EATON CORP
Form 10-Q
April 24, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2012
Commission file number 1-1396
EATON CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	34-0196300
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
Eaton Center, Cleveland, Ohio	44114-2584
(Address of principal executive offices)	(Zip Code)

(216) 523-5000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year if changed since last report)

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 þ No o
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 þ No o
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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
There were 336.5 million Common Shares outstanding as of March 31, 2012.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EATON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31	
(In millions except for per share data)	2012	2011
Net sales	$3,960	$3,803
Cost of products sold	2,754	2,682
Selling and administrative expense	702	665
Research and development expense	105	105
Interest expense-net	28	32
Other expense (income)-net	3	(16)
Income before income taxes	368	335
Income tax expense	57	49
Net income	311	286
Adjustment for net loss for noncontrolling interests	—	1
Net income attributable to Eaton common shareholders	$311	$287
Net income per common share		
Diluted	$0.91	$0.83
Basic	0.93	0.84
Weighted-average number of common shares outstanding		
Diluted	339.8	345.7
Basic	335.4	340.1
Cash dividends paid per common share	$0.38	$0.34

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

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EATON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31	
(In millions)	2012	2011
Net income	$311	$286
Adjustment for net loss for noncontrolling interests	—	1
Net income attributable to Eaton common shareholders	311	287
Other comprehensive income (loss), net of tax		
Foreign currency translation and related hedging instruments	172	217
Pensions and other postretirement benefits	38	16
Cash flow hedges	16	(1)
Other comprehensive income	226	232
Adjustment for other comprehensive income for noncontrolling interests	—	(1)
Other comprehensive income attributable to Eaton common shareholders	226	231
Total comprehensive income attributable to Eaton common shareholders	$537	$518

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

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EATON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	March 31, 2012		December 31, 2011
Assets			
Current assets			
Cash	$	367	$385
Short-term investments	444		699
Accounts receivable-net	2,588		2,444
Inventory	1,779		1,701
Other current assets	704		597
Total current assets	5,882		5,826
Property, plant and equipment-net	2,660		2,602
Other noncurrent assets			
Goodwill	5,605		5,537
Other intangible assets	2,192		2,192
Deferred income taxes	1,057		1,134
Other assets	597		582
Total assets	$	17,993	$17,873
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt	$	86	$86
Current portion of long-term debt	319		321
Accounts payable	1,530		1,491
Accrued compensation	297		420
Other current liabilities	1,333		1,319
Total current liabilities	3,565		3,637
Noncurrent liabilities			
Long-term debt	3,345		

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

DXP Enterprises, Inc., and Subsidiaries

Houston, Texas

We have audited the accompanying consolidated balance sheets of DXP Enterprises, Inc. and Subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DXP Enterprises, Inc., and Subsidiaries at December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of DXP Enterprises, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2006, based on *criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* and our report dated March 16, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R "Share-Based Payment", during the year ended December 31, 2006.

/s/ HEIN & ASSOCIATES LLP

Houston, Texas

March 16, 2007

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2006 based on criteria established by *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework").* The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's independent registered public accountants that audited the Company's financial statements as of December 31, 2006 have issued an attestation report on management's assessment of the Company's internal control over financial reporting, which appears on page 20.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The Company's assessment of the effectiveness of its internal control over financial reporting included testing and evaluating the design and operating effectiveness of its internal controls. In management's opinion, the Company has maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in the COSO Framework.

/s/ David R. Little

/s/ Mac McConnell

David R. Little Mac McConnell

Chairman of the Board and Senior Vice President/Finance and

Chief Executive Officer Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

DXP Enterprises, Inc., and Subsidiaries

Houston, Texas

We have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that DXP Enterprises, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). DXP Enterprises, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assessment that DXP Enterprises, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects based on the COSO criteria. Also, in our opinion, DXP Enterprises, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of DXP Enterprises, Inc., as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of DXP Enterprises, Inc. and our report dated March 16, 2007 expressed an unqualified opinion thereon.

/s/ HEIN & ASSOCIATES LLP

Houston, Texas

March 16, 2007

DXP ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

	December 31,		
	2005		2006
ASSETS			
Current assets:			
Cash	$ 570		$ 2,544
Trade accounts receivable, net of allowances for doubtful accounts			
of $1,835 in 2005 and $1,482 in 2006	29,279		40,495
Inventories, net	22,811		37,310
Prepaid expenses and other current assets	541		652
Federal income taxes recoverable	2,033		1,042
Deferred income taxes	968		1,087
Total current assets	56,202		83,130
Property and equipment, net	8,752		9,944
Goodwill	7,436		16,964
Other intangibles, net of accumulated amortization of $538 in 2006	-		6,464
Other assets	530		305
Total assets	$ 72,920		$ 116,807
LIABILITIES AND SHAREHOLDERS' EQUITY			

Current liabilities:			
Current portion of long-term debt	$ 1,358		$ 2,771
Trade accounts payable	15,919		25,706
Accrued wages and benefits	5,012		6,490
Customer advances	2,209		3,924
Federal income taxes payable	214		-
Other accrued liabilities	3,365		4,770
Total current liabilities	28,077		43,661
Long-term debt, less current portion	25,109		35,174
Deferred income taxes	115		2,242
Minority interest in consolidated subsidiary	30		12
Commitments and contingencies (Note 9)			
Shareholders' equity:			
Series A preferred stock, 1/10th vote per share; $1.00 par value; liquidation preference of $100 per share ($112 at December 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 December 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;	48		51

4,795,402 and 5,124,134 shares issued and outstanding, respectively.			
Paid-in capital	1,894		6,147
Retained earnings	18,471		30,303
Note receivable from David R. Little, CEO	(840)		(799)
Total shareholders' equity	19,589		35,718
Total liabilities and shareholders' equity	$ 72,920		$ 116,807

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

	Years Ended December 31,				
	2004		2005		2006
Sales	$ 160,585		$ 185,364		$ 279,820
Cost of sales	121,154		135,650		201,198
Gross profit	39,431		49,714		78,622
Selling, general and administrative expense	34,222		40,310		57,944
Operating income	5,209		9,404		20,678
Other income	60		56		651
Interest expense	(924)		(1,000)		(1,943)
Minority interest in loss of consolidated subsidiary	39		155		18
Income before provision for income taxes	4,384		8,615		19,404
Provision for income taxes	1,604		3,148		7,482

Net income	2,780		5,467		11,922
Preferred stock dividend	(90)		(90)		(90)
Net income attributable to common shareholders	$ 2,690		$ 5,377		$ 11,832
Per share and share amounts					
Basic earnings per common share	$ 0.67		$ 1.24		$ 2.34
Common shares outstanding	4,027		4,349		5,063
Diluted earnings per share	$ 0.50		$ 0.94		$ 2.08
Common and common equivalent shares outstanding	5,509		5,789		5,732

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2004, 2005 and 2006

(In Thousands, Except Share Amounts)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Notes Receivable From Share-holders
BALANCES AT DECEMBER 31, 2003	$ 1	$ 18	$ 41	$2,841	$10,404	$(1,897)	$(1,332)
Collections on notes receivable	-	-	-	-	-	-	27
Dividends paid	-	-	-	-	(90)	-	-
Purchase of 359,588 shares of common stock	-	-	-	-	-	(341)	335
Exercise of stock options for 41,000 shares of common stock	-	-	-	(352)	-	441	-
Net income	-	-	-	-	2,780	-	-
BALANCES AT	1	18	41	2,489	13,094	(1,797)	(970)

DECEMBER 31, 2004							
Collections on notes receivable	-	-	-	-	-	-	40
Dividends paid	-	-	-	-	(90)	-	-
Cancellation of Series B Preferred Stock in Treasury	-	(3)	-	(267)	-	270	-
Purchase of 6,500 shares of common stock	-	-	-	-	-	(95)	90
Exercise of stock options for 1,122,175 shares of common stock	-	-	7	(328)	-	1,622	-
Net income	-	-	-	-	5,467	-	-
BALANCES AT DECEMBER 31, 2005	1	15	48	1,894	18,471	-	(840)
Collections on notes receivable	-	-	-	-	-	-	41

Dividends paid	-	-	-	-	(90)	-	-
Compensation expense for restricted stock and stock options				220			
Issuance of 23,613 shares of common stock				424			
Exercise of stock options for 305,119 shares of common stock	-	-	3	3,609	-	-	-
Net income	-	-	-	-	11,922	-	-
BALANCES AT DECEMBER 31, 2006	$ 1	$ 15	$ 51	$ 6,147	$30,303	$ -	$ (799)

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

DXP ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Years Ended December 31				
	2004		2005		2006

CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 2,780		$ 5,467		$ 11,922
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation	992		990		1,216
Amortization	-		-		538
Deferred income taxes	77		306		(103)
Compensation expense from stock options and restricted stock	-		-		220
Tax benefit related to exercise of stock options	-		-		(3,172)
Payments for employment taxes related to exercise of stock options	-		(188)		(146)
Gain on sale of property and equipment	(4)		-		(564)
Minority interest in loss of consolidated subsidiary	(39)		(155)		(18)
Changes in operating assets and liabilities, net of assets and liabilities acquired in business combinations:					
Trade accounts receivable	286		(7,650)		(7,046)
Inventories	2,150		(2,574)		(11,650)
Prepaid expenses and other assets	112		(3,089)		(2,553)
Accounts payable and accrued expenses	(1,227)		5,470		11,341
	5,127		(1,423)		(15)

Net cash provided by (used in) operating activities					
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	(1,866)		(572)		(2,363)
Purchase of businesses	-		(6,069)		(12,075)
Proceeds from the sale of property and equipment	6		937		2,181
Net cash used in investing activities	(1,860)		(5,704)		(12,257)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from debt	155,421		145,231		87,715
Principal payments on revolving line of credit, long-term debt and notes payable	(157,225)		(136,755)		(77,600)
Dividends paid in cash	(90)		(90)		(90)
Proceeds from exercise of stock options	42		874		584
Proceeds from sale of common stock	-		-		424
Payments for employee taxes related to exercise of stock options	-		(3,906)		-
Tax benefit related to exercise of stock options	-		-		3,172
Proceeds from minority interest owners of consolidated subsidiary	225		-		-
Collections on notes receivable from shareholders	27		40		41
Net cash provided by (used in) financing activities	(1,600)		5,394		14,246

(INCREASE) DECREASE IN CASH	1,667		(1,733)		1,974
CASH AT BEGINNING OF YEAR	636		2,303		570
CASH AT END OF YEAR	$ 2,303		$ 570		$ 2,544
SUPPLEMENTAL DISCLOSURES:					
Cash paid for --					
Interest	$ 860		$ 984		$ 1,844
Income taxes	$ 2,126		$ 875		$ 3,329
Cash income tax refunds	$ 16		$ 36		$ 470

Noncash activities: Financing activities exclude the exchange on March 31, 2004 of two notes receivable from Mr. Little, Chief Executive Officer, with a face value of $338,591 for 80,619 shares of DXP common stock. Changes in operating assets and liabilities exclude the $4.5 million after tax benefit of tax deductions related to stock option exercises in 2005.

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

DXP ENTERPRISES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

DXP Enterprises, Inc. and subsidiaries (DXP or the Company), a Texas corporation, was incorporated on July 26, 1996, to be the successor to SEPCO Industries, Inc. (SEPCO). The Company is organized into two segments: Maintenance, Repair and Operating (MRO) and Electrical Contracting. See Note 12 for discussion of the business segments.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Receivables and Credit Risk

Trade receivables consist primarily of uncollateralized customer obligations due under normal trade terms, which usually require payment within 30 days of the invoice date. However, these payment terms are extended in select cases and many customers do not pay within stated trade terms.

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

Inventories

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

Property and Equipment

Assets are carried on the basis of cost. Provisions for depreciation are computed at rates considered to be sufficient to amortize the costs of assets over their expected useful lives. Depreciation of property and equipment is computed using the straight-line method. Maintenance and repairs of depreciable assets are charged against earnings as incurred. Additions and improvements are capitalized. When properties are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to earnings.

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

Buildings	J0 - 39 years
Building improvements	I0 - 20 years
Furniture, fixtures and equipment	3 - 10 years
Leasehold improvements	over the shorter of the estimated useful life or the term of the related lease

Federal Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted marginal tax rates and laws that will be in effect when the differences reverse.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

A summary of the carrying and the fair value of financial instruments at December 31, 2005 and 2006 is as follows (in thousands):

	2005				2006		
	Carrying Value		Fair Value		Carrying Value		Fair Value
Cash	$ 570		$ 570		$ 2,544		$ 2,544
Note receivable from David R. Little, CEO	840		628		799		633
Long-term debt, including current portion	26,467		26,467		37,945		37,945

The carrying value of the long-term debt approximates fair value based upon the current rates and terms available to the Company for instruments with similar remaining maturities. The carrying amounts of accounts receivable and accounts payable approximate their fair values due to the short-term maturities of these instruments.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards 123(R) "*Share-Based Payment*" ("SFAS 123(R)") using the modified prospective transition method. In addition, the Securities and Exchange Commission ("SEC") 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 year ended December 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 year ended December 31, 2006 of $8,600, all of which was recorded to operating expenses. No future grants will be made under the Company's stock option plans. The Company now uses restricted stock for share-based compensation programs.

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 from 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). The Company has presented its income tax benefit from stock based compensation as a financing activity in the Consolidated Statements of Cash Flows, beginning with the 2006 amount of $3.2 million.

Prior to 2006 the Company elected to follow APB No. 25, and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 148 required the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, no compensation expense is recognized if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. No compensation expense was recognized under APB No. 25 during the two years ended December 31, 2005.

Pro forma information regarding net income and earnings per share is required by SFAS No. 148 and was determined as if the Company had accounted for its stock options under the fair value method as provided therein. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options issued in 2004 and 2005: risk-free interest rates of 4.5% for 2004 and 4.14% for 2005; expected lives of five to ten years, assumed volatility of 78% for 2004 and 75% for 2005; and no expected dividends.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Set forth below is a summary of the Company's net income and earnings per share as reported and pro forma as if the fair value-based method of accounting defined in SFAS No. 148 had been applied. The pro forma compensation expense may not be representative of future amounts because options vest over several years and generally expire upon termination of employment.

	Years Ended December 31,		
	2004		2005
	(in Thousands, except per share amounts)		
Pro forma impact of fair value method (FAS 148)			
Reported net income attributable to common shareholders	$2,690		$5,377
Less: fair value impact of employee stock compensation	(100)		(115)
Pro forma net income attributable to common shareholders	$2,590		$5,262
Earnings per common share			
Basic - as reported	$ 0.67		$ 1.24
Diluted - as reported	$ 0.50		$ 0.94
Basic - pro forma	$ 0.64		$ 1.21

Diluted - pro forma	$ 0.49		$ 0.92

Revenue Recognition

Revenues recognized include product sales and billings for freight and handling charges. The Company recognizes product sales and billings for freight and handling charges when an agreement is in place, price is fixed, title for product passes to the customer or services have been provided, and collectibility is reasonably assured. Shipping and handling costs are included in cost of sales.

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

Shipping and Handling Costs

The Company classifies shipping and handling charges billed to customers as sales. Shipping and handling charges paid to others are classified as a component of cost of sales.

Use of Estimates

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

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

Goodwill and Other Intangible Assets

Goodwill and other intangible assets attributable to our reporting units are tested for impairment by comparing the fair value of each reporting unit with its carrying value. Significant estimates used in the determination of fair value include estimates of future cash flows, future growth rates; costs of capital and estimates of market multiples. As required under current accounting standards, we test for impairment annually at year end unless factors otherwise indicate that impairment may have occurred. We did not have any impairments under the provisions of SFAS No. 142 as of December 31, 2006.

Goodwill totaled $17.0 million at December 31, 2006 and represents the excess of the Company's purchase cost over the fair value of the net assets of acquired businesses, net of previously recorded amortization and impairment expense. The net book value of other intangible assets at December 31, 2006 was $6.5 million. Other intangible assets consist primarily of the value assigned to such items as customer relationships and vendor agreements in connection with the allocation of purchase price for acquisitions under SFAS No. 142. Other intangible assets are generally amortized on a straight-line basis over periods of up to twenty years. Amortization expense totaled $0.5 million in 2006. No amortization expense was recorded in 2005 and 2004. The Company's estimated amortization expense related to purchased intangible assets other than goodwill is $0.5 million per year for the five year period from 2007 through 2011. All goodwill and other intangible assets pertain to the MRO segment.

Purchase Accounting

DXP estimates the fair value of assets, including property, machinery and equipment and its related useful lives and salvage values, and liabilities when allocating the purchase price of an acquisition.

Income Taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established to reduce deferred income tax assets to the amounts expected to be realized.

Impairment of Long-Lived Assets

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

Comprehensive Income

Comprehensive income is equal to net income.

2. NEW ACCOUNTING PRONOUNCEMENTS:

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The effective date for the Company is January 1, 2007. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. The Company is currently evaluating the impact of the adoption of FIN 48 on its Consolidated Financial Statements.

In September 2006, FASB Statement 157, "Fair Value Measurements" ("SFAS 157") was issued. SFAS 157 establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. SFAS 157, which does not require any new fair value measurements, clarifies the application of other accounting pronouncements that require or permit fair value measurements. The effective date for the Company is January 1, 2008. The Company is evaluating the impact of adopting SFAS 157 on its Consolidated Financial

Statements.

3. ACQUISITIONS

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

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

On December 1, 2005, the Company purchased 100% of R. A. Mueller, Inc. 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 revolving credit facility.

The allocation of purchase price reflected in the December 31, 2005 consolidated balance sheet was preliminary. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during 2005 reflected in the December 31, 2005 consolidated financial statements (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 initial purchase price allocation for the 2005 acquisitions was adjusted in 2006 to allocate $6.5 million of purchase price to intangibles other than goodwill and record an additional note payable of $1.0 million.

On May 31, 2006, DXP purchased the businesses of Production Pump and Machine Tech. DXP acquired these businesses to strengthen DXP's position with upstream oil and gas and pipeline customers. DXP paid approximately $8.1 million for the acquired businesses and assumed approximately $1.2 million worth of liabilities. The purchase price consisted of approximately $4.6 million paid in cash and $3.5 million in the form of promissory notes payable to the former owners of the acquired businesses. In addition, DXP may pay up to an additional $2.0 million contingent upon earnings over the next five years. The cash portion was funded by utilizing available capacity under DXP's revolving credit facility. The promissory notes, which are subordinated to DXP's revolving credit facility, bear interest at prime minus 2%.

On October 11, 2006, DXP completed the acquisition of the business of Safety International, Inc. DXP acquired this business to strengthen DXP's expertise in safety products. DXP paid $2.2 million in cash for the business of Safety International, Inc. The purchase price was funded by utilizing available capacity under DXP's revolving credit facility.

On October 19, 2006, DXP completed the acquisition of the business of Gulf Coast Torch & Regulator, Inc. DXP acquired this business to strengthen DXP's expertise in the distribution of welding supplies. DXP paid approximately $5.5 million, net of $0.5 million of acquired cash, for the business of Gulf Coast Torch & Regulator, Inc. and assumed approximately $0.2 million worth of debt. Approximately $3.5 million of the purchase price was paid in cash funded by utilizing available capacity under DXP's revolving credit facility. $2.0 million of the purchase price was paid by issuing promissory notes payable to the former owners of Gulf Coast Torch & Regulator. The promissory notes, which are subordinated to DXP's revolving credit facility, bear interest at prime minus 1.75%.

On November 1, 2006, DXP completed the acquisition of the business of Safety Alliance. DXP acquired this business to strengthen DXP's expertise in safety products. DXP paid $2.3 million in cash for the business of Safety Alliance. The purchase price was funded by utilizing available capacity under DXP's revolving credit facility.

The allocation of purchase price for all acquisitions completed in 2006 are preliminary in the December 31, 2006 consolidated balance sheet. 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 2006 (in thousands):

Cash	$ 1,018
Accounts Receivable	4,169
Inventory	2,847
Property and equipment	1,158
Goodwill and intangibles	13,512
Other assets	348
Assets acquired	23,052
Current liabilities assumed	(3,661)
	(788)

Non-current liabilities assumed	
Net assets acquired	$18,603

The pro forma unaudited results of operations for the Company on a consolidated basis for the years ended December 31, 2006 and 2005, assuming the purchases completed in 2005 and 2006 were consummated as of January 1, 2005, are as follows:

	Years Ended December 31,		
	2005		2006
	(Unaudited)		
	In Thousands, except for per share data		
Net sales	$229,162		$304,835
Net income	$ 6,544		$ 12,970
Per share data			
Basic earnings	$ 1.48		$ 2.55
Diluted earnings	$ 1.13		$ 2.26

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

	Years Ended December 31,		
	2004		2005
	(Unaudited)		
	In Thousands, except for per share data		

Net sales	$184,421		$209,568
Net income	$ 3,190		$ 6,287
Per share data			
Basic earnings	$ 0.77		$ 1.39
Diluted earnings	$ 0.57		$ 1.08

4. INVENTORIES:

The Company uses the LIFO method of inventory valuation for approximately 79 percent of its inventories. Remaining inventories are accounted for using the FIFO method. The reconciliation of FIFO inventory to LIFO basis is as follows:

	December 31,		
	2005		2006
	(in Thousands)		
Finished goods	$25,740		$39,204
Work in process	1,237		3,030
Inventories at FIFO	26,977		42,234
Less - LIFO allowance	(4,166)		(4,924)
Inventories	$22,811		$37,310

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

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

	December 31,		
	2005		2006
	(in Thousands)		
Land	$1,748		$1,809
Buildings and leasehold improvements	6,179		6,808
Furniture, fixtures and equipment	6,605		8,010
	14,532		16,627
Less - Accumulated depreciation and amortization	(5,780)		(6,683)
	$8,752		$9,944

6. LONG-TERM DEBT:

Long-term debt consisted of the following:

	December 31,		
	2005		2006
	(in Thousands)		
Line of credit	$ 18,166		$26,179
Unsecured notes payable to individuals, 3.76% to 4.17% at December 31, 2005, midterm federal rate adjusted annually, payable in monthly or quarterly installments through November 2010	455		347
Unsecured notes payable to individuals, subordinate to credit facility, 6.0%, payable in monthly installments through December 2009	3,650		3,057
Unsecured notes payable to individuals, subordinate to credit facility at variable rates at December 31, 2006 from 6.0% to 6.5% payable in	-		5,063

monthly installments through June 2011			
Mortgage loans payable to financial institutions, 6.25% collateralized by real estate, payable in monthly installments through January 2013	2,819		2,221
Note payable to a bank, floating rate at ninety day LIBOR plus 2.25%, collateralized by an airplane, payable in monthly installments through August 2009	1,377		-
Other notes	-		1,078
	26,467		37,945
Less: Current portion	(1,358)		(2,771)
	$25,109		$35,174

On August 2, 2005, the Company entered into a credit agreement (the "Facility") with Wells Fargo Bank, National Association. On June 5, 2006, the Facility was amended to increase the maximum amount available to be borrowed to $40 million from $30 million. The Facility consists of a revolving credit facility that provides a $40 million line of credit to the Company and expires on July 31, 2009.

The Company's borrowings and letters of credit outstanding under the Facility at each month-end must be less than a borrowing base measured as of the same month-end. The borrowing base is defined under the Facility as the sum of 85% of the Company's eligible accounts receivable and 55% of the value of eligible inventory, with advances against inventory at no time exceeding more than 50% of the total borrowing base. The Company's borrowing and letter of credit capacity under the Facility at any given time is $40 million less borrowings and letters of credit outstanding, subject to the borrowing base described above. The borrowing base for the Facility calculated as of December 31, 2006 exceeded $40 million. At December 31, 2006 $13.6 million was available for borrowing under the Facility.

The Facility provides for interest at LIBOR plus a margin ranging from 0.75% to 1.25% or prime minus a margin of 1.75% to 1.25%. At December 31, 2005, the LIBOR based rate was LIBOR plus 75 basis points. At December 31, 2005, and 2006 the prime based rate was prime minus 175 basis points. At December 31, 2006, $23 million was borrowed at an interest rate of 6.125% under the LIBOR option and $3.2 million was borrowed at an interest rate of 6.5% under the prime option. At December 31, 2005, $15 million was borrowed at an interest rate of 5.125% under the LIBOR option and $3.2 million was borrowed at an interest rate of 5.5% under the prime option. Commitment fees of .125% per annum are payable on the portion of the Facility capacity not in use for borrowings at any given time. Borrowings under the Facility are secured by all of the Company's accounts receivable, inventory and general intangibles.

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

Fixed Charge Coverage Ratio

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

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

The Facility prohibits the payment of dividends on the Company's common stock.

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

2007	$ 2,771
2008	3,079
2009	28,542
2010	1,364
2011	439
Thereafter	1,750
	$ 37,945

7. INCOME TAXES:

The provision for income taxes consists of the following:

	Years Ended December 31,				
	2004		2005		2006
	(in Thousands)				
Current -					
Federal					

	$ 1,505		$ 2,749		$ 6,545
State	22		93		1,040
	1,527		2,842		7,585
Deferred	77		306		(103)
	$ 1,604		$ 3,148		$ 7,482

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

	Years Ended December 31,				
	2004		2005		2006
	(in Thousands)				
Income taxes computed at federal statutory rate	$ 1,491		$ 2,929		$ 6,597
State income taxes, net of federal benefit	15		61		686
Other	98		158		199
	$ 1,604		$ 3,148		$ 7,482

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

	December 31,		
	2005		2006
	(in Thousands)		
Net current assets	$ 968		$ 1,087
Net non-current liabilities	(115)		(2,242)

Net assets (liabilities)	$ 853		$ (1,155)

Deferred tax liabilities and assets were comprised of the following:

	December 31,		
	2005		2006
	(in Thousands)		
Deferred tax assets:			
Goodwill	$ 630		$ 561
Allowance for doubtful accounts	624		519
Inventories	-		244
State net operating loss carryforwards	44		41
Accruals	414		247
Other	-		312
Total deferred tax assets	1,712		1,924
Less valuation allowance	(44)		(41)
Total deferred tax assets, net of valuation allowance	1,668		1,883
Deferred tax liabilities			
Goodwill	-		(215)
Intangibles	-		(2,262)
Inventory	(20)		-
Property and equipment	(745)		(461)
Other	(50)		(100)
Net deferred tax asset	$ 853		$ (1,155)

The Company has certain state tax net operating loss carryforwards aggregating approximately $0.7 million before tax, which expire in years 2007 through 2020. A valuation allowance has been recorded to offset the deferred tax asset related to these state tax net operating loss carryforwards. The valuation allowance represents a provision for the uncertainty as to the realization of these carryforwards. The valuation allowance decreased by $141,000, $34,000 and $3,000 in the years ended December 31, 2004, 2005 and 2006, respectively.

8. SHAREHOLDERS' EQUITY:

Series A and B Preferred Stock

The holders of Series A preferred stock are entitled to one-tenth of a vote per share on all matters presented to a vote of shareholders generally, voting as a class with the holders of common stock, and are not entitled to any dividends or distributions other than in the event of a liquidation of the Company, in which case the holders of the Series A preferred stock are entitled to a $100 liquidation preference per share. Each share of the Series B convertible preferred stock is convertible into 28 shares of common stock and a monthly dividend per share of $.50. The holders of the Series B convertible stock are also entitled to a $100 liquidation preference per share after payment of the distributions to the holders of the Series A preferred stock and to one-tenth of a vote per share on all matters presented to a vote of shareholders generally, voting as a class with the holders of the common stock. During 2003 the Company purchased and cancelled 46 shares of Series A preferred stock from an individual for $20.00 per share. During 2004 the Company cancelled 2,700 shares of Series B convertible preferred stock which had been held in treasury.

Restricted Stock

Under a restricted stock plan approved by DXP's 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 December 31, 2006 vest 20% each year for five years after the grant date. The shares of restricted stock granted to non-employee directors of DXP vest 100% one year after the grant date. Prior to July 24, 2006, the Restricted Stock Plan provided that on each July 1 during the term of the plan each non-employee director of DXP would be granted 3,000 shares of restricted stock which will vest one year after the grant date. On July 24, 2006, the Restricted Stock Plan was amended to grant to each non-employee director of DXP the number of whole shares calculated by dividing $75,000 by the closing price of the common stock on such July 1. 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 December 31, 2006:

Number of shares authorized for grants	300,000
Number of shares granted	43,698
Number of shares available for future grants	256,302
Weighted-average grant price of granted shares	$ 24.45

Changes in restricted stock for the year ended December 31, 2006 were as follows:

			Weighted

	Number Of Shares		Average Grant Price
Non-vested at December 31, 2005	-		-
Granted	43,698		$ 24.45
Non-vested at December 31, 2006	43,698		$ 24.45

At December 31, 2006, there were no shares vested under the Restricted Stock Plan. Compensation expense recognized in the year ended December 31, 2006 was $213,000. Unrecognized compensation expense under the Restricted Stock Plan was $864,000 at December 31, 2006. As of December 31, 2006, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 21.1 months.

Stock Options

The DXP Enterprises, Inc. 1999 Employee Stock Option Plan, the DXP Enterprises, Inc. Long-Term Incentive Plan and the DXP Enterprises, Inc. Director Stock Option Plan authorized the grant of options to purchase 900,000, 330,000 and 200,000 shares of the Company's common stock, respectively. In accordance with these stock option plans that were approved by the Company's shareholders, options were granted to key personnel for the purchase of shares of the Company's common stock at prices not less than the fair market value of the shares on the dates of grant. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. No future grants will be made under these stock option plans. Activity during 2004, 2005 and 2006 with respect to the stock options follows:

	Shares		Options Price Per Share	Weighted Average Exercise Price	Weighted Average Fair Value		Aggregate Intrinsic Value
Outstanding at December 31, 2003	2,097,317		$ 0.65 - $ 12.00	$1.82			
Granted at market price	30,000		$ 4.53 - $ 4.53	$4.53	$3.74		
Exercised	(41,000)		$ 1.00 - $ 1.20	$1.03			
Cancelled or expired	(362,950)		$ 1.64 - $ 12.00	$1.75			

Outstanding at December 31, 2004	1,723,367		$ 0.65 - $ 12.00	$1.90			
Granted at market price	30,000		$ 6.72 - $ 6.72	$6.72	$5.43		
Exercised	(1,122,175)		$ 0.65 - $ 12.00	$2.19			
Cancelled or expired	(9,762)		$ 12.00 - $ 12.00	$12.00			
Outstanding at December 31, 2005	621,430		$ 0.92 - $ 12.00	$2.10			
Exercised	(305,119)		$ 1.00 - $ 12.00	$1.28			
Cancelled or expired	(5,130)		$ 12.00 - $ 12.00	$12.00			
Outstanding at December 31, 2006	311,181		$ 0.92 - $ 6.72	$1.41			$10,464,000
Exercisable at December 31, 2006	302,081		$ 0.92 - $ 6.72	$1.42			$10,156,000

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 year ended December 31, 2006, was approximately $8.6 million. Cash received from stock options exercised during the year ended December 31, 2006 was $584,000.

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

Options Outstanding								Options Exercisable		
				Weighted Average						
				Remaining		Weighted				Weighted
Range of		Number		Contractual Life		Average		Number		Average
Exercise Prices		Outstanding		(in years)		Exercise Price		Exercisable		Exercise Price

$0.92 to $2.50		291,181		4.7		$ 1.12		282,081		$ 1.12
$4.53 to $6.72		10,000		7.5		4.53		10,000		4.53
$6.72 to $12.00		10,000		8.4		6.72		10,000		6.72
		311,181		4.9		1.41		302,081		1.42

The options outstanding at December 31, 2006, expire between January 2009 and May 2015. The weighted average remaining contractual life was 3.1 years, 4.9 years, and 4.9 years at December 31, 2004, 2005 and 2006, respectively.

Certain Equity Related Transactions

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

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

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

During 2004, 2005 and 2006, employees and directors of DXP exercised non-qualified stock options. DXP received a tax deduction for the amount of the difference between the exercise price and the fair market value of the shares recognized as income by the individuals exercising the options. The after tax benefit of the tax deduction is accounted for as an increase in paid-in capital. DXP issued the shares out of treasury stock for the option exercises until treasury shares were reduced to zero in 2005. During 2005, DXP withheld shares from a cashless option exercise to cover $4.1 million of employee taxes paid by DXP which were related to the cashless option exercise.

Earnings Per Share

Basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities. The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2004, 2005 and 2006.

	2004		2005		2006
	(in Thousands, except per share amounts)				
Basic:					
Basic weighted average shares outstanding	4,027		4,349		5,063
Net income	$2,780		$5,467		$11,922
Convertible preferred stock dividend	(90)		(90)		(90)
Net income attributable to common shareholders	$2,690		$5,377		$11,832
Per share amount	$ 0.67		$ 1.24		$ 2.34
Diluted:					
Basic weighted average shares outstanding	4,027		4,349		5,063
Net effect of dilutive stock options and restricted stock - based on the treasury stock method	1,062		1,020		249
Assumed conversion of convertible preferred stock	420		420		420
Total common and common equivalent shares outstanding	5,509		5,789		5,732
Net income attributable to common shareholders	$2,690		$5,377		$11,832
Convertible preferred stock dividend	90		90		90

Net income for diluted earnings per share	$2,780		$5,467		$11,922
Per share amount	$ 0.50		$ 0.94		$ 2.08

9. COMMITMENTS AND CONTINGENCIES:

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 2006, for non-cancelable leases are as follows (in thousands):

2007	$ 2,865
2008	2,678
2009	2,209
2010	1,285
2011	540
Thereafter	159
	$ 9,736

Rental expense for operating leases was $1,667,000, $1,905,000 and $2,790,000 for the years ended December 31, 2004, 2005 and 2006 respectively.

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

In 2003, DXP was notified that it had been sued in various state courts in Nueces County, Texas. The suits allege personal injury resulting from products containing asbestos allegedly sold by the Company. The suits do not specify products or the dates the Company allegedly sold the products. The plaintiffs' attorney has agreed to a global settlement of all suits for a nominal amount to be paid by the Company's insurance carriers. Settlement has been consummated as to 116 of the 133 plaintiffs, and the remaining settlements are in process. The cases are all dismissed or dormant pending the remaining settlements.

10. EMPLOYEE BENEFIT PLANS:

The Company offers a 401(k) plan which is eligible to substantially all employees. The Company has elected to match employee contributions at a rate of 50 percent of up to 4 percent of salary deferral. The Company contributed $298,000, $325,000, and $569,000 to the 401(k) plan in the years ended December 31, 2004, 2005 and 2006, respectively.

11. RELATED-PARTY TRANSACTIONS:

Prior to 2002, the Board of Directors of the Company had approved the Company making advances and loans to the CEO. During 2001, the advances and loans to the CEO were consolidated into three notes receivable, each bearing interest at 3.97 percent per annum and due December 30, 2010. Accrued interest is due annually. On March 31, 2004, DXP exchanged two of the notes receivable from the CEO, with a value of $338,591 including accrued interest, for 80,619 shares of DXP's common stock held by three trusts for the benefit of Mr. Little's children. The shares were valued at $4.20 per share, the closing market price of the common stock on March 31, 2004. The balance of the remaining note was $840,000 and $799,000 at December 31, 2005 and 2006, respectively. The note is secured by 677,267 shares of the Company's common stock. The note receivable is reflected as a reduction of shareholders' equity. The note has not been modified or amended since 2001.

12. SEGMENT DATA:

The MRO segment is engaged in providing maintenance, repair and operating products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. The Company provides a wide range of MRO products in the fluid handling equipment, bearing, power transmission equipment, general mill, safety supply and electrical products categories. The Electrical Contractor segment sells a broad range of electrical products, such as wire conduit, wiring devices, electrical fittings and boxes, signaling devices, heaters, tools, switch gear, lighting, lamps, tape, lugs, wire nuts, batteries, fans and fuses, to electrical contractors. The Company began offering electrical products to electrical contractors following its acquisition of the assets of an electrical supply business in 1998. All business segments operate in the United States.

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

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

			Electrical		
	MRO		Contractor		Total
	(in Thousands)				
2004					
Sales	$ 158,191		$ 2,394		$ 160,585
Operating income	4,941		268		5,209
Income before tax	4,271		113		4,384
Identifiable assets	46,183		2,100		48,283
Capital expenditures	1,859		7		1,866

Depreciation and amortization	961		31		992
Interest expense	774		150		924
2005					
Sales	$ 182,979		$ 2,385		$ 185,364
Operating income	9,097		307		9,404
Income before tax	8,452		163		8,615
Identifiable assets	71,321		1,599		72,920
Capital expenditures	572		-		572
Depreciation and amortization	973		17		990
Interest expense	856		144		1,000
2006					
Sales	$ 277,031		$ 2,789		$ 279,820
Operating income	20,220		458		20,678
Income before tax	19,102		302		19,404
Identifiable assets	115,570		1,237		116,807
Capital expenditures	2,363		-		2,363
Depreciation and amortization	1,745		9		1,754
Interest expense	1,787		156		1,943

13. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Summarized quarterly financial information for the years ended December 31, 2004, 2005 and 2006 is as follows:

	First		Second		Third		Fourth
	Quarter		Quarter		Quarter		Quarter
	(in millions, except per share amounts)						
2004							
Sales	$ 37.9		$ 42.1		$ 42.9		$ 37.7
Gross profit	9.6		10.1		9.9		9.8
Net income	0.7		0.7		0.7		0.6
Earnings per share - diluted	0.12		0.13		0.13		0.12
2005							
Sales	$ 41.8		$ 45.5		$ 43.4		$ 54.7
Gross profit	11.0		12.2		11.5		15.0
Net income	0.8		1.5		1.1		2.1
Earnings per share - diluted	0.15		0.26		0.18		0.36
2006							
Sales	$ 62.5		$ 69.8		$ 68.2		$ 79.4
Gross profit	17.4		19.1		19.7		22.4
Net income	2.5		2.9		3.0		3.5
Earnings per share - diluted	0.44		0.51		0.52		0.61

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

ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

ITEM 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15a-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

Design and Evaluation of Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we included a report of management's assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2006, Hein & Associates LLP our independent registered public accounting firm, also attested to, and reported on, management's assessment of the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in our 2006 Consolidated Financial Statements on pages 19 and 20 under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" and are incorporated herein by reference.

There has been no change in our internal controls over financial reporting that occurred during the three months ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. *Other Information*

None.

PART III

ITEM 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item is incorporated by reference from the information in our definitive proxy statement for the 2007 Annual Meeting of Shareholders that we will file with the SEC within 120 days of the end of the fiscal year to which this report relates (the "Proxy Statement").

ITEM 11. *Executive Compensation*

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

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

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

ITEM 13. *Certain Relationships and Related Transactions, and Director Independence*

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

ITEM 14. *Principal Auditor Fees and Services.*

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

PART IV

ITEM 15. *Exhibits, Financial Statement Schedules.*

(a) Documents included in this report:

1. Financial Statements (included under Item 8):

- Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts.

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

3. Exhibits:

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

Exhibit

No. Description

2.1 Asset Purchase Agreement between DXP Enterprises, Inc., as Purchaser, and PMI Operating Company, Ltd., dated August 22, 2005, DXP Enterprises, Inc., (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 22, 2005).

2.2 Stock Purchase Agreement between DXP Enterprises, Inc., as Purchaser, and R. A. Mueller, Inc., dated December 1, 2005, whereby DXP Enterprises, Inc. acquired all of the outstanding shares of R. A. Mueller, Inc. (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on December 5, 2005).

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3.2 Bylaws (incorporated by reference Exhibit 3.2 to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 12, 1996).

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+10.2 DXP Enterprises, Inc. 1999 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

+10.3 DXP Enterprises, Inc. Long Term Incentive Plan, as amended (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).

+10.4 Amended and Restated Stock Option Agreement dated effective as of March 31, 1996, between SEPCO Industries, Inc. and David R. Little (incorporated by reference to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 12, 1996).

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+10.12 Summary Description of Executive Officer Cash Bonus Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).

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+10.14 DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-134606), filed with the Commission on May 31, 2006).

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+10.18 Amendment No. One to DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 25, 2006).

*21.1 Subsidiaries of the Company.

*23.1 Consent from Hein & Associates LLP, Independent Registered Public Accounting Firm.

*31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.

*31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.

*32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

+ Indicates a management contract or compensation plan or arrangement.

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S

REPORT ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders

DXP Enterprises, Inc. and Subsidiaries

Houston, Texas

We have audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of DXP Enterprises, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated March 16, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 15 herein (Schedule II-Valuation and Qualifying Accounts) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects with the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ HEIN & ASSOCIATES LLP

HEIN & ASSOCIATES LLP

Houston, Texas

March 16, 2007

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

DXP ENTERPRISES, INC.

Years Ended December 31, 2006, 2005 and 2004

(in thousands)

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance At End of Year
Year ended December 31, 2006					
Deducted from assets accounts	$ 1,835	$ 384	$ -	$ 737	$ 1,482
Allowance for doubtful accounts					
Valuation allowance for deferred tax assets	$ 44	$ -	$ -	$ 3 (2)	$ 41

Year ended December 31, 2005 Deducted from assets accounts Allowance for doubtful accounts	$ 1,776		$ 273		$ 48(3)		$ 262(1)		$ 1,835
Valuation allowance for deferred tax assets	$ 78		$ -		$ -		$ 34 (2)		$ 44
Year ended December 31, 2004 Deducted from assets accounts Allowance for doubtful accounts	$ 1,420		$ 492		$ -		$ 136(1)		$ 1,776
Valuation allowance for deferred tax assets	$ 219		$ -		$ -		$ 141 (2)		$ 78

(1) Uncollectible accounts written off, net of recoveries

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

(3) Reserve for receivables of acquired businesses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DXP ENTERPRISES, INC. (Registrant)

By: /s/ DAVID R. LITTLE

David R. Little

Chairman of the Board,

President and Chief Executive Officer

Dated: March 16, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name Title Date

/s/ DAVID R. LITTLE

Chairman of the Board, President, March 16, 2007

David R. Little Chief Executive Officer and Director

(Principal Executive Officer)

/s/ MAC McCONNELL

Senior Vice-President/Finance March 16, 2007

Mac McConnell and Chief Financial Officer

(Principal Financial and Accounting

Officer)

/s/ CLETUS DAVIS

Director March 16, 2007

Cletus Davis

/s/ TIMOTHY P. HALTER

Director March 16, 2007

Timothy P. Halter

/s/ KENNETH H. MILLER

Director March 16, 2007

Kenneth H. Miller

EXHIBIT INDEX

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

+ Indicates a management contract or compensation plan or arrangement.

Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

SEPCO Industries, Inc., a Texas Corporation

Pelican States Supply Company, Inc., a Nevada Corporation

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

American MRO, Inc., a Nevada Corporation

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

PMI Operating Company, Ltd., a Texas limited partnership

PMI Investment, LLC, a Delaware limited liability corporation

Pump - PMI LLC, a Texas limited liability corporation

R. A. Mueller, Inc. an Ohio corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation of our report dated March 16, 2007 included in this Annual Report on Form 10-K, into the Company's previously filed registration statements on Form S-8 (File Nos. 333-134606, 333-123698, 333-61953, 333-92875 and 333-92877) and Form S-3 (File No. 333-134603).

/s/HEIN & ASSOCIATES LLP

Hein & Associates LLP

Houston, Texas

March 16, 2007

Exhibit 31.1

CERTIFICATIONS

I, David R. Little, certify that:

1. I have reviewed this report on Form 10-K of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/ David R. Little

David R. Little

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Mac McConnell, certify that:

1. I have reviewed this report on Form 10-K of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2007

/s/ Mac McConnell

Mac McConnell

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 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 presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2007

/s/David R. Little

David R. Little

President and Chief Executive Officer

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

Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 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 presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2007

/s/Mac McConnell

Mac McConnell

Senior Vice President and Chief Financial Officer

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