

DXP ENTERPRISES INC  
Form 10-Q  
August 10, 2009

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the quarterly period ended June 30, 2009

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  
(State or other jurisdiction of incorporation or organization)

76-0509661  
(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas 77040  
(Address of principal executive offices)

(713) 996-4700  
Registrant's telephone number, including area code.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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

Number of shares of registrant's Common Stock outstanding as of August 10, 2009: 12,880,852.



PART I: FINANCIAL INFORMATION  
ITEM 1: FINANCIAL STATEMENTS

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

	June 30, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 2,470	\$ 5,698
Trade accounts receivable, net of allowances for doubtful accounts of \$3,710 in 2009 and \$3,494 in 2008	77,851	101,191
Inventories, net	102,876	119,097
Prepaid expenses and other current assets	3,763	2,851
Deferred income taxes	5,903	3,863
Total current assets	192,863	232,700
Property and equipment, net	19,422	20,331
Goodwill	100,001	98,718
Other intangibles, net of accumulated amortization of \$13,218 in 2009 and \$9,605 in 2008	41,614	45,227
Other assets	707	880
Total assets	\$ 354,607	\$ 397,856
<b>L I A B I L I T I E S   A N D</b>		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 13,817	\$ 13,965
Trade accounts payable	42,038	57,539
Accrued wages and benefits	8,761	12,869
Customer advances	2,119	2,719
Federal income taxes payable	5,198	7,894
Other accrued liabilities	4,223	8,660
Total current liabilities	76,156	103,646
Long-term debt, less current portion	131,150	154,591
Deferred income taxes	11,004	9,419
Other liabilities	12	12
<b>Shareholders' equity:</b>		
Series A preferred stock, 1/10th vote per share; \$1.00 par value;		
liquidation preference of \$100 per share (\$112 at June 30, 2009);	1	1
1,000,000 shares authorized; 1,122 shares issued and outstanding		

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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 June 30, 2009); 1,000,000 shares authorized; 15,000 shares issued and outstanding	15	15
Common stock, \$0.01 par value, 100,000,000 shares authorized; 12,869,746 in 2009 and 12,863,304 in 2008 shares outstanding	128	128
Paid-in capital	56,744	56,206
Retained earnings	79,858	74,559
Accumulated other comprehensive income (loss)	(461)	(721)
Total shareholders' equity	136,285	130,188
Total liabilities and shareholders' equity	354,607	\$ 397,856

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008 (Restated)	2009	2008 (Restated)
Sales	\$ 144,374	\$ 187,802	\$ 301,978	\$ 356,301
Cost of sales	102,990	135,926	214,520	258,479
Gross profit	41,384	51,876	87,458	97,822
Selling, general and administrative expense	36,263	40,391	75,645	75,769
Operating income	5,121	11,485	11,813	22,053
Other income	48	27	62	40
Interest expense	(1,335)	(1,176)	(2,788)	(2,559)
Income before income taxes	3,834	10,336	9,087	19,534
Provision for income taxes	1,668	3,963	3,749	7,722
Net income	2,166	6,373	5,338	11,812
Preferred stock dividend	(23)	(22)	(38)	(45)
Net income attributable to common shareholders	\$ 2,143	\$ 6,351	\$ 5,300	\$ 11,767
Basic income per share	0.16	\$ 0.49	\$ 0.40	\$ 0.92
Weighted average common shares outstanding	13,103	12,857	13,091	12,857
Diluted income per share	0.15	\$ 0.46	\$ 0.38	\$ 0.85
Weighted average common and common equivalent shares outstanding	13,977	13,837	13,965	13,837

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	
	2009	2008
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 5,338	\$ 11,812
Adjustments to reconcile net income to net cash provided by operating activities – net of acquisitions		
Depreciation	2,187	2,036
Amortization of intangibles	3,613	2,460
Compensation expense from restricted stock	740	454
Tax benefit related to vesting of restricted stock	23	-
Deferred income taxes	(496)	(113)
Changes in operating assets and liabilities, net of assets and liabilities acquired in business combinations:		
Trade accounts receivable	23,340	(15,532)
Inventories	16,220	(312)
Prepaid expenses and other current assets	(1,708)	(1,896)
Accounts payable and accrued liabilities	(27,217)	6,500
Net cash provided by operating activities	22,040	5,409
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,278)	(3,202)
Purchase of businesses, net of cash acquired	(338)	(3,822)
Net cash used in investing activities	(1,616)	(7,024)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from debt	59,369	25,223
Principal payments on revolving line of credit and other long-term debt	(82,960)	(21,581)
Dividends paid in cash	(38)	(45)
	(23)	-

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Tax benefit related to vesting of restricted stock			
Net cash (used in) provided by financing activities	(23,652)		3,597
INCREASE (DECREASE) IN CASH	(3,228)		1,982
CASH AT BEGINNING OF PERIOD	5,698		3,978
CASH AT END OF PERIOD	\$ 2,470	\$	5,960

See notes to condensed consolidated financial statements.



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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$2,166	\$6,373	\$5,338	\$11,812
Gain (loss) from interest rate swap, net of income taxes	153	390	260	(210)
Comprehensive income	\$2,319	\$6,763	\$5,598	\$11,602

See notes to condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and 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, 2008, filed with the Securities and Exchange Commission.

NOTE 2: THE COMPANY

DXP, a Texas corporation, was incorporated on July 26, 1996 to be the successor to SEPCO Industries, Inc. ("SEPCO"). The Company is organized into two segments: Maintenance, Repair and Operating ("MRO") and Electrical Contractor.

NOTE 3: NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for the fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods within those years for all nonfinancial assets and nonfinancial liabilities, except those that are recognized at fair value in the financial statements on a recurring basis (at least annually). See Note 10 "Fair Value of Financial Assets and Liabilities" for additional information on the adoption of SFAS 157.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) requires the acquiring entity in a business combination to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. In addition, immediate expense recognition is required for transaction costs. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and adoption is prospective only. As such, if the Company enters into any business combinations after adoption of SFAS 141(R), a transaction may significantly affect the Company's financial position and earnings, but, not cash flows, compared to the Company's past acquisitions.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 amends and expands the disclosure requirements of Statement 133 to provide a better understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and their effect on an entity’s financial position, financial performance, and cash flows. SFAS No. 161 also requires disclosure

of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or the Company's quarter ended March 31, 2009. As this pronouncement is only disclosure-related, it does not and will not have an impact on the financial position and results of operations.

In April 2008, the FASB issued Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). It is effective for financial statements issued for fiscal years beginning December 15, 2008, and interim periods within those fiscal years and should be applied prospectively to intangible assets acquired after the effective date.

Early adoption is not permitted. FSP FAS 142-3 also requires expanded disclosure related to the determination of useful lives for intangible assets and should be applied to all intangible assets recognized as of, and subsequent to, the effective date. The impact of FSP FAS 142-3 will depend on the size and nature of acquisitions completed by the Company on or after January 1, 2009.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share using the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis and was adopted by the Company in the first quarter of 2009. The Company has granted awards of restricted stock that contain non-forfeitable rights to dividends which are considered participating securities under FSP EITF 03-6-1. Because these awards are participating securities under FSP EITF 03-6-1, the Company is required to include these instruments in the calculation of earnings per share using the two-class method. The adoption of FSP EITF 03-6-1 reduced basic and diluted earnings per share for the three months and six months ended June 30, 2008 by \$0.01, \$0.01, \$0.01 and \$0.01, respectively. Basic earnings per share, diluted earnings per share, weighted average common shares outstanding and weighted average common and common equivalent shares outstanding for 2008 have been restated.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," 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. SFAS No. 165 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 adopted SFAS No. 165 during the second quarter of 2009, and its application had no impact on the Company's consolidated condensed financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued on August 10, 2009.

#### NOTE 4: STOCK-BASED COMPENSATION

Stock Options as of the Six Month Period Ended June 30, 2009

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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 June 30, 2009, all outstanding options were non-qualified stock options.

The following table summarizes stock options outstanding and changes during the six month period ended June 30, 2009:

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Options Outstanding and Exercisable				
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2008				
	58,000	\$ 2.33	4.5	\$ 712,000
Granted				
	-			
Exercised				
	-			
Options outstanding and exercisable at June 30, 2009				
	58,000	\$ 2.33	4.0	\$ 530,000

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 six month period ended June 30, 2009, was zero. Cash received from stock options exercised during the six month period ended June 30, 2009 was zero.

Stock options outstanding and currently exercisable at June 30, 2009 are as follows:

Options Outstanding and Exercisable				
Range of exercise prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	
\$1.25	18,000	0.8	\$1.25	
\$2.26 - \$3.36	40,000	5.4	\$2.81	
	58,000	4.0	\$2.33	

#### 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, 2009 vest 33% each year for three years after the grant date, 25% each year for four years after the grant date, 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

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common stock on the grant dates and is generally 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, 2009:

Number of shares authorized for grants	600,000
Number of shares granted	345,038
Number of shares forfeited	20,923
Number of shares available for future grants	275,885
Weighted-average grant price of granted shares	\$ 15.89

Changes in restricted stock for the six months ended June 30, 2009 were as follows:

	Number of Shares	Weighted Average Grant Price
Unvested at December 31, 2008	215,250	\$ 15.91
Granted	39,016	\$ 16.87
Forfeited	(20,923)	\$ 12.76
Vested	(6,442)	\$ 10.31
Unvested at June 30, 2009	226,901	\$ 16.52

Compensation expense, associated with restricted stock, recognized in the six months ended June 30, 2009 and 2008 was \$740,000 and \$454,000, respectively. Unrecognized compensation expense under the Restricted Stock Plan was \$2,922,000 and \$3,092,000 at June 30, 2009 and December 31, 2008, respectively. As of June 30, 2009, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 30 months.

#### NOTE 5: INVENTORY

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

	June 30, 2009	December 31, 2008
Finished goods	\$ 101,959	\$ 117,582
Work in process	917	1,515
Inventories	\$ 102,876	\$ 119,097

#### 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, 2009 are as follows (in thousands):

	Total	Goodwill	Other Intangibles
Balance as of December 31, 2008	\$ 143,945	\$ 98,718	\$ 45,227
Acquired during the year	-	-	-
Adjustments to prior year estimates	1,283	1,283	-
Amortization	(3,613)	-	(3,613)
	\$ 141,615	\$ 100,001	\$ 41,614



Balance as of June  
30, 2009

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

	As of June 30, 2009		As of December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Vendor agreements	\$ 2,496	\$ (644)	\$ 2,496	\$ (582)
C u s t o m e r relationships	50,416	(11,545)	50,416	(8,289)
N o n - c o m p e t e agreements	1,920	(1,029)	1,920	(734)
Total	\$ 54,832	\$ (13,218)	\$ 54,832	\$ (9,605)

The \$1.3 million increase in goodwill from December 31, 2008 to June 30, 2009 primarily results from a reduction in the value of acquired inventories for Rocky Mtn. Supply, Inc., which was acquired during 2008. Other intangible assets are generally amortized on a straight line basis over the useful lives of the assets. All goodwill and other intangible assets pertain to the MRO segment.

## 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		Six Months Ended	
	June 30		June 30	
	2009	2008 (Restated)	2009	2008 (Restated)
<b>Basic:</b>				
Weighted average shares outstanding	13,103,396	12,856,596	13,091,041	12,856,596
Net income	\$ 2,166,000	\$ 6,373,000	\$ 5,338,000	\$ 11,812,000
Convertible preferred stock dividend	(23,000)	(22,000)	(38,000)	(45,000)
Net income attributable to common shareholders	\$ 2,143,000	\$ 6,351,000	\$ 5,300,000	\$ 11,767,000
Per share amount	\$ 0.16	\$ 0.49	\$ 0.40	\$ 0.92
<b>Diluted:</b>				
Weighted average shares outstanding	13,103,396	12,856,596	13,091,041	12,856,596
Net effect of dilutive stock options – based on the treasury stock method	34,018	140,551	33,891	140,337
Assumed conversion of convertible preferred stock	840,000	840,000	840,000	840,000
Total	13,977,414	13,837,147	13,964,932	13,836,933
Net income attributable to common shareholders	\$ 2,143,000	\$ 6,351,000	\$ 5,300,000	\$ 11,767,000
Convertible preferred stock dividend	23,000	22,000	38,000	45,000
Net income for diluted earnings per share	\$ 2,166,000	\$ 6,373,000	\$ 5,338,000	\$ 11,812,000
Per share amount	\$ 0.15	\$ 0.46	\$ 0.38	\$ 0.85

## NOTE 8: SEGMENT REPORTING

The MRO Segment is engaged in providing maintenance, repair and operating products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. The Company provides a wide range of MRO products in the fluid handling equipment, bearing, power transmission equipment, general mill, safety supply and electrical products categories. The Electrical Contractor segment sells to electrical contractors 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.

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

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

	Three Months ended June 30,			Six Months ended June 30,		
	MRO	Electrical Contractor	Total	MRO	Electrical Contractor	Total
2008						
Sales	\$ 186,823	\$ 979	\$ 187,802	\$ 354,419	\$ 1,882	\$ 356,301
Operating income	11,315	170	11,485	21,742	311	22,053
Income before taxes	10,199	137	10,336	19,286	248	19,534
2009						
Sales	\$ 143,666	\$ 708	\$ 144,374	\$ 300,585	\$ 1,393	\$ 301,978
Operating income	5,049	72	5,121	11,678	135	11,813
Income before taxes	3,791	43	3,834	9,013	74	9,087

## NOTE 9:

## 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 the Company obtains additional information concerning certain asset and liability valuations, provided that such information is received no later than one year after the date of acquisition.

On February 1, 2008, DXP completed the acquisition of the business of Rocky Mtn. Supply, Inc. DXP acquired this business to expand DXP's geographic presence in Colorado. DXP paid approximately \$4.6 million, net of acquired cash, for this business. The purchase price consisted of approximately \$3.9 million in cash and \$0.7 million in seller notes. The seller notes bear interest at the rate of prime minus 1.75%. The cash portion was funded by utilizing available capacity under DXP's credit facility.

On August 28, 2008, DXP completed the acquisition of PFI, LLC. DXP acquired this business to strengthen DXP's expertise in the distribution of fasteners. DXP paid \$66.4 million in cash for this business. The cash was funded by utilizing a new credit facility.

On December 1, 2008, DXP completed the acquisition of the business of Falcon Pump. DXP acquired this business to strengthen DXP's pump offering in the Rocky Mountain area. DXP paid \$3.1 million in cash, \$0.8 million in seller notes and up to \$1.0 million in future payments contingent upon future earnings of the acquired business. The seller notes bear interest at ninety-day LIBOR plus 0.75%. The cash portion was funded using DXP's credit facility.

The allocation of purchase price for all acquisitions completed since June 30, 2008 is preliminary in the June 30, 2009 consolidated balance sheets. 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 since June 30, 2008 in connection with the acquisitions described above (in thousands):

Accounts Receivable	\$ 9,210
Inventory	24,422
Property and equipment	2,625
Goodwill and intangibles	44,657
Other assets	274
Assets acquired	81,188
Current liabilities assumed	(5,165)
Non-current liabilities assumed	(5,759)
Net assets acquired	\$ 70,264

The pro forma unaudited results of operations for the Company on a consolidated basis for the three months and six months ended June 30, 2008, assuming the acquisitions completed in 2008 were consummated as of January 1, 2008 follows (in thousands, except for per share data):

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Net sales	\$ 208,657	\$ 398,915
Net income	6,993	13,366
Per share data		
Basic earnings	\$0.54	\$1.04
Diluted earnings	\$0.51	\$0.97

#### NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

As of June 30, 2009, the Company adopted the FASB Staff Position No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP FAS 107-1 and APB 28-1), which requires companies to disclose the fair value of financial instruments within interim financial statements, adding to the current requirement to provide those disclosures annually. Effective June 30, 2009, the required disclosures have been provided within this Note.

We adopted SFAS 157 effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. In February 2008, the FASB issued FSP 157-2, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. Fair value, as defined in SFAS 157, 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. SFAS 157 affects the fair value measurement of an interest rate swap, to which the Company is a party, 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. This includes: 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.

As required by SFAS 157, 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 table summarizes the valuation of our financial instruments (an interest rate swap) by SFAS 157 input levels as of June 30, 2009 (in thousands):

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Description (Liabilities)	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Current liabilities - other accrued liabilities	\$ -	\$ -	\$ 768	\$ 768
Non-current liabilities	-	-	-	-
Total	\$ -	\$ -	\$ 768	\$ 768

The following presents the changes in Level 3 liabilities for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Interest Rate Swap	
	2009	2008
Three Months Ended June 30		
Fair value at April 1	\$ 1,023	\$ 1,000
Realized and unrealized (gains) losses included in other comprehensive income	(255)	(650)
Fair value at June 30	\$ 768	\$ 350
Six Months Ended June 30		
Fair value at January 1	\$ 1,202	\$ -
Realized and unrealized (gains) losses included in other comprehensive income	(434)	350
Fair value at June 30	\$ 768	\$ 350

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 Facility. Through January 11, 2010, this interest rate swap effectively fixes the interest rate on \$40 million of floating rate LIBOR borrowings under the Facility at one-month LIBOR of 3.68% plus the margin (1.50% at June 30, 2009) in effect under the Facility. This swap is designated as a fair value hedging instrument. Changes in the fair value of the swap are included in other comprehensive income. See Note 11 "Other



Comprehensive Income” for gain and (loss), net of income taxes, on the interest rate swap.

NOTE 11: OTHER COMPREHENSIVE INCOME

Other comprehensive income generally represents all changes in shareholders’ equity during the period, except those resulting from investments by, or distributions to, shareholders. The Company has other comprehensive income related to changes in interest rates in connection with an interest rate swap, which is recorded as follows (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net income	\$2,166	\$6,373	\$5,338	\$11,812
Gain (loss) from interest rate swap, net of income taxes	153	390	260	(210)
Other comprehensive income	\$2,319	\$6,763	\$5,598	\$11,602

At December 31, 2008 and June 30, 2009, the accumulated derivative loss, net of income taxes, was \$721,000 and \$461,000, respectively.

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

Impact of Current Economic Conditions

As with most businesses, our results of operations have been adversely impacted by current economic conditions. If economic conditions do not improve, we expect our results of operations will continue to be adversely impacted. We will continue to look for opportunities to reduce expenses and reduce debt.

RESULTS OF OPERATIONS

Three Months Ended June 30,		Six Months Ended June 30,	
2009	%	2008	%