

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

or

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

For the transition period from to

Commission file number 0-21513

DXP Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Texas

76-0509661

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas 77040

(Address of principal executive offices)

Registrant's telephone number, including area code:

(713) 996-4700

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 Par Value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be

contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [] No [x]

Aggregate market value of the registrant's Common Stock held by non-affiliates of registrant as of June 30, 2003: \$2,178,905.

Number of shares of registrant's Common Stock outstanding as of March 1, 2004: 4,070,520.

Documents incorporated by reference: Portions of the definitive proxy statement for the annual meeting of shareholders to be held in 2004 are incorporated by reference into Part III hereof.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places, including Item 1. "Business," Item 3. "Legal Proceedings" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Such statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "estimates", "will", "should", "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those discussed in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements and changing prices and market conditions. This report identifies other factors that could cause such differences. We cannot assure you that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. We assume no obligation and do not intend to update these forward-looking statements.

PART I

This Annual Report on Form 10-K contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. DXP Enterprises, Inc.'s actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Business", "Business-Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K. Unless the context otherwise requires, references in this Annual Report on Form 10-K to the "Company" or "DXP" shall mean DXP Enterprises, Inc., a Texas corporation, together with the Company's subsidiaries.

ITEM 1. Business

DXP Enterprises, Inc. ("DXP" or the "Company"), a Texas corporation, was incorporated in 1996, to be the successor to a company founded in 1908. Since our predecessor company was founded, we have primarily been engaged in the business of distributing maintenance, repair and operating ("MRO") products, equipment and service to industrial customers. We are organized into two segments: MRO and Electrical Contractor. Sales and operating income for 2001, 2002 and 2003, and identifiable assets at the close of such years for our business segments are presented in Note 11 of the Notes to the Consolidated Financial Statements.

MRO Segment

The MRO segment provides MRO products, equipment and integrated services, including engineering expertise and logistics capabilities, to industrial customers. We provide a wide range of MRO products in the fluid handling equipment, bearing, power transmission equipment, general mill, safety supply and electrical products categories. We offer our customers a single source of integrated services and supply on an efficient and competitive basis by being a first-tier distributor who can purchase products directly from the manufacturer. We also provide integrated services such as system design, fabrication, installation, repair and maintenance for our customers. We offer a wide range of industrial MRO products, equipment and services through a complete continuum of customized and efficient MRO solutions, ranging from traditional distribution to fully integrated supply contracts. The integrated solution is tailored to satisfy our customers' unique needs.

The industrial distribution market is highly fragmented. Based on 2002 sales as reported by industry sources, we were the 32nd largest distributor of MRO products in the United States. Most industrial customers currently purchase their industrial supplies through numerous local distribution and supply companies. These distributors generally provide the customer with repair and maintenance services, technical support and application expertise with respect to one product category. Products typically are purchased by the distributor for resale directly from the manufacturer and warehoused at branch distribution facilities of the distributor until sold to the customer. The customer also typically will purchase an amount of product inventory for its near term anticipated needs and store those products at its industrial site until the products are used.

We believe that the current distribution system for industrial products in the United States creates inefficiencies at both the customer and the distributor level through excess inventory requirements and duplicative cost structures. To compete more effectively, our customers and other users of MRO products are seeking ways to enhance efficiencies and lower MRO product and procurement costs. In response to this customer desire, three primary trends have emerged in the industrial supply industry:

- *Industry Consolidation.* Industrial customers have reduced the number of supplier relationships they maintain to lower total purchasing costs, improve inventory management, assure consistently high levels of customer service and enhance purchasing power. This focus on

fewer suppliers has led to consolidation within the fragmented industrial distribution industry.

- *Customized Integrated Service.* As industrial customers focus on their core manufacturing or other production competencies, they increasingly are demanding customized integration services, ranging from value-added traditional distribution to integrated supply and system design, fabrication, installation and repair and maintenance services.
- *Single Source, First-Tier Distribution.* As industrial customers continue to address cost containment, there is a trend toward reducing the number of suppliers and eliminating multiple tiers of distribution. Therefore, to lower overall costs to the MRO customer, some MRO distributors are expanding their product coverage to eliminate second-tier distributors and the difficulties associated with alliances.

We currently serve as a first-tier distributor of more than 40,000 stock keeping units ("SKUs") for use primarily by customers engaged in the general manufacturing, oil and gas, petrochemical, service and repair and wood products industries. Other industries served by our MRO segment include mining, construction, chemical, municipal, food and beverage and pulp and paper. Our MRO products include a wide range of products in the fluid handling equipment, bearing, power transmission equipment, general mill, safety products and electrical products. Our products are distributed from 34 sales offices and two distribution centers strategically located throughout the United States and sold through the sales efforts of employees who generally are compensated on a commission basis.

Our fluid handling equipment line includes a full line of :

- centrifugal pumps for transfer and process service applications, such as petrochemicals, refining and crude oil production;
- rotary gear pumps for low- to medium-pressure service applications, such as pumping lubricating oils and other viscous liquids;
- plunger and piston pumps for high-pressure service applications such as salt water injection and crude oil pipeline service; and
- air-operated diaphragm pumps.

We also provide various pump accessories. Our bearing products include several types of mounted and unmounted bearings for a variety of applications. The hose products we distribute include a large selection of industrial fittings and stainless steel hoses, hydraulic hoses, Teflon hoses and expansion joints, as well as hoses for chemical, petroleum, air and water applications. We distribute seal products for downhole, wellhead, valve and completion equipment to oilfield service companies. The power transmission products we distribute include speed reducers, flexible-coupling drives, chain drives, sprockets, gears, conveyors, clutches, brakes and hoses. We offer a broad range of general mill supplies, such as abrasives, tapes and adhesive products, coatings and lubricants, cutting tools, fasteners, hand tools, janitorial products, pneumatic tools and welding equipment. Our safety products include eye and face protection products, first aid products, protection products, hazardous material handling products, instrumentation and respiratory protection products. We distribute a broad range of electrical products, such as wire conduit, wiring devices, electrical fittings and boxes, signaling devices, heaters, tools, switch gear, lighting, lamps, tape, lugs, wire nuts, batteries, fans and fuses.

In addition to distributing products, we provide pumping and power transmission system design and fabrication services through our engineering personnel and fabrication facilities. We also provide training services with respect to the installation and basic applications of our products as well as around-the-clock field repair services.

SmartSourceSM, our integrated supply program, allows a customer to choose from a complete continuum of supply options, ranging from traditional distribution to integrated supply. This program allows a customer to outsource supply room purchasing, supply room accounting, and supply room management to DXP.

Our branch and operations managers support the sales efforts through direct customer contact and manage the efforts of the outside and direct sales representatives. We have structured compensation to provide incentives to our sales representatives to increase sales through the use of commissions. Our outside sales representatives focus on building long-term relationships with customers and, through their product and industry expertise, providing customers with product application, engineering and after-the-sale services. The direct sales representatives support the outside sales representatives and are responsible for entering product orders and providing technical support with respect to our products. Because we offer a broad range of products, our outside and direct sales representatives are able to use their existing customer relationships with respect to one product line to cross-sell our other product lines. In addition, geographic locations in which certain products are sold also are being utilized to sell products not historically sold at such locations. As we expand our product lines and geographical presence through hiring experienced sales representatives, we assess the opportunities and appropriate timing of introducing existing products to new customers and new products to existing customers. Prior to implementing such cross-selling efforts, we provide the appropriate sales training and product expertise to our sales force.

Unlike many of our competitors, we market our products primarily as a first-tier distributor, generally procuring products directly from the manufacturers, rather than from other distributors. As a first-tier distributor, we are able to reduce our customers' costs and improve efficiencies in the supply chain.

We believe we have increased our competitive advantage through our traditional and integrated supply programs, which are designed to address

the customer's specific product and procurement needs. We offer our customers various options for the integration of their supply needs, ranging from serving as a single source of supply for all or specific lines of products and product categories to offering a fully integrated supply package in which we assume the procurement and management functions, including ownership of inventory, at the customer's location. Our unique approach to integrated supply allows us to design a program that best fits the needs of the customer. For those customers purchasing a number of products in large quantities, the customer is able to outsource all or most of those needs to us. For customers with smaller supply needs, we are able to combine our traditional distribution capabilities with our broad product categories and advanced ordering systems to allow the customer to engage in one-stop shopping without the commitment required under an integrated supply contract.

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

At December 31, 2003, the MRO Segment had 442 full-time employees.

Electrical Contractor Segment

The Electrical Contractor segment was formed in 1998 with the acquisition of substantially all of the assets of two electrical supply businesses. During August 2001, we sold the majority of the assets of one of the two businesses comprising the Electrical Contractor segment. The Electrical Contractor segment sells a broad range of electrical products, such as wire conduit, wiring devices, electrical fittings and boxes, signaling devices, heaters, tools, switch gear, lighting, lamps, tape, lugs, wire nuts, batteries, fans and fuses, to electrical contractors. The segment has one owned warehouse/sales facility in Memphis, Tennessee.

We acquire our products through numerous original equipment manufacturers. We are authorized to distribute the manufacturers' products in specific geographic areas. All of our distribution authorizations are subject to cancellation by the manufacturer upon one-year notice or less. No one manufacturer provides products that account for 10% or more of our revenues. We believe that alternative sources of supply could be obtained in a timely manner if any distribution authorization were canceled. Accordingly, we do not believe that the loss of any one distribution authorization would have a material adverse effect on our business, financial condition or results of operations. Significant vendors include Cutler-Hammer, Cooper, Killark, 3M, General Electric and Allied. To meet prompt delivery demands of its customers, this segment maintains large inventories. The majority of sales are on open account.

At December 31, 2003, the Electrical Contractor segment had 11 full-time employees.

Management Information Systems

During 2002, we completed the installation of a common operating and financial system that is used by all of our locations. We use this computer system to benefit customers and to improve our productivity and efficiency. In addition to traditional functions of inventory control, order processing, purchasing, accounts receivable, accounts payable and general ledger, our computer system has the flexibility to integrate with the customer's maintenance, accounting and management systems. Our system allows for real-time reporting of industrial products used by work order, department and individual, as well as on-line stock inquiry and order-status reports. Our system supports advanced functions, such as EDI, customized billing, end user reporting, facsimile transmission, bar coding and preventative maintenance.

Competition

Our business is highly competitive. In the MRO segment we compete with a variety of industrial supply distributors, many of which may have greater financial and other resources than we do. Many of our competitors are small enterprises selling to customers in a limited geographic area. We also compete with larger distributors that provide integrated supply programs and outsourcing services similar to those offered through our SmartSource program, some of which might be able to supply their products in a more efficient and cost-effective manner than we can provide. We also compete with direct mail distributors, large warehouse stores and, to a lesser extent, manufacturers. While many of our competitors offer traditional distribution of some of the product groupings that we offer, we are not aware of any major competitor that offers on a non-direct mail basis a product grouping as broad as our offering. Further, while certain direct-mail distributors provide product offerings as broad as ours, these competitors do not offer the product application, engineering and after-the-sale services that we provide. In the Electrical Contractor segment we compete against a variety of suppliers of electrical products, many of which may have greater financial and other resources than we do.

Insurance

We maintain liability and other insurance that we believe to be customary and generally consistent with industry practice. There can be no assurance that such insurance will be adequate for the risks involved, that coverage limits will not be exceeded or that such insurance will apply to all liabilities. The occurrence of an adverse claim in excess of the coverage limits that we maintain could have a material adverse effect on our financial condition and results of operations. The premiums for insurance have increased significantly over the past three years. This trend could

continue. Additionally, we are partially self-insured for our group health plan. The cost of claims for the group health plan has increased over the past three years. This trend is expected to continue.

Government Regulation and Environmental Matters

We are subject to various laws and regulations relating to our business and operations, and various health and safety regulations as established by the Occupational Safety and Health Administration.

Certain of our operations are subject to federal, state and local laws and regulations controlling the discharge of materials into or otherwise relating to the protection of the environment. Although we believe that we have adequate procedures to comply with applicable discharge and other environmental laws, the risks of accidental contamination or injury from the discharge of controlled or hazardous materials and chemicals cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result, and any such liability could have a material adverse effect on us. We are not currently aware of any situation or condition that we believe is likely to have a material adverse effect on our results of operations or financial condition.

Employees

At December 31, 2003, we had 453 full-time employees. We believe that our relationship with our employees is good.

Risk Factors

Ability to Comply with Financial Covenants of Credit Facility

Our loan agreement with our bank lender (the "Credit Facility") requires that we comply with certain specified covenants, restrictions, financial ratios and other financial and operating tests. Our ability to comply with any of the foregoing restrictions will depend on our future performance, which will be subject to prevailing economic conditions and other factors, including factors beyond our control. A failure to comply with any of these obligations could result in an event of default under the Credit Facility, which could permit acceleration of our indebtedness under the Credit Facility. Although we expect to be able to comply with the covenants, including the financial covenants, of the Credit Facility, there can be no assurance that in the future we will be able to do so or that our lender will be willing to waive such non-compliance or further amend such covenants.

Risks Related to Internal Growth Strategy

Our future results will depend in part on our success in implementing our internal growth strategy, which includes expanding our existing geographic areas and adding new customers. Our ability to implement this strategy will depend on our success in selling more to existing customers, acquiring new customers, hiring qualified sales persons, and marketing integrated forms of supply arrangements such as those being pursued by us through our SmartSource program. Although we intend to increase sales and product offerings to existing customers and reduce costs through consolidating certain administrative and sales functions, there can be no assurance that we will be successful in these efforts.

Substantial Competition

Our business is highly competitive. We compete with a variety of industrial supply distributors, some of which may have greater financial and other resources than us. Although many of our traditional distribution competitors are small enterprises selling to customers in a limited geographic area, we also compete with larger distributors that provide integrated supply programs such as those offered through outsourcing services similar to those that are offered by our SmartSource program. Some of these large distributors may be able to supply their products in a more timely and cost-efficient manner than us. Our competitors include direct mail suppliers, large warehouse stores and, to a lesser extent, certain manufacturers.

Risks of Economic Trends

Demand for our products is subject to changes in the United States economy in general and economic trends affecting our customers and the industries in which they compete in particular. Many of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry, are cyclical and materially affected by changes in the economy. As a result, we may experience changes in demand for our products as changes occur in the markets of our customers.

Dependence on Key Personnel

We will continue to be dependent to a significant extent upon the efforts and ability of David R. Little, our Chairman of the Board, President and Chief Executive Officer. The loss of the services of Mr. Little or any other executive officer of our Company could have a material adverse effect on our financial condition and results of operations. We do not maintain key-man life insurance on the life of Mr. Little or on the lives of our other executive officers. In addition, our ability to grow successfully will be dependent upon our ability to attract and retain qualified management and technical and operational personnel. The failure to attract and retain such persons could materially adversely affect our financial condition and results of operations.

Dependence on Supplier Relationships

We have distribution rights for certain product lines and depend on these distribution rights for a substantial portion of our business. Many of these distribution rights are pursuant to contracts that are subject to cancellation upon little or no prior notice. Although we believe that we could obtain alternate distribution rights in the event of such a cancellation, the termination or limitation by any key supplier of its relationship with our company could result in a temporary disruption on our business and, in turn, could adversely affect results of operations and financial condition.

Risks Associated With Hazardous Materials

Certain of our operations are subject to federal, state and local laws and regulations controlling the discharge of materials into or otherwise relating to the protection of the environment. Although we believe that we have adequate procedures to comply with applicable discharge and other environmental laws, the risks of accidental contamination or injury from the discharge of controlled or hazardous materials and chemicals cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result and any such liability could have a material adverse effect on our financial condition and results of operations.

Available Information

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

ITEM 2. *Properties*

We own our headquarters facility in Houston, Texas, which has 45,000 square feet of office space. The MRO segment owns or leases 43 branch distribution facilities located in Georgia, Louisiana, Maryland, Montana, New Mexico, Oklahoma, Tennessee, Texas, and Wyoming. The Electrical Contractor segment owns one branch distribution facility in Tennessee. These owned facilities range from 2,500 square feet to 138,000 square feet in size. We lease facilities for terms generally ranging from one to five years. The leased facilities range from 3,200 square feet to 41,550 square feet in size. The leases provide for periodic specified rental payments and certain leases are renewable at our option. We believe that our facilities are suitable and adequate for the needs of our existing business. We believe that if the leases for any of our facilities were not renewed, other suitable facilities could be leased with no material adverse effect on our business, financial condition or results of operations. All of the facilities owned by us are pledged to secure our indebtedness.

ITEM 3. *Legal Proceedings*

In 2003, we were notified that we had been sued in various state courts in Texas, directly and as successor in interest to a corporation, which is not related to us. The suits allege personal injury resulting from products containing asbestos allegedly sold by us. The suits do not state what products we allegedly sold or when we allegedly sold the products. Discovery is in the very early stages on these suits. We have recently notified certain of our insurance carriers regarding these claims. We do not know if the insurance carriers will assume the defense of these claims. If any product sold by us is identified through discovery as a product that plaintiffs claim exposure to, it is our intent to seek indemnity from the original manufacturer of the product. We intend to vigorously defend these claims. Because of the lack of specific information described above, we are unable to determine if these claims could have a material adverse impact on our results of operations and cash flows for a particular period or on our consolidated financial position.

ITEM 4. *Submission of Matters to a Vote of Security Holders*

None.

PART II

ITEM 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

Our common stock trades on The Nasdaq SmallCap Market under the symbol "DXPE".

The following table sets forth on a per share basis the high and low sales prices for our common stock as reported by Nasdaq for the periods indicated.

	High		Low
2002			

First Quarter	\$ 1.45		\$ 0.85
Second Quarter	\$ 2.24		\$ 0.97
Third Quarter	\$ 1.25		\$ 0.75
Fourth Quarter	\$ 1.21		\$ 0.70
2003			
First Quarter	\$ 1.53		\$ 0.90
Second Quarter	\$ 1.70		\$ 1.08
Third Quarter	\$ 2.94		\$ 1.40
Fourth Quarter	\$ 4.15		\$ 2.20

On March 1, 2004, we had approximately 815 holders of record for outstanding shares of our common stock.

We anticipate that future earnings will be retained to finance the continuing development of our business. In addition, the Credit Facility prohibits us from declaring or paying any dividends or other distributions on our capital stock except for the monthly \$0.50 per share dividend on our Series B convertible preferred stock, which amounts to \$90,000 in the aggregate per year. Accordingly, we do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, the success of our business activities, regulatory and capital requirements, our lenders, our general financial condition and general business conditions.

Information regarding our equity compensation plans is hereby incorporated by reference from the Company's Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders, which shall be filed with the Securities and Exchange Commission not later than 120 days after our fiscal year end of December 31, 2003.

ITEM 6. Selected Financial Data

The selected historical consolidated financial data set forth below for each of the years in the five-year period ended December 31, 2003 have been derived from our audited consolidated financial statements. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

	Years Ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share amounts)				
Consolidated Statements of Earnings Data:					
Sales	\$ 184,685	\$ 182,642	\$ 174,429	\$ 148,106	\$ 150,683

Gross Profit	46,879	45,507	43,805	37,984	38,549
Operating income (loss)(1)	2,899	(7,752)	4,034	4,117	4,309
Income (loss) before income taxes (2)	415	(9,031)	1,600	2,633	3,197
Income (loss) before cumulative effect of a change in accounting principle	(118)	(7,358)	929	1,619	2,069
Per share amounts before cumulative effect of a change in accounting principle					
Basic earnings (loss) per common share	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ 0.38	\$ 0.49
Common shares outstanding	4,075	4,072	4,072	4,072	4,072
Diluted earnings (loss) per share	\$ (0.05)	\$ (1.83)	\$ 0.21	\$ 0.36	\$ 0.42
Common and common equivalent shares outstanding	4,075	4,072	4,503	4,555	4,920
Consolidated Balance Sheet Data at December 31:					
Total assets	\$ 72,922	\$ 66,280	\$ 57,588	\$ 49,248	\$ 48,375
Long-term debt obligations	36,780	28,476	22,864	23,486	16,675
Shareholders' equity	15,499	7,971	8,323	8,087	10,076

(1) Year ended December 31, 2000 includes non-recurring charges of \$10.8 million which consist of an \$8.5 million charge for the impairment of goodwill and other assets associated with acquisitions completed before 1999, a \$2.0 million charge to write-off fixed assets of computer systems which were being replaced and facilities which have been closed, and \$0.3 million of accruals primarily associated with future rent on closed facilities.

2. Year ended December 31, 2000 includes a one-time gain of \$2.0 million from the sale of two MRO warehouse facilities.

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

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

General Overview

Our products and services are marketed in at least 16 states to over 25,000 customers that are engaged in a variety of industries, many of which may be countercyclical to each other. Demand for our products generally is subject to changes in the United States economy and economic trends affecting our customers and the industries in which they compete in particular. Certain of these industries, such as the oil and gas industry, are subject to volatility while others, such as the petrochemical industry and the construction industry, are cyclical and materially affected by changes in the economy. As a result, we may experience changes in demand within particular markets, segments and product categories as changes occur in our customers' respective markets. During 2002 and 2003, our performance was impacted negatively by the economic downturn, particularly the downturn in domestic manufacturing. All of our increase in sales and gross profit for 2003 compared to 2002 is due to increased sales of products for offshore energy production. Our employee headcount decreased by over ten percent during 2003 as we worked to

bring our cost structure in line with our sales.

Our growth strategy in the past focused on a combination of acquisitions, such as the acquisition of the Electrical Contractor segment, and internal growth. We have curtailed our acquisition efforts and are focusing on internal growth. Key elements of our internal growth strategy include leveraging existing customer relationships, expanding product offerings to new and existing customers, reducing costs through consolidated purchasing programs and centralized product distribution centers, centralizing certain customer service and inside sales functions, reducing costs by converting selected branches from full warehouse and customer service operations to sales centers, designing and implementing innovative solutions to address the procurement and supply needs of our customers and using our traditional distribution and integrated supply capabilities to increase sales in each area. Results will be dependent on our success in executing our internal growth strategy and, to the extent we complete any acquisitions, our ability to integrate such acquisitions.

Results of Operations

	Year Ended December 31,					
	2001	%	2002	%	2003	%
	(in millions, except percentages)					
Sales	\$ 174.4	100.0	\$ 148.1	100.0	\$ 150.7	100.0
Cost of sales	130.6	74.9	110.1	74.3	112.2	74.4
Gross profit	43.8	25.1	38.0	25.7	38.5	25.6
Operating expenses:						
Selling, general and administrative	39.8	22.8	33.9	22.9	34.2	22.7
Operating income	4.0	2.3	4.1	2.8	4.3	2.9
Interest expense	2.5	1.4	1.6	1.1	1.2	0.8
Other income	(0.1)	-	(0.1)	(0.1)	(0.1)	-
Income before income taxes	1.6	0.9	2.6	1.8	3.2	2.1
Provision for income taxes	0.7	0.4	1.0	0.7	1.1	0.7
Income before cumulative effect of a change in accounting principle	\$ 0.9	0.5%	\$ 1.6	1.1%	\$ 2.1	1.4%
Per share amounts before cumulative effect of a change in accounting principle						
Basic earnings per share	\$ 0.21		\$ 0.38		\$ 0.49	
Diluted earnings per share	\$ 0.21		\$ 0.36		\$ 0.42	

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

SALES. Revenues for 2003 increased \$2.6 million, or 1.7%, to approximately \$150.7 million from \$148.1 million in 2002. Sales for the MRO segment increased \$2.9 million, or 2.0% primarily due to increased sales of products for offshore energy production. Sales for the Electrical Contractor segment decreased by \$0.3 million, or 11.9%, when compared to 2002. This decrease was the result of a slow down in the commercial construction business for electrical contractors.

GROSS PROFIT. Gross profit as a percentage of sales decreased by approximately 0.1% for 2003, when compared to 2002. This decrease resulted from decreased sales by the higher margin Electrical Contractor segment and increased sales by the lower margin MRO segment. Gross profit as a percentage of sales for the MRO segment was 25.4% in 2003 and 2002. Gross profit as a percentage of sales for the Electrical Contractor segment increased to 38.8% for 2003, up from 37.5% in 2002. This increase resulted from the decision to focus on selling higher margin specialty electrical products.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for 2003 increased by approximately \$0.4 million, or 1.1%, when compared to 2002. This increase was primarily attributable to increased employee benefits and incentive compensation

related to the increased gross profit. As a percentage of revenue, the 2003 expense decreased by approximately 0.2% to 22.7% from 22.9% for 2002. This decrease was primarily attributable to costs increasing at a lower rate than revenue increased.

OPERATING INCOME. Operating income for 2003 increased by approximately \$0.2 million, or 4.7%, when compared to 2002. This increase was the result of a 1.4% increase in operating income for the MRO segment and improvement from a loss to a profit for the Electrical Contractor segment.

INTEREST EXPENSE. Interest expense for 2003 decreased by \$0.4 million to \$1.2 million from \$1.6 million for 2002. This decline resulted from lower interest rates for 2003 when compared to 2002 as well as a lower average debt balance.

INCOME TAXES. As of December 31, 2003, we have recorded net deferred tax assets of \$1.3 million representing the future tax benefits of certain accruals not currently deductible. We believe it is more likely than not that the deferred tax assets will be realized as these reserves are recovered and reduce future taxable income. For information concerning the provision for current and deferred income taxes as well as information regarding differences between the effective tax rates and statutory rates, see Note 6 of the Notes to the Consolidated Financial Statements.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

SALES. Revenues for 2002 decreased \$26.3 million, or 15.1%, to approximately \$148.1 million from \$174.4 million in 2001. Sales for the MRO segment decreased \$20.9 million, or 12.6% primarily due to slowing of the overall economy. Reduced sales of bearing products accounted for approximately one half of the decline in sales for the MRO segment. Sales for the Electrical Contractor segment decreased by \$5.4 million, or 65.8%, when compared to 2001. This decrease resulted primarily from the sale, during August 2001, of the majority of the assets of a business in San Antonio, Texas, which accounted for approximately two-thirds of the sales of the Electrical Contractor segment and from a slow down in the construction business for electrical contractors.

GROSS PROFIT. Gross profit as a percentage of sales increased by approximately 0.5% for 2002, when compared to 2001. The increase was primarily attributable to increased margins for the Electrical Contractor segment. Gross profit as a percentage of sales for the Electrical Contractor segment increased to 37.5% for 2002, up from 23.5% in 2001. This increase resulted from the sale of the business in San Antonio, Texas which had lower gross profit margins. Gross profit as a percentage of sales for the MRO segment increased to 25.4% for 2002, up from 25.2% for 2001. This increase was primarily attributable to increased margins in fluid handling products sold by the MRO segment.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense for 2002 decreased by approximately \$5.9 million, or 14.8%, when compared to 2001. This decrease was primarily attributable to reduced litigation costs, communication expenses, bad debt expense, payroll and payroll related expenses. As a percentage of revenue, the 2002 selling, general and administrative expense increased by approximately 0.1% to 22.9% from 22.8% for 2001. This increase was primarily attributable to non-variable costs being spread over a smaller revenue amount.

OPERATING INCOME. Operating income for 2002 increased by approximately \$0.1 million, or 2.1%, when compared to 2001. This increase was the net of a \$0.2 million decrease in operating income for the MRO segment and a \$0.3 million improvement in operating income for the Electrical Contractor segment. The reduced operating income for the MRO segment resulted from lower sales and gross profit partially offset by reduced selling, general and administrative expenses. The improvement for the Electrical Contractor segment was primarily the result of the sale during August 2001 of the business in San Antonio, Texas, which was not profitable.

INTEREST EXPENSE. Interest expense for 2002 decreased by \$0.9 million to \$1.6 million from \$2.5 million for 2001. This decline resulted from lower interest rates for 2002 when compared to 2001 as well as a lower average debt balance.

Liquidity and Capital Resources

General Overview

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

We generated cash in operating activities of approximately \$6.9 million in 2003 as compared to \$2.5 million in cash provided during 2002. This change between the two years was primarily attributable to the collection of \$2.9 million of customer advances in excess of costs incurred on several projects as of December 31, 2003.

We had capital expenditures of approximately \$0.4 million for each of 2002 and 2003. Capital expenditures during 2003 were related primarily to computer equipment, computer software and pump testing equipment. Capital expenditures during 2002 were primarily related to computer equipment.

During 2003, the amount available to be borrowed under our loan agreement with our bank lender (the "Credit Facility") increased from \$2.5 million at December 31, 2002 to \$7.1 million at December 31, 2003. This increase in availability resulted from reducing total long-term debt by

\$7.0 million during 2003. The funds to reduce long-term debt by \$7.0 million were generated by operations, including the collection of \$2.9 million of customer advances for orders for products, primarily for use in offshore energy production. We expect to purchase products and incur other costs to complete these orders during 2004. Additionally, we expect to pay \$1.0 million of federal income taxes, related to 2003 taxable income, during 2004. Therefore, we expect the amount available to be borrowed under the Credit Facility to decline and the amount of long-term debt to increase during 2004. However, management believes that the liquidity of our balance sheet at December 31, 2003, provides us with the ability to meet our working capital needs during 2004.

Credit Facility

Under the Credit Facility, all available cash is generally applied to reduce outstanding borrowings, with operations funded through borrowings under the Credit Facility. The Credit Facility consists of a secured line of credit and a secured term loan.

The Credit Facility was amended and restated on June 25, 2003. The amendment extended the maturity, modified the calculation of collateral value which increased borrowing availability, reduced the maximum borrowing amount to \$30.0 million, and allows us to elect a rate of interest at LIBOR plus a margin ranging from 2.25% to 3.25% or prime plus a margin ranging from 0.0% to 0.75%. Before the amendment, the interest rate was prime plus 0.50% on the revolving portion of the Credit Facility and prime plus 1.5% on the term portion of the Credit Facility. At December 31, 2003 these rates were prime and prime plus 0.25%, respectively. Additionally, the LIBOR interest option resulted in interest rates which were lower than the prime interest option. At December 31, 2003, \$15.0 million was borrowed at a weighted average rate of 3.71% under the LIBOR option. The prime rate at December 31, 2003 was 4.0%.

The Credit Facility provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$30.0 million, and matures April 1, 2006. The Credit Facility is secured by receivables, inventory, real estate and machinery and equipment. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that are measured monthly and require that we maintain a certain cash flow and other financial ratios. At December 31, 2003, we were in compliance with these covenants. Although we expect to be able to comply with the covenants of the Credit Facility, there can be no assurance that in the future we will be able to do so or that our lender will be willing to waive such non-compliance or amend such covenants. In addition to the \$0.6 million of cash at December 31, 2003, we had \$9.5 million available for borrowings under the Credit Facility at December 31, 2003.

Borrowings

	December 31,			Increase
	2002		2003	(Decrease)
	(in Thousands)			
Current portion of long-term debt	\$ 1,625		\$ 1,474	\$ (151)
Long-term debt, less current portion	23,486		16,675	(6,811)
Total long-term debt	\$ 25,111		\$ 18,149	\$ (6,962) (2)
Amount available ⁽¹⁾	\$ 2,485		\$ 9,562	\$ 7,077 ⁽³⁾

(1) Represents amount available to be borrowed at the indicated date under the Credit Facility.

(2) The funds to reduce long-term debt by \$7.0 million were generated by operations, including the collection of \$2.9 million of customer advances in excess of cost incurred on orders for products, primarily for use in offshore energy production.

(3) The \$7.1 million increase in the amount available is primarily a result of reducing total long-term debt by \$7.0 million

Performance Metrics

	December 31,			Increase
	2002		2003	
	(in Days)			
Days of sales outstanding	46.3		50.5	4.2
Inventory turns	5.4		5.9	0.5

Accounts receivable days of sales outstanding were 50.5 at December 31, 2003 compared to 46.3 at December 31, 2002. The increase resulted primarily from several large, slow-paying customers. Annualized inventory turns were 5.9 at December 31, 2003 compared to 5.4 at December 31, 2002. The improvement resulted from active inventory management.

Funding Commitments

Our internal cash flow projections indicate our cash generated from operations and available under our Credit Facility will meet our normal working capital needs during 2004. However, we may require additional debt or equity financing to meet our future debt service obligations, which may include additional bank debt or the public or private sale of equity or debt securities. In connection with any such financing, we may be required to issue securities that substantially dilute the interest of our shareholders. As described above, all of our Credit Facility matures on or before April 1, 2006. We will need to extend the maturity of, or replace our Credit Facility on or before April 1, 2006. However, we may not be able to renew and extend or replace the Credit Facility. Any extended or replacement facility may have higher interest costs, less borrowing capacity, more restrictive conditions and could involve equity dilution. Our ability to obtain a satisfactory credit facility may depend, in part, upon the level of our asset base for collateral purposes, our future financial performance and our ability to obtain additional equity.

We would require additional capital to fund any future acquisitions. At this time, we do not plan to grow through acquisitions unless the market price of our common stock rises to levels that will make acquisitions accretive to our earnings or we generate excess cash flow. We also may pursue additional equity or debt financing to fund future acquisitions, although we may not be able to obtain additional financing on attractive terms.

Contractual Obligations

The impact that our contractual obligations as of December 31, 2003 are expected to have on our liquidity and cash flow in future periods is as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt, including current portion (1)	\$ 18,149	\$ 1,474	\$ 14,423	\$ 202	\$ 2,050
Operating lease obligations	4,399	1,413	1,894	735	357
Total	\$ 22,548	\$ 2,887	\$ 16,317	\$ 937	\$ 2,407

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE's"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2003, we are not involved in any unconsolidated SPE transactions.

Indemnification

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

Discussion of Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically (as circumstances warrant) based upon the expected collectibility of all such accounts.

Inventory

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

Income Taxes

In accordance with SFAS 109, Accounting for Income Taxes, we have recorded a net deferred tax asset of \$1.3 million as of December 31, 2003. We believe it is more likely than not that this net deferred tax asset will be realized based primarily on the assumption of future taxable income.

Management periodically re-evaluates these estimates as events and circumstances change. Together with the effects of the matters discussed above, these factors may significantly impact the Company's results of operations from period-to-period.

Recent Accounting Pronouncements

See Note 2 of the Notes to the Consolidated Financial Statements for discussion of recent accounting pronouncements.

Inflation

We do not believe the effects of inflation have any material adverse effect on our results of operations or financial condition. We attempt to minimize inflationary trends by passing manufacturer price increases on to the customer whenever practicable.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Our market risk results primarily from volatility in interest rates. Our exposure to interest rate risk relates primarily to our debt portfolio. To limit interest rate risk on borrowings, we target a portfolio within certain parameters for fixed and floating rate loans taking into consideration the

interest rate environment and our forecasted cash flow. We believe this policy limits our exposure to rising interest rates and allows us to benefit during periods of falling interest rates. Using floating rate debt outstanding at December 31, 2003, a hypothetical 100 basis point increase in interest rates would increase our annual interest expense by \$153,000.

The table below provides information about the Company's market sensitive financial instruments and constitutes a forward-looking statement.

	Principal Amount By Expected Maturity							
	(in thousands, except percentages)							
	2004	2005	2006	2007	2008	Thereafter		
Fixed Rate Long-term Debt	\$ 310	\$ 140	\$ 91	\$ 98	\$ 104	\$ 2,050		
Average Interest Rate	8.28%	7.99%	6.65%	6.65%	6.67%	6.25%		
Floating Rate Long-term Debt	\$ 1,164	\$ 1,164	\$ 13,028					
Average Interest Rate	3.94%	3.94%	3.68%					
Total Maturities	\$ 1,474	\$ 1,304	\$ 13,119	\$ 98	\$ 104	\$ 2,050		

ITEM 8. Financial Statements and Supplementary Data

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of

DXP Enterprises, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of DXP Enterprises, Inc. and Subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2003. 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 generally accepted in the United States of America. 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, 2002 and 2003, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ HEIN & ASSOCIATES LLP

February 19, 2004

Houston, Texas

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with DXP Enterprises, Inc.'s 2001 consolidated financial statements previously filed on Form 10-K. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of

DXP Enterprises, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of DXP Enterprises, Inc. (a Texas corporation), and Subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 generally accepted in the 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, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

March 22, 2002

DXP ENTERPRISES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

	December 31,	
	2002	2003
ASSETS		
Current assets:		
Cash	\$ 1,171	\$ 636
Trade accounts receivable, net of allowances for doubtful accounts of \$1,235 in 2002 and \$1,420 in 2003	17,560	19,412
Inventories, net	20,392	19,145
Prepaid expenses and other current assets	429	362
Deferred income taxes	899	876
Total current assets	40,451	40,431
Property and equipment, net	8,034	7,395
Deferred income taxes	508	403
Other assets	255	146
Total assets	\$ 49,248	\$ 48,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,625	\$ 1,474
Trade accounts payable and accrued liabilities and expenses	14,057	14,559
Accrued wages and benefits	1,192	1,426
Customer advances	-	2,922

Federal income taxes payable	-		1,040
Other accrued expenses	801		203
Total current liabilities	17,675		21,624
Long-term debt, less current portion	23,486		16,675
Commitments and contingencies (Note 8)			
Shareholders' equity:			
Series A preferred stock, 1/10 th vote per share; \$1.00 par value; liquidation preference of \$100 per share (\$112 at December 31, 2003); 1,000,000 shares authorized; 1,168 and 1,122 shares issued and outstanding, respectively	1		1
Series B convertible preferred stock, 1/10 th vote per share; \$1.00 par value; \$100 stated value; liquidation preference of \$100 per share (\$1,500 at December 31, 2003); 1,000,000 shares authorized; 17,700 shares issued, 15,000 shares outstanding and 2,700 shares in treasury stock	18		18
Common stock, \$0.01 par value, 100,000,000 shares authorized; 4,257,760 shares issued, 4,071,685 and 4,070,520 shares outstanding, and 186,075 and 187,240 shares in treasury stock, respectively	41		41
Paid-in capital	2,842		2,841
Retained earnings	8,425		10,404
Treasury stock, at cost	(1,894)		(1,897)
Notes receivable from David R. Little, CEO, and James Webster, employee	(1,346)		(1,332)
Total shareholders' equity	8,087		10,076
Total liabilities and shareholders' equity	\$ 49,248		\$ 48,375
The accompanying notes are an integral part of these consolidated financial statements.			

DXP ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

	Years Ended December 31,		
	2001	2002	2003
Sales	\$ 174,429	\$ 148,106	\$ 150,683
Cost of sales	130,624	110,122	112,134
Gross profit	43,805	37,984	38,549
Selling, general and administrative expense	39,771	33,867	34,240
Operating income	4,034	4,117	4,309
Other income	46	146	65
Interest expense	(2,480)	(1,630)	(1,177)
Income before provision for taxes	1,600	2,633	3,197
Provision for provision for income taxes	671	1,014	1,128
Income before cumulative effect of a change in accounting principle	929	1,619	2,069
Cumulative effect of a change in accounting principle, net of \$740 tax benefit	-	(1,729)	-
Net income (loss)	929	(110)	2,069
Preferred stock dividend	(90)	(90)	(90)
Net income (loss) attributable to common shareholders	\$ 839	\$ (200)	\$ 1,979
Per share and share amounts before cumulative effect of a change in accounting principle			
Basic earnings per common share	\$ 0.21	\$ 0.38	\$ 0.49
Common shares outstanding	4,072	4,072	4,072
Diluted earnings per share	\$ 0.21	\$ 0.36	\$ 0.42
Common and common equivalent shares outstanding	4,503	4,555	4,920
Cumulative effect of a change in accounting principle per share - basic and diluted	\$ -	\$ (0.42)	\$ -
Basic income (loss) per share	\$ 0.21	\$ (0.05)	\$ 0.49

Common shares outstanding	4,072	4,072	4,072
Diluted income (loss) per share	\$ 0.21	\$ (0.05)	\$ 0.42
Common and common equivalent shares outstanding	4,503	4,072	4,920
The accompanying notes are an integral part of these consolidated financial statements.			

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Share Amounts)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Paid- In Capital	Retained Earnings	Treasury Stock	Notes Receivable From Share- holders	Total
BALANCES AT DECEMBER 31, 2000	\$2	\$18	\$41	\$2,877	\$7,786	\$(1894)	\$(859)	\$7,971
Increase in								
notes	-	-	-	-	-	-	(487)	(487)

receivable										
Dividends paid	-	-	-	-	(90)	-	-	(90)		
Net income	-	-	-	-	929	-	-	929		
BALANCES AT										
DECEMBER 31, 2001	2	18	41	2,877	8,625	(1,894)	(1,346)	8,323		
Dividends paid	-	-	-	-	(90)	-	-	(90)		
Acquisition of 1,824 shares of Series A Preferred Stock	(1)	-	-	(35)	-	-	-	(36)		
Net loss	-	-	-	-	(110)	-	-	(110)		
BALANCES AT										
DECEMBER 31, 2002	1	18	41	2,842	8,425	(1,894)	(1,346)	8,087		
Dividends paid	-	-	-	-	(90)	-	-	(90)		
Acquisition of 46 shares of Series A Preferred Stock	-	-	-	(1)	-	-	-	(1)		
Collections on notes receivable	-	-	-	-	-	-	14	14		
Purchase of treasury shares	-	-	-	-	-	(3)	-	(3)		
Net income	-	-	-	-	2,069	-	-	2,069		
BALANCES AT										
DECEMBER 31, 2003	\$1	\$18	\$41	\$2,841	\$10,404	\$(1,897)	\$(1,332)	\$10,076		

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		
	2001	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ 929	\$ (110)	\$ 2,069
Adjustments to reconcile net income (loss) to net cash provided by operating activities --			
Cumulative effect of a change in accounting principle, net of tax	-	1,729	-
Depreciation and amortization	1,381	1,160	1,058
Deferred income taxes	1,232	796	128
Loss (gain) on sale of property and equipment	5	4	(2)
Changes in operating assets and liabilities			
Accounts receivable	5,620	1,197	(1,852)
Inventories	(700)	585	1,247
Prepaid expenses and other current assets	(48)	(37)	175

Accounts payable and accrued liabilities and expenses	(1,280)	(2,827)	4,100
Net cash provided by operating activities	7,139	2,497	6,923
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(691)	(379)	(419)
Proceeds from the sale of assets	-	-	2
Net proceeds on the sale of certain electrical contractor segment assets	1,172	-	-
Net cash provided by (used in) investing activities	481	(379)	(417)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt	176,652	151,861	147,581
Principal payments on revolving line of credit, long-term debt and notes payable	(184,666)	(154,942)	(154,542)
Acquisition of common and preferred stock	-	(36)	(4)
Dividends paid in cash	(90)	(90)	(90)
Collections on notes receivable from shareholders	-	-	14
Net cash used in financing activities	(8,104)	(3,207)	(7,041)
DECREASE IN CASH	(484)	(1,089)	(535)
CASH AT BEGINNING OF YEAR	2,744	2,260	1,171
CASH AT END OF YEAR	2,260	1,171	636
SUPPLEMENTAL DISCLOSURES:			
Cash paid for --			
Interest	2,396	1,635	1,209
Income taxes	179	152	60
Cash income tax refunds	797	109	25

Noncash activities:

Changes in inventories and principal payments on debt excludes the \$1.9 million noncash reduction of inventory cost and debt associated with a litigation settlement recorded in 2002.

The accompanying notes are an integral part of these consolidate 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 11 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 of uncollateralized customer obligations due under normal trade terms requiring payment within 30 days of the invoice date. Payments on trade receivables are applied as indicated by customer, or to the earliest unpaid invoices.

The Company has trade receivables from a diversified customer base in the north 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, however, the account receivable balance from one customer was 11% of total accounts receivable at December 31, 2003.

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 and certain accelerated methods for financial reporting purposes. Useful lives assigned to property and equipment range from 3 to 39 years. 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.

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, 2002 and 2003, is as follows (in thousands):

	2002		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 1,171	\$ 1,171	\$ 636	\$ 636
Notes receivables from David R. Little, CEO, and James Webster, employee	1,348	871	1,332	909
Long-term debt, including current portion	25,111	25,111	18,149	18,149

The carrying value of the long-term debt approximates fair value based upon the current rates and terms available to the Company for instruments with similar remaining maturities.

Stock-Based Compensation

The Company has elected to follow APB No. 25, and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 148 requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, no compensation expense is recognized if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. No compensation expense was recognized under APB No. 25 during the three years ended December 31, 2003.

Pro forma information regarding net income and earnings per share is required by SFAS No. 148 and has been determined as if the Company had accounted for its stock options under the fair value method as provided therein. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options issued in 2001, 2002 and 2003: risk-free interest rates of 5.0% for 2001, 3.9% for 2002, and 4.0% for 2003; expected lives of five to ten years, assumed volatility of 122% for 2001, 82% for 2002; and 80% for 2003; and no expected dividends.

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

	2001	2002	2003
	(in Thousands, except per share amounts)		
Pro forma impact of fair value method (FAS 148)			
Reported net income (loss) attributable to common shareholders	\$ 839	\$ (200)	\$ 1,979
Less: fair value impact of employee stock compensation	(109)	(165)	(70)
Pro forma net income (loss) attributable to common shareholders	\$ 730	\$ (365)	\$ 1,909
Earnings (loss) per common share			
Basic - as reported	\$ 0.21	\$ (0.05)	\$ 0.49
Diluted - as reported	\$ 0.21	\$ (0.05)	\$ 0.42
Basic - pro forma	\$ 0.18	\$ (0.09)	\$ 0.47

Diluted - pro forma

\$ 0.18

\$ (0.09)

\$ 0.40

Revenue Recognition

The Company recognizes revenue 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.

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 allowance for doubtful accounts, reserves for inventory valuations and self-insured medical claims. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income is equal to net income.

2. NEW ACCOUNTING PRONOUNCEMENTS:

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, was issued in May 2003 and requires issuers to classify as liabilities (or assets under certain circumstances) three classes of freestanding financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after December 15, 2003. Management believes the adoption of SFAS No. 150 will not have a material effect on the Company's financial statements.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142 changes the treatment of goodwill by no longer amortizing goodwill, and instead requiring, at least annually, an assessment for impairment by applying a fair-value based test. However, other identifiable intangible assets are to be separately recognized and amortized. The statement is effective for fiscal years beginning after December 15, 2001. All of the Company's goodwill pertained to one reporting unit as defined in SFAS 142. The goodwill was tested for impairment during the first quarter of 2002 as required by SFAS 142 upon adoption based upon the expected present value of future cash flows approach. As a result of this valuation process as well as the application of the remaining provisions of SFAS 142, the Company recorded a transitional impairment loss of \$2.5 million before income taxes (\$1.7 million after income taxes). This write-off was reported as a cumulative effect of a change in accounting principle in the Company's consolidated statement of operations as of January 1, 2002. This adoption of the statement has resulted in the elimination of approximately \$79,000 of annual goodwill amortization subsequent to December 31, 2001.

The following table discloses the Company's net income (loss), assuming it excluded goodwill amortization (in thousands, except per share data):

	Years Ended December 31,		
	2001	2002	2003
Net income (loss)	\$ 929	\$ (110)	\$ 2,069
Add back:			
Goodwill amortization, net of income taxes	52	-	-
Adjusted net income (loss)	\$ 981	\$ (110)	\$ 2,069
Basic earnings (loss) per share	\$ 0.21	\$ (0.05)	\$ 0.49
Add back:			
Goodwill amortization, net of income taxes	0.01	-	-

Adjusted basic earnings (loss) per share	\$ 0.22		\$ (0.05)		\$ 0.49
Diluted earnings (loss) per share	\$ 0.21		\$ (0.05)		\$ 0.42
Add back:					
Goodwill amortization, net of income taxes	0.01		-		-
Adjusted diluted earnings (loss) per share	\$ 0.22		\$ (0.05)		\$ 0.42

3. INVENTORIES:

The Company uses the LIFO method of inventory valuation for approximately 80 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,	
	2002	2003
	(in Thousands)	
Finished goods	\$23,268	\$22,324
Work in process	720	256
Inventories at FIFO	23,988	22,580
Less - LIFO allowance	(3,596)	(3,435)
Inventories	\$20,392	\$19,145

4. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

	December 31,	
	2002	2003
	(in Thousands)	
Land	\$1,549	\$1,549
Buildings and leasehold improvements	6,199	6,184
Furniture, fixtures and equipment	4,970	4,564
	12,718	12,297
Less - Accumulated depreciation and amortization	(4,684)	(4,902)

	\$8,034		\$7,395

5. LONG-TERM DEBT:

Long-term debt consisted of the following:

	December 31,	
	2002	2003
	(in Thousands)	
Long-term debt:		
Credit facility:		
Working capital lines of credit	\$ 17,374	\$ 12,000
Term loan component	4,519	3,356
Notes payable to finance companies, 7.74% to 10.14%, collateralized by warehouse equipment, furniture and fixtures, payable in monthly installments through September 2005	639	284
Mortgage loans payable to insurance companies, 6.25% to 8.93%, collateralized by real estate, payable in monthly installments through January 2013	2,579	2,509
	25,111	18,149
Less: Current portion	(1,625)	(1,474)
	\$23,486	\$16,675

Under the Company's loan agreement with its bank lender (the "Credit Facility"), all available cash is generally applied to reduce outstanding borrowings, with operations funded through borrowings under the Credit Facility. The Credit Facility consists of a secured line of credit with the Company and a secured term loan.

The Credit Facility provides for borrowings up to an aggregate of the lesser of (i) a percentage of the collateral value based on a formula set forth therein or (ii) \$30.0 million, matures April 1, 2006, provides the option of interest at LIBOR plus a margin ranging from 2.25% to 3.25% or prime plus a margin ranging from 0.0% to 0.75%. The margin is determined by the ratio of funded debt to earnings before interest, taxes, depreciation and amortization for a twelve-month period as of the end of the preceding calendar quarter. For the quarter ended December 31, 2003 the prime margin and LIBOR margin were 0.00% and 2.50%, respectively, for the revolving portion of the Credit Facility and 0.25% and 2.75%, respectively, for the term portion of the Credit Facility. The prime rate averaged, 6.91%, 4.67%, and 4.12% during 2001, 2002, and 2003, respectively, and at December 31, 2003, was 4.00%. At December 31, 2003, \$15 million was borrowed at a LIBOR rate of 1.16% plus a weighted average margin of 2.55%. The Credit Facility is secured by receivables, inventories, real estate and machinery and equipment. The Credit Facility contains customary affirmative and negative covenants as well as financial covenants that are measured monthly and require the Company to maintain a certain cash flow and other financial ratios. At December 31, 2003, the Company was in compliance with these covenants. In addition to the \$0.6 million of cash at December 31, 2003, the Company had \$9.5 million available for borrowings under the Credit Facility at December 31, 2003. Although the Company expects to be able to comply with the covenants, including the financial covenants, of the Credit Facility, there can be no assurance that in the future it will be able to do so or that its lender will be willing to waive such non-

compliance or amend such covenants.

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

2004	\$ 1,474
2005	1,304
2006	13,119
2007	98
2008	104
Thereafter	2,050
	\$ 18,149

6. INCOME TAXES:

The provision (benefit) for income taxes consists of the following:

	Years Ended December 31,		
	2001	2002	2003
	(in Thousands)		
Current -			
Federal	\$ (621)	\$ 168	\$ 980
State	60	50	20
	(561)	218	1,000
Deferred	1,232	796	128
	\$ 671	\$ 1,014	1,128

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

	Years Ended December 31,		
	2001	2002	2003
	(in Thousands)		
Income taxes computed at federal statutory rate	\$ 544	\$ 895	\$ 1,087
State income taxes, net of federal benefit	40	33	13

Other	87	86	28
	\$ 671	\$ 1,014	1,128

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

	December 31,	
	2002	2003
	(in Thousands)	
Net current assets	\$ 899	\$ 876
Net noncurrent assets	508	403
Net assets	\$ 1,407	\$ 1,279

Deferred tax liabilities and assets were comprised of the following:

	December 31,	
	2002	2003
	(in Thousands)	
Deferred tax assets		
Goodwill	\$ 886	\$ 801
Allowance for doubtful accounts	420	483
Inventories	188	221
Net operating loss carryforward	170	-
Accruals	208	272
Other	13	-
Total deferred tax assets	1,885	1,777
Deferred tax liability		
Property and equipment	(378)	(398)
Other	(100)	(100)
Net deferred tax asset	\$ 1,407	\$ 1,279

The Company believes it is more likely than not that the net deferred income tax asset as of December 31, 2003 in the amount of \$1.3 million will be realized based primarily on the assumption of future taxable income. The Company has certain state tax net operating loss carryforwards aggregating approximately \$7.2 million, which expire in years 2004 through 2020. A valuation allowance has been recorded to offset the deferred tax asset related to these state tax net operating loss carryforwards.

7. 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 2002 the Company purchased 1,820 shares of the Series A preferred stock from the DXP Employee Stock Plan for \$20.00 per share. During 2003 the Company purchased 46 shares of Series A preferred stock from an individual for \$20.00 per share.

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 authorize the grant of options to purchase 500,000, 330,000 and 200,000 shares of the Company's common stock, respectively. In accordance with these stock option plans which were approved by the Company's shareholders, options are 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. Activity during 2001, 2002, and 2003 with respect to the stock options follows:

				Weighted	Weighted
			Options Price	Average	Average
	Shares		Per Share	Exercise Price	Fair Value
Outstanding at December 31, 2000	1,714,395		\$ 1.00 - \$ 12.00	\$2.60	
Granted at market price	75,000		\$ 1.00 - \$ 1.23	\$0.84	\$0.70
Granted above market price	285,500		\$ 1.00 - \$ 1.00	\$1.00	\$0.48
Cancelled or expired	(162,553)		\$ 1.00 - \$ 12.00	\$3.07	
Outstanding at December 31, 2001	1,912,342		\$ 0.65 - \$ 12.00	\$2.26	
Granted at market price	223,500		\$ 0.92 - \$ 1.20	\$0.98	\$0.81
Cancelled or expired	(4,175)		\$12.00 - \$ 12.00	\$12.00	
Outstanding at December 31, 2002	2,131,667		\$ 0.65 - \$ 12.00	\$2.10	
Granted at market price	30,000		\$ 1.40 - \$ 1.40	\$1.40	\$1.17
Cancelled or expired	(64,350)		\$ 7.50 - \$ 12.00	\$11.08	
Outstanding at December 31, 2003	2,097,317		\$ 0.65 - \$ 12.00	\$1.82	
Exercisable at December 31, 2003	1,933,317		\$ 0.65 - \$ 12.00	\$1.88	

Options Outstanding				Options Exercisable		
Range of	Number	Contractual Life	Weighted Average	Number	Weighted Average	
Exercise Prices	Outstanding	(in years)	Exercise Price	Exercisable	Exercise Price	
\$0.01 to \$3.00	2,027,557	3.6	\$ 1.51	1,863,557	\$ 1.54	
\$3.01 to \$6.00	12,000	5.4	4.44	12,000	4.44	
\$9.01 to \$12.00	57,760	2.0	12.00	57,760	12.00	
	2,097,317	3.6	1.82	1,933,317	1.88	

The outstanding options at December 31, 2003, expire between March 2005 and July 2013. The weighted average remaining contractual life was 4.8 years, 4.4 years, and 3.6 years at December 31, 2001, 2002 and 2003, respectively.

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 before cumulative effect of a change in accounting principle for the years ended December 31, 2001, 2002, and 2003.

	2001	2002	2003
Basic:			
Basic weighted average shares outstanding	4,071,685	4,071,685	4,071,685
Income before cumulative effect of a change in accounting principle	\$ 929,000	\$1,619,000	\$2,069,000
Convertible preferred stock dividend	90,000	90,000	90,000
Net income attributable to common shareholders before cumulative effect of a change in accounting principle	\$ 839,000	\$1,529,000	\$1,979,000
Per share amount	\$ 0.21	\$ 0.38	\$ 0.49

Diluted				
Basic weighted average shares outstanding	4,071,685		4,071,685	4,071,685
Net effect of dilutive stock options - based on the treasury stock method	11,404		63,000	428,418
Assumed conversion of convertible preferred stock	420,000		420,000	420,000
Total	4,503,089		4,554,685	4,920,103
Income attributable to common shareholders before cumulative effect of a change in accounting principle	\$ 839,000		\$1,529,000	\$1,979,000
Convertible preferred stock dividend	90,000		90,000	90,000
Income for diluted earnings per share before cumulative effect of a change in accounting principle	\$ 929,000		\$1,619,000	\$2,069,000
Per share amount	\$ 0.21		\$ 0.36	\$ 0.42

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.

8. COMMITMENTS AND CONTINGENCIES:

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 2003, for non-cancelable leases are as follows (in thousands):

2004	\$ 1,413
2005	1,146
2006	748
2007	464
2008	271
Thereafter	357
	\$ 4,399

Rental expense for operating leases was \$1,717,145, \$1,438,478 and \$1,543,654 for the years ended December 31, 2001, 2002, and 2003 respectively.

In 2003, the Company was notified that it had been sued in various state courts in Texas, directly and as successor in interest to a corporation, which is not related to the Company. The suits allege personal injury resulting from products containing asbestos allegedly sold by the Company. The suits do not state what products the Company allegedly sold or when the Company allegedly sold the products. Discovery is in the very

early stages on these suits. The Company has recently notified certain of its insurance carriers regarding these claims. The Company does not know if the insurance carriers will assume the defense of these claims. If any product sold by the Company is identified through discovery as a product that plaintiffs claim exposure to, it is the Company's intent to seek indemnity from the original manufacturer of the product. The Company intends to vigorously defend these claims. Because of the lack of specific information described above, the Company is unable to determine if these claims could have a material adverse impact on the Company's results of operations and cash flows for a particular period or on the consolidated financial position of the Company.

9. EMPLOYEE BENEFIT PLANS:

The Company offers a 401(k) plan which is eligible to substantially all employees. The Company matches employee contributions at a rate of 50 percent up to 4 percent of salary deferral. The Company contributed \$365,000, \$338,000, and \$297,000 to the 401(k) plan in the years ended December 31, 2001, 2002, and 2003, respectively.

10. RELATED-PARTY TRANSACTIONS:

The Chief Executive Officer (the "CEO") of the Company has personally guaranteed up to \$500,000 of the obligations of the Company under the Credit Facility. Additionally, certain shares held in trust for the CEO's children are pledged to secure the Credit Facility.

Prior to 2002, the Board of Directors of the Company had approved the Company making advances and loans to the CEO. The total outstanding balance of such loans and advances including accrued interest was \$763,897 at December 31, 2000. During April 2001, the Company's bank lender for the Credit Facility loaned \$455,000 to the Company, which in turn was advanced to the CEO, who then retired his personal loan with the lender. During 2001 the advances and loans 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. The notes have not been modified or amended since 2001. The total balance of the notes was \$1,251,238 and \$1,239,000 at December 31, 2002 and 2003, respectively. The notes are partially secured by 224,100 shares of the Company's common stock, options to purchase 800,000 shares of the Company's common stock and real estate. These notes receivable are reflected as a reduction of shareholders' equity.

11. 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 two electrical supply businesses in 1998. During August 2001, the Company sold the majority of the assets of one of the two businesses which comprised the Electrical Contractor segment. Historically, the business which was sold accounted for approximately two-thirds of the sales of the Electrical Contractor segment. 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 the Company's segments is as follows:

		Electrical	
	MRO	Contractor	Total
	(in Thousands)		
2001			
Sales	\$ 166,216	\$ 8,213	\$ 174,429
Operating income (loss)	4,364	(330)	4,034
Identifiable assets	56,536	2,398	58,934
Capital expenditures	691	-	691
Depreciation and amortization	1,350	31	1,381

Net income	0.2	0.2	0.3	0.2
Earnings per share - diluted	0.04	0.05	0.06	0.05
2002				
Sales	\$ 37.6	\$ 37.2	\$ 38.4	\$ 34.9
Gross profit	9.6	9.6	9.8	9.0
Income before cumulative effective of a change in accounting principle	0.4	0.4	0.4	0.4
Net (loss) income	(1.4)	0.4	0.4	0.4
Earnings (loss) per share before cumulative effect of a change in accounting principle - diluted	0.08	0.09	0.09	0.10
(Loss) earnings per share - diluted	(0.34)	0.09	0.09	0.10
2003				
Sales	\$ 37.5	\$ 37.7	\$ 40.4	\$ 35.1
Gross profit	9.5	9.5	10.3	9.2
Net income	0.5	0.4	0.7	0.5
Earnings per share - diluted	0.10	0.10	0.13	0.09

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

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

Arthur Andersen LLP ("Andersen") served as independent auditors for the fiscal years ended December 31, 1997 through 2001. In response to Andersen's legal problems, on June 3, 2002 the Audit Committee decided, with the approval of the Board of Directors, that effective June 6, 2002 DXP would no longer engage Andersen as independent auditors and that as of June 6, 2002 Hein & Associates LLP would be appointed as independent auditors for the year ended December 31, 2002.

The reports of Andersen on DXP consolidated financial statements for the fiscal year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During DXP's fiscal year ended December 31, 2001 and through June 6, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference thereto in connection with its report on DXP's consolidated financial statements for such periods; and there were no "reportable events" as such term is used in Item 304 (a) (1) (v) of Regulation S-K.

DXP provided Andersen with a copy of the foregoing disclosures. A letter from Andersen was included as Exhibit 16 to Form 8-K, filed June 6, 2002, stating its agreement with such statements.

During the fiscal year ended December 31, 2001 and through June 6, 2002, DXP did not consult Hein & Associates LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304 (a) (2) (i) and (ii) of Regulation S-K.

ITEM 9A Controls and Procedures

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

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended December 31, 2003) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The information required by this item is incorporated by reference from the information in our definitive proxy statement for the 2004 Annual Meeting of Shareholders which we will file with the SEC within 120 days of the end of the fiscal year to which this report relates (the "Proxy Statement").

ITEM 11. Executive Compensation

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

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

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

ITEM 13. Certain Relationships and Related Transactions

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

ITEM 14. Principal Auditor Fees and Services.

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

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents included in this report:

1. Financial Statements (included under Item 8):

DXP Enterprises, Inc. and Subsidiaries:

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1. 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.

(b) Reports on Form 8-K:

On November 14, 2003, DXP filed a Current Report on Form 8-K with the SEC in connection with the press release announcing the Company's 2003 third quarter results.

(c) Exhibits:

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

Exhibit

No. Description

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

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

4.1 Form of Common Stock certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).

4.2 See Exhibit 3.1 for provisions of the Company's Restated Articles of Incorporation, as amended, defining the rights of security holders.

4.3 Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of security holders.

10.1 DXP Enterprises, Inc. 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

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

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

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

*10.5 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$915,974.00, made by David R. Little

payable to DXP Enterprises, Inc.

*10.6 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$235,264.00, made by David R. Little payable to DXP Enterprises, Inc.

*10.7 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$100,000.00, made by David R. Little payable to DXP Enterprises, Inc.

*10.8 Amendment No. One to DXP Enterprises, Inc. Non-Employee Director Stock Option Plan

*10.9 Amended and Restated Consolidated Loan and Security Agreement and Modification Agreement dated effective as of June 25, 2003, by and between Fleet Capital Corporation and DXP Enterprises, Inc.

*10.10 Employment Agreement dated effective as of January 1, 2004, between DXP Enterprises, Inc. and David R. Little.

*21.1 Subsidiaries of the Company

*23.1 Consent from Hein & Associates LLP, independent public accountants.

*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 AUDITOR'S REPORT ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders

DXP Enterprises, Inc.

Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of DXP Enterprises, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated February 19, 2004. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 15 herein (Schedule II-Valuation and Qualifying Accounts) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects with the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ HEIN & ASSOCIATES LLP

HEIN & ASSOCIATES LLP

Houston, Texas

February 19, 2004

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

DXP ENTERPRISES, INC.

December 31, 2003

(in thousands)

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions (1)	Balance At End of Year
Year ended December 31, 2003					
Deducted from assets accounts	\$ 1,235	\$ 142	\$ -	\$ (43)	\$ 1,420
Allowance for doubtful accounts					
Year ended December 31, 2002					
Deducted from assets accounts	\$ 1,784	\$ 276	\$ -	\$ 825	\$ 1,235
Allowance for doubtful accounts					
Year ended December 31, 2001					
Deducted from assets accounts	\$ 1,888	\$ 131	\$ -	\$ 235	\$ 1,784
Allowance for doubtful accounts					
(1) Uncollectible accounts written off, net of recoveries					

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 11, 2004

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 11, 2004

David R. Little Chief Executive Officer and Director

(Principal Executive Officer)

/s/ MAC McCONNELL Senior Vice-President/Finance March 11, 2004

Mac McConnell and Chief Financial Officer

(Principal Financial and Accounting

Officer)

/s/ CLETUS DAVIS Director March 11, 2004

Cletus Davis

/s/ TIMOTHY P. HALTER Director March 11, 2004

Timothy P. Halter

/s/ KENNETH H. MILLER Director March 11, 2004

Kenneth H. Miller

EXHIBIT INDEX

Exhibit

No. Description

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

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

4.1 Form of Common Stock certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).

4.2 See Exhibit 3.1 for provisions of the Company's Restated Articles of Incorporation, as amended, defining the rights of security holders.

4.3 Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of security holders.

10.1 DXP Enterprises, Inc. 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

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

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

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

*10.5 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$915,974.00, made by David R. Little payable to DXP Enterprises, Inc.

*10.6 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$235,264.00, made by David R. Little payable to DXP Enterprises, Inc.

*10.7 Promissory Note dated December 31, 2001 in the aggregate principal amount of \$100,000.00, made by David R. Little payable to DXP Enterprises, Inc.

*10.8 Amendment No. One to DXP Enterprises, Inc. Non-Employee Director Stock Option Plan

*10.9 Amended and Restated Consolidated Loan and Security Agreement and Modification Agreement dated effective as of June 25, 2003, by and between Fleet Capital Corporation and DXP Enterprises, Inc.

*10.10 Employment Agreement dated effective as of January 1, 2004, between DXP Enterprises, Inc. and David R. Little.

*21.1 Subsidiaries of the Company

*23.1 Consent from Hein & Associates LLP, independent public accountants.

*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.

PROMISSORY NOTE

\$915,974.00 Houston, Texas December 31, 2001

FOR VALUE RECEIVED, after date, without grace, in the manner, on the dates, and in the amounts so herein stipulated, the undersigned, David R. Little, promises to pay to the order of DXP Enterprises, Inc. at 7272 Pinemont in Houston, Texas, the sum of:

NINE HUNDRED FIFTEEN THOUSAND NINE HUNDRED SEVENTY-FOUR AND 0/100 DOLLARS

(\$915,974.00)

in Lawful money of the United States of America, which shall be legal tender, in payment of all debts and dues, public and private, at the time of payment, and to pay interest thereon from date until maturity at the rate of 3.97% per annum, payable as stipulated herein.

This note is payable as follows, to-wit:

Any proceeds from the sale of the DXP Enterprises, Inc. common stock and stock options which serve as collateral for this note shall be applied in full against the note. Payment of the note is due in one lump sum on December 30, 2010. Payment of accrued interest is due annually on December 30.

If either the employee or employer for any reason terminates employment with DXP, the note shall become due and payable immediately upon termination. Any and all compensation due the employee at that time shall be applied against the balance of the note with the remainder of the note (if any) due in full.

It is agreed that time is of the essence of this agreement, and that in the event of default in the payment of any installment of principal or interest when due, the holder of this note may declare the entirety of the note evidenced hereby, immediately due and payable without notice, and failure to exercise said option shall not constitute a waiver on part of the holder of the right to exercise the same at any other time.

In the event of default in the making of any payment herein provided, either of principal or interest, or in the event of said note evidenced hereby is declared due, interest shall accrue at the rate of 10% per annum from such time.

The undersigned hereby agrees to pay all expenses incurred for collection, all of which shall become a part of the principal hereof, if this note is placed in the hands of an attorney for collection, or if collected by suit or through any probate, bankruptcy or any other legal proceedings.

Each maker, surety and endorser waives demand, grace, notice presentment for payment, and protest and agrees and consents that this note and the liens securing its payment, may be renewed, and the time of payment extended without notice, and without releasing any of the parties.

The payment of this note is secured by 224,100 shares of DXP Enterprises, Inc. common stock and options to purchase 800,000 shares of DXP Enterprises, Inc. common stock.

DXP Enterprises, Inc.

/s/Mac McConnell

Mac McConnell

/s/David R. Little

David R. Little

PROMISSORY NOTE

\$235,264.00 Houston, Texas December 31, 2001

FOR VALUE RECEIVED, after date, without grace, in the manner, on the dates, and in the amounts so herein stipulated, the undersigned, David R. Little, promises to pay to the order of DXP Enterprises, Inc. at 7272 Pinemont in Houston, Texas, the sum of:

TWO HUNDRED THIRTY-FIVE THOUSAND TWO HUNDRED SIXTY-FOUR AND 0/100 DOLLARS (\$235,264.00)

in Lawful money of the United States of America, which shall be legal tender, in payment of all debts and dues, public and private, at the time of payment, and to pay interest thereon from date until maturity at the rate of 3.97% per annum, payable as stipulated herein.

This note is payable as follows, to-wit:

Any proceeds from the sale of the real estate which serves as collateral for this note shall be applied in full against the note. Payment of the note is due in one lump sum on December 30, 2010. Payment of accrued interest is due annually on December 30.

If either the employee or employer for any reason terminates employment with DXP, the note shall become due and payable immediately upon termination. Any and all compensation due the employee at that time shall be applied against the balance of the note with the remainder of the note (if any) due in full.

It is agreed that time is of the essence of this agreement, and that in the event of default in the payment of any installment of principal or interest when due, the holder of this note may declare the entirety of the note evidenced hereby, immediately due and payable without notice, and failure to exercise said option shall not constitute a waiver on part of the holder of the right to exercise the same at any other time.

In the event of default in the making of any payment herein provided, either of principal or interest, or in the event of said note evidenced hereby is declared due, interest shall accrue at the rate of 10% per annum from such time.

The undersigned hereby agrees to pay all expenses incurred for collection, all of which shall become a part of the principal hereof, if this note is placed in the hands of an attorney for collection, or if collected by suit or through any probate, bankruptcy or any other legal proceedings.

Each maker, surety and endorser waives demand, grace, notice presentment for payment, and protest and agrees and consents that this note and the liens securing its payment, may be renewed, and the time of payment extended without notice, and without releasing any of the parties.

The payment of this note is secured a 3rd lien on property located at 427 Thamer Ln. Houston, Texas.

DXP Enterprises, Inc.

/s/Mac McConnell

Mac McConnell

/s/David R. Little

David R. Little

PROMISSORY NOTE

\$100,000.00 Houston, Texas December 31, 2002

FOR VALUE RECEIVED, after date, without grace, in the manner, on the dates, and in the amounts so herein stipulated, the undersigned, David R. Little, promises to pay to the order of DXP Enterprises, Inc. at 7272 Pinemont in Houston, Texas, the sum of:

ONE HUNDRED THOUSAND AND 0/100 DOLLARS

(\$100,000.00)

in Lawful money of the United States of America, which shall be legal tender, in payment of all debts and dues, public and private, at the time of payment, and to pay interest thereon from date until maturity at the rate of 3.97% per annum, payable as stipulated herein.

This note is payable as follows, to-wit:

Any proceeds from the sale of the real estate, which serves as collateral for this note, shall be applied in full against the note. Payment of the note is due in one lump sum on December 30, 2010. Payment of accrued interest is due annually on December 30.

If either the employee or employer for any reason terminates employment with DXP, the note shall become due and payable immediately upon termination. Any and all compensation due the employee at that time shall be applied against the balance of the note with the remainder of the note (if any) due in full.

It is agreed that time is of the essence of this agreement, and that in the event of default in the payment of any installment of principal or interest when due, the holder of this note may declare the entirety of the note evidenced hereby, immediately due and payable without notice, and failure to exercise said option shall not constitute a waiver on part of the holder of the right to exercise the same at any other time.

In the event of default in the making of any payment herein provided, either of principal or interest, or in the event of said note evidenced hereby is declared due, interest shall accrue at the rate of 10% per annum from such time.

The undersigned hereby agrees to pay all expenses incurred for collection, all of which shall become a part of the principal hereof, if this note is placed in the hands of an attorney for collection, or if collected by suit or through any probate, bankruptcy or any other legal proceedings.

Each maker, surety and endorser waives demand, grace, notice presentment for payment, and protest and agrees and consents that this note and the liens securing its payment, may be renewed, and the time of payment extended without notice, and without releasing any of the parties.

The payment of this note is secured by a fourth lien on property located at 427 Thamer Lane, Houston, Texas.

DXP Enterprises, Inc.

/s/Mac McConnell

Mac McConnell

/s/David R. Little

David R. Little

AMENDMENT NUMBER ONE

TO

DXP ENTERPRISES, INC.

NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

By this Agreement, DXP Enterprises, Inc. Non-Employee Director Stock Option Plan (herein referred to as the "Plan") is amended as follows, effective May 1, 2003:

Section 3.1 is deleted in its entirety and is replaced by the following:

Automatic Annual Grants. Subject to the availability under the Plan of a sufficient number of shares of stock that may be issued upon the exercise of outstanding Options, each Non-Employee Director who is a director of the Company on any July 1 while this Plan is in effect shall be granted on each such July 1 an Option to purchase 10,000 shares of Stock.

DXP Enterprises, Inc.

By: /s/Mac McConnell

Title: Senior Vice President & CFO

Date: May 15, 2003

AMENDED AND RESTATED
CONSOLIDATED LOAN AND SECURITY AGREEMENT
AND MODIFICATION AGREEMENT

THIS AMENDED AND RESTATED CONSOLIDATED LOAN AND SECURITY AGREEMENT AND MODIFICATION AGREEMENT ("Agreement") is made effective as of the 25th day of June, 2003, by and between FLEET CAPITAL CORPORATION ("Lender"), a Rhode Island corporation with an office at 5950 Sherry Lane, Suite 300, Dallas, Texas 75225, and SEPCO INDUSTRIES, INC., a Texas corporation ("Sepco"), with offices at 7272 Pinemont, Houston, Texas 77040, AMERICAN MRO, INC., a Nevada corporation ("American"), with offices at 7272 Pinemont, Houston, Texas 77040, DXP ACQUISITION, INC. d/b/a STRATEGIC ACQUISITION, INC., a Nevada corporation ("DXP"), with offices at 7272 Pinemont, Houston, Texas 77040, PELICAN STATE SUPPLY COMPANY, INC., a Nevada corporation ("Pelican"), with offices at 7272 Pinemont, Houston, Texas 77040, and DXP ENTERPRISES, INC., a Texas corporation ("Parent"), with offices at 7272 Pinemont, Houston, Texas 77040 (Sepco, American, Pelican and DXP being hereinafter jointly and severally, individually and collectively, referred to herein as the "Borrower," as governed by the provisions of Sections 1.4 and 1.5 of this Agreement.

WHEREAS, Sepco and Lender entered into that certain Second Amended and Restated Loan and Security Agreement dated April 1, 1994 (as amended, the "Sepco Loan Agreement") with American, Sepco and Lender being the present parties to the Sepco Loan Agreement; and

WHEREAS, DXP and Lender entered into that certain Loan and Security Agreement, dated June 16, 1997 (as amended, modified or restated from time to time, the "DXP Loan Agreement"); and

WHEREAS, Pelican and Lender entered into that certain Loan and Security Agreement dated May 29, 1997 (as amended, modified or restated from time to time, the "Pelican Loan Agreement") (the Sepco Loan Agreement, the Pelican Loan Agreement, and the DXP Loan Agreement being hereinafter collectively referred to as the "Existing Loan Agreements"); and

WHEREAS, each of Sepco, American, Pelican and DXP is a subsidiary of Parent; and

WHEREAS, each of Sepco, American, Pelican, DXP, and Parent want to utilize their borrowing potential on a consolidated basis to the same extent possible as if they were merged into a single corporate entity and have therefore requested that Lender combine and consolidate the respective revolving credit facilities established pursuant to the Existing Loan Agreements and have further requested that Lender permit Parent to become a co-borrower in connection with such combined and consolidated revolving credit facilities, and have further requested that Lender extend the respective credit facilities established pursuant to the Existing Loan Agreements and make certain other amendments to the Existing Loan Agreements, and Sepco has requested that Lender agree to certain modifications to the Term Note (as such term is hereinafter defined); and

WHEREAS, subject to the terms, provisions and conditions specified in this Agreement, Lender is willing to agree to the foregoing requests of Borrower; and

WHEREAS, to effectuate the foregoing, Borrower and Lender desire to consolidate, amend and restate (but not extinguish) the Existing Loan Agreements and make Parent a party thereto and to modify the Term Note as hereinafter set forth.

NOW THEREFORE, in consideration of the premises and other value, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender agree as follows:

SECTION 1. GENERAL DEFINITIONS

Defined Terms. When used herein, the following terms shall have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

Accounts - has the meaning assigned thereto under the Code.

Account Debtor - any Person who is or may become obligated under or on account of an Account.

ACH Exposure Reserve Amount - means the amount calculated as follows:

<u>Day</u>	<u>Amount</u>
(i) Ninth Business Day immediately preceding a	(i) \$ 150,000

scheduled payroll payment date for Borrower	
(ii) Eighth Business Day immediately preceding a scheduled payroll payment date for Borrower	(ii) \$ 225,000
(iii) Seventh Business Day immediately preceding a scheduled payroll payment date for Borrower	(iii) \$ 300,000
(iv) Sixth Business Day immediately preceding a scheduled payroll payment date for Borrower	(iv) \$ 375,000
(v) Fifth Business Day immediately preceding a scheduled payroll payment date for Borrower	(v) \$ 450,000
(vi) Fourth Business Day immediately preceding a scheduled payroll payment date for Borrower	(vi) \$ 525,000
(vii) Third Business Day immediately preceding a scheduled payroll payment date for Borrower	(vii) \$ 600,000
(viii) Second Business Day immediately preceding a scheduled payroll payment date for Borrower	(viii) \$ 675,000
(ix) Business Day immediately preceding a scheduled payroll payment date for Borrower	(ix) \$ 750,000
(x) Business Day which is a scheduled payroll payment date for Borrower and thereafter until Ninth Business Day immediately preceding a scheduled payroll payment date for Borrower	(x) \$ 75,000

Acquisition Term Loans - has the meaning assigned to such term in the Sepco Loan Agreement.

Adjusted Net Earnings From Operations - with respect to any fiscal period, means the consolidated (in accordance with GAAP) net earnings (or loss) of Parent and its Subsidiaries after provision for income taxes for such fiscal period of Parent, all as reflected on the consolidated financial statement of Parent and its Subsidiaries supplied to Lender pursuant to Section 9.1(J) hereof, but excluding: (a) any gain or loss arising from the sale of capital assets; (b) any gain arising from any write-up of assets; (c) earnings of any Subsidiary accrued prior to the date it became a Subsidiary; (d) earnings of any corporation, substantially all the assets of which have been acquired in any manner by Parent or a Subsidiary of Parent, realized by such corporation prior to the date of such acquisition; (e) net earnings of any business entity (other than a Subsidiary) in which Parent has an ownership interest unless such net earnings shall have actually been received by Parent or such Subsidiary of Parent in the form of cash distributions; (f) any portion of the net earnings of any Subsidiary which for any reason is unavailable for payment of dividends to Parent or a Subsidiary of Parent; (g) the earnings of any Person to which any assets of Parent or any Subsidiary of Parent shall have been sold, transferred or disposed of, or into which Parent or a Subsidiary of Parent shall have merged, or been a party to any consolidation or other form of reorganization, prior to the date of such transaction; (h) any gain arising from the acquisition of any Securities of Parent or a Subsidiary of Parent; and (i) any gain arising from extraordinary or non-recurring items.

Affiliate - a Person (other than a Subsidiary): (a) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, Borrower; (b) which beneficially owns or holds 5% or more of the voting Securities of Borrower; or (c) 5% or more of the voting Securities (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is beneficially owned or held by Borrower or a Subsidiary of Borrower. For purposes hereof, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting Securities, by contract or otherwise.

Agreement - this Amended and Restated Consolidated Loan and Security Agreement and Modification Agreement, as amended, modified, supplemented or restated from time to time.

American - has the meaning assigned thereto in the preamble.

Applicable Annual Rate - as defined in Section 3.1(a) of this Agreement.

April 2001 Amendment - has the meaning assigned thereto in the Sepco Loan Agreement.

Availability - The amount of money which Borrower is entitled to borrow from time to time as Revolving Credit Loans, such amount being the difference derived when the sum of the principal amount of Revolving Credit Loans then outstanding (including any amounts which Lender may have paid for the account of Borrower pursuant to any of the Loan Documents and which have not been reimbursed by Borrower) and the undrawn amount of all LC Guaranties then outstanding is subtracted from the Borrowing Base, as the calculation is determined by Lender. If the

amount outstanding is equal to or greater than the Borrowing Base, Availability is 0.

Average Daily Availability - The amount obtained by adding the difference between the Borrowing Base and the unpaid balance of Revolving Credit Loans owing by Borrower to Lender at the end of each day during the period in question and by dividing such sum by the number of days in such period.

Bank - Fleet National Bank.

Banking Relationship Indebtedness - Indebtedness or other obligations of Borrower or any Affiliate of Borrower relating to or arising out of (i) checking and operating account relationships between Borrower or any Affiliate of Borrower and Lender or any Affiliate of Lender (including Bank), including any obligations under Cash Management Agreements, and (ii) Hedging Agreements with Lender or any Affiliate of Lender (including Bank).

Base Rate - the rate of interest announced or quoted by Bank from time to time as its "base rate" for commercial loans, whether or not such rate is the lowest rate charged by said bank to its most preferred borrowers; and, if the base rate for commercial loans is discontinued by said bank as a standard, a comparable reference rate designated by said bank as a substitute therefor shall be the Base Rate.

Base Rate Loans - all Loans other than Eurodollar Loans.

Borrower - has the meaning assigned to such term in the preamble.

Borrowing Base - as at any date of determination thereof, an amount equal to the lesser of:

(a) Thirty Million Dollars (\$30,000,000), minus the unpaid principal balance of the Term Loan at such date, minus the aggregate face amount of all LC Guaranties and Letters of Credit issued by Lender or Affiliates of Lender outstanding at such date minus the ACH Exposure Reserve Amount at such date; or

(b) an amount equal to:

(i) 85% of the net amount of Eligible Accounts outstanding at such date (as determined by Lender in its sole discretion);

PLUS

(ii) the lesser of (A) Twelve Million Five Hundred Thousand Dollars (\$12,500,000), or (B) (x) 50% of the value of Eligible Inventory (as determined by Lender in its sole discretion) at such date consisting of finished goods, calculated on the basis of the lower of cost or fair market value (as determined by Lender in its sole discretion) with the cost of finished goods calculated on a first-in, first-out basis, to the extent such Eligible Inventory is not SmartSource Inventory, plus (y) the SmartSource Inventory Amount;

MINUS (subtract from the sum of clauses (i) and (ii))

(iii) an amount equal to the sum of (A) the face amount of all LC Guaranties and Letters of Credit issued by Lender or Affiliates of Lender and outstanding at such date, and (B) any amounts which Lender may be obligated to pay in the future for the account of Borrower pursuant to this Agreement, the Other Agreements or otherwise, and (C) the ACH Exposure Reserve Amount at such date.

For purposes hereof, the net amount of Eligible Accounts at any time shall be the face amount of such Eligible Accounts less any and all returns, rebates, discounts (which may, at Lender's option, be calculated on shortest terms), credits, allowances or excise taxes of any nature at any time issued, owing, claimed by Account Debtors, granted, outstanding or payable in connection with such Accounts at such time.

Business Day - a day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of Texas or is a day on which banking institutions in such state are closed.

Capital Expenditures - expenditures made and liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one year, including the direct or indirect acquisition of such assets by way of increased product or service charges, offset items or otherwise and the principal portion of payments with respect to capitalized lease obligations.

Capitalized Lease Obligation - any Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

Cash Management Agreements - any agreement entered into from time to time between Borrower or any of its Subsidiaries, on the one hand, and

Bank or any of its Affiliates or any other banking or financial institution, on the other, in connection with cash management services for operating, collections, payroll and trust accounts of Borrower or its Subsidiaries provided by such banking or financial institution, including automatic clearinghouse services, controlled disbursement services, electronic funds transfer services, information reporting services, lockbox services, stop payment services and wire transfer services.

Certified Security - has the meaning assigned thereto under the Code.

Chattel Paper - has the meaning assigned thereto under the Code.

Closing Date - the date on which all of the conditions precedent in Section 10 are satisfied.

Code - the Uniform Commercial Code as adopted and in force in the State of Texas, as from time to time in effect.

Collateral - all of the Property and interests in Property described in Section 4 hereof, and all other Property and interests in Property that now or hereafter secure the payment and performance of any of the obligations.

Commercial Tort Claims - has the meaning assigned thereto in the Code.

Commitment - Thirty Million Dollars (\$30,000,000.00).

Computer Hardware and Software - all of Borrower's rights (including rights as licensee and lessee) with respect to (a) computer and other electronic data processing hardware, including all integrated computer systems, central processing units, memory units, display terminals, printers, computer elements, card readers, tape drives, hard and soft disk drives, cables, electrical supply hardware, generators, power equalizers, accessories, peripheral devices and other related computer hardware; (b) all Software and all software programs designed for use on the computers and electronic data processing hardware described in clause (a) above, including all operating system software, utilities and application programs in any form (source code and object code in magnetic tape, disk or hard copy format or any other listings whatsoever); (c) any firmware associated with any of the foregoing; and (d) any documentation for hardware, Software and firmware described in clauses (a), (b) and (c) above, including flow charts, logic diagrams, manuals, specifications, training materials, charts and pseudo codes.

Contract Right - any right of Borrower to payment under a contract for the sale or lease of goods or the rendering of services, which right is at the time not yet earned by performance.

Current Assets - at any date means the amount at which all of the current assets of a Person would be properly classified as current assets on a balance sheet at such date in accordance with GAAP except that amounts due from Affiliates and investments in Affiliates shall be excluded therefrom.

Default - an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

Default Rate - as defined in Section 3.1(a) of this Agreement.

Deposit Account - has the meaning assigned thereto under the Code.

Distribution - in respect of any corporation means and includes: (a) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (b) the redemption or acquisition of securities unless made contemporaneously from the net proceeds of the sale of Securities.

Document - has the meaning assigned thereto under the Code.

Domestic Loan Adjustment Date - initially, September 30, 2003, and thereafter, the last Business Day of the calendar quarter during which Lender receives the Compliance Certificate required by Section 9.1(j) hereof having a calculation date as of the last day of September, December, March, or June, as the case may be (referred to in this Agreement as "Quarterly Compliance Certificate"), beginning with the Compliance Certificate having the calculation date as of September 30, 2003.

Domestic Margin - (i) for all Revolving Credit Loans, for the period commencing April 1, 2003, and continuing until September 30, 2003, the Domestic Margin shall be 0.25% per annum, (ii) for all Term Loans, for the period commencing April 1, 2003, and continuing until September 30, 2003, the Domestic Margin shall be 0.50% per annum, and thereafter (iii) on each Domestic Loan Adjustment Date, the applicable percent per annum set forth in the pricing table below respectively for Revolving Credit Loans and for the Term Loans opposite the ratio of (i) the aggregate principal amount of all Senior Debt outstanding on the calculation date of the applicable Quarterly Compliance Certificate to (ii) the EBITDA calculated for the trailing twelve calendar month period ending on the calculation date of the applicable Quarterly Compliance Certificate.

PRICING TABLE

Ratio of Senior Debt to EBITDA	Domestic Margin for Revolving Credit Loans	Domestic Margin for Term Loans
(i) Less than 3.50 to 1.00	(i) 0.00%	(i) 0.25%
(ii) Greater than or equal to 3.50 to 1.00, but less than 4.00 to 1.00	(ii) 0.00%	(ii) 0.25%
(iii) Greater than or equal to 4.00 to 1.00, but less than 4.75 to 1.00	(iii) 0.25%	(iii) 0.50%
(iv) Greater than or equal to 4.75	(iv) 0.50%	(iv) 0.75%

Dominion Account - a special account of Borrower established by Borrower pursuant to this Agreement at a bank selected by Borrower, but acceptable to Lender, in its sole discretion, and over which Lender shall have sole and exclusive access and control for withdrawal purposes.

DXP - has the meaning assigned to such term in the preamble.

DXP Loan Agreement - has the meaning assigned to such term in the preamble.

DXP Revolver Obligations - means the revolving credit loans outstanding on the Closing Date pursuant to the DXP Loan Agreement.

EBITDA - for any fiscal period of Borrower, means the sum of (i) the Adjusted Net Earnings From Operations of Parent and its Subsidiaries for such period, plus (ii) non-cash charges of Parent and its Subsidiaries in respect to depreciation and amortization for such period, plus (iii) Tax Expense of Parent and its Subsidiaries for such period, plus (iv) Interest Expense of Parent and its Subsidiaries for such period, all of the above being determined on a consolidated basis in accordance with GAAP.

Electronic Chattel Paper - has the meaning assigned thereto in the Code.

Eligible Account - an Account arising in the ordinary course of Borrower's business from the sale of goods or rendition of services which Lender, in its credit judgment, deems to be an Eligible Account. Without limiting the generality of the foregoing, no Account shall be an Eligible Account if:

- (a) it arises out of a sale made by Borrower to a Subsidiary or an Affiliate of Borrower or to a Person controlled by an Affiliate of Borrower; or
- (b) [RESERVED]
- (c) it is due or unpaid more than 90 days after the original invoice date; or
- (d) 50% or more of the Accounts from the Account Debtor are not deemed Eligible Accounts hereunder; or
- (e) the total unpaid Accounts of the Account Debtor exceed 25% of the net amount of all Accounts, to the extent of such excess; or
- (f) any covenant, representation or warranty contained in this Agreement with respect to such Account has been breached; or
- (g) the Account Debtor is also Borrower's creditor or supplier, or the Account Debtor has disputed liability with respect to such Account, or the Account Debtor has made any claim with respect to any other Account due from such Account Debtor to Borrower, or the Account otherwise is or may become subject to any right of setoff by the Account Debtor; or
- (h) the Account Debtor has commenced a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or made an assignment for the benefit of creditors, or a decree or order for relief has been entered by a court having jurisdiction in the premises in respect of the Account Debtor in an involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or if the Account Debtor has ceased to be Solvent or consented to or suffered a receiver, trustee, liquidator or custodian to be appointed for it or for all or a significant portion of its assets or affairs; or

- (i) it arises from a sale to an Account Debtor outside the United States; or
- (j) it arises from a sale to the Account Debtor on a bill-and- hold, guaranteed sale, sale-or-return, sale-on-approval, consignment or any other repurchase or return basis; or
- (k) Lender in good faith believes that collection of such Account is insecure or that payment thereof is doubtful or will be delayed by reason of the Account Debtor's financial condition; or
- (l) the Account Debtor is the United States of America or any department, agency or instrumentality thereof; or
- (m) the Account Debtor is located in the State of New Jersey or Minnesota, unless Borrower has filed a Notice of Business Activities Report with the appropriate officials in those states for the then current year; or
- (n) the Account is subject to a Lien other than a Permitted Lien; or
- (o) the goods giving rise to such Account have not been delivered to and accepted by the Account Debtor or the services giving rise to such Account have not been performed by Borrower and accepted by the Account Debtor or the Account otherwise does not represent a final sale; provided, however, that the foregoing provisions of this paragraph (o) shall not apply to an Account arising in the ordinary course of Borrower's business from the sale of goods or the rendition of services in connection with a written contract between Borrower and the relevant Account Debtor pursuant to which progress payments are billed by the Borrower to the relevant Account Debtor; further provided, however, that in order to be an Eligible Account, such billed progress payment must otherwise constitute an Eligible Account pursuant to the other provisions of the definition of "Eligible Account" and that to the extent the aggregate amount of all such billed progress payments exceed at any time \$2,000,000, the billed progress payments in excess of \$2,000,000 shall not constitute Eligible Accounts; or
- (p) the total unpaid Accounts of the Account Debtor exceed a credit limit determined by Lender, to the extent such Account exceeds such limit; or
- (q) the Account is evidenced by chattel paper or an instrument of any kind, or has been reduced to judgment; or
- (r) Borrower has made any agreement with the Account Debtor for any deduction therefrom, except for discounts or allowances which are made in the ordinary course of business for prompt payment and which discounts or allowances are reflected in the calculation of the face value of each invoice related to such Account; or
- (s) Borrower has made an agreement with the Account Debtor to extend the time of payment thereof; or
- (t) the Account arises from a retail sale of goods to a Person who is purchasing same primarily for personal, family or household purposes.

Eligible Inventory - such Inventory of Borrower which Lender, in its credit judgment, deems to be Eligible Inventory. Without limiting the generality of the foregoing, no Inventory shall be Eligible Inventory unless, in Lender's good faith opinion, it

- (a) is finished goods,
- (b) is in good, new and saleable condition,
- (c) is not obsolete or unmerchantable,
- (d) [RESERVED]
- (e) meets all standards imposed by any governmental agency or authority,
- (f) conforms in all respects to the warranties and representations set forth in Section 6.1 hereof,
- (g) is at all times subject to Lender's duly perfected, first priority security interest and no other Lien except a Permitted Lien,
- (h) is situated at a location in compliance with Section 4.5 hereof and is not in transit;
- (i) to the extent such Inventory is located on the premises of a customer of a Borrower on consignment and does not constitute SmartSource Inventory, such customer has executed a letter in the form of Exhibit A attached hereto (herein referred to as "Eligible Consigned Inventory"); provided, however, that at any particular date not more than \$2,000,000 in Eligible Consigned Inventory may constitute "Eligible Inventory" for purposes of the Borrowing Base; and
- (j) SmartSource Inventory.

Environmental Laws - all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to health, safety and environmental matters.

Equipment - has the meaning assigned thereto under the Code.

ERISA - the Employee Retirement Income Security Act of 1974, and all rules and regulations from time to time promulgated thereunder.

Eurodollar Adjustment Date - initially, September 30, 2003, and thereafter, the last Business Day of the calendar quarter during which Lender receives the Compliance Certificate required by Section 9.1(j) hereof having a calculation date as of the last day of September, December, March, or June, as the case may be (referred to in this Agreement as "Quarterly Compliance Certificate"), beginning with the Compliance Certificate having the calculation date as of September 30, 2003.

Eurodollar Base Rate - as applicable to any Eurodollar Loan, the rate per annum (rounded upward, if necessary, to the nearest 1/32 of one percent) as determined on the basis of the offered rates for deposits in U.S. dollars, for a period of time comparable to such Eurodollar Loan which appears on the Telerate page 3750 as of 11:00 a.m. (London Time) on the day that is two (2) London Banking Days preceding the first day of such Eurodollar Loan; provided, however, if the rate described above does not appear on the Telerate System on any applicable interest determination date, the Eurodollar Base Rate shall be the rate (rounded upwards as described above, if necessary) for deposits in U.S. dollars for a period substantially equal to the interest period on the Reuters Page "LIBO" (or such other page as may replace the LIBO Page on that service for the purpose of displaying such rates), as of 11:00 a.m. (London Time), on the day that is two (2) London Banking Days prior to the beginning of such interest period. If both the Telerate and Reuters systems are unavailable, then the rate for that date will be determined on the basis of the offered rates for deposits in U.S. dollars for a period of time comparable to such Eurodollar Loan which are offered by four (4) major banks in the London interbank market at approximately 11:00 a.m. (London Time), on the day that is two (2) London Banking Days preceding the first day of such Eurodollar Loan as selected by Lender. The principal London office of each of the major London banks so selected will be requested to provide a quotation of its U.S. dollar deposit offered rate. If at least two (2) such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rates quoted for loans in U.S. dollars to leading European banks for a period of time comparable to such Eurodollar Loan offered by major banks in New York City at approximately 11:00 a.m. (New York City Time), on the day that is two (2) London Banking Days preceding the first day of such Eurodollar Loan. In the event that Lender is unable to obtain any such quotation as provided above, it will be determined that Eurodollar Base Rate pursuant to a Eurodollar Loan cannot be determined. In the event that the Board of Governors of the Federal Reserve System shall impose a Eurodollar Reserve Percentage with respect to "Euro-currency Liabilities" (as defined in Regulation D) then for any period during which such Eurodollar Reserve Percentage shall apply, Eurodollar Base Rate shall be equal to the amount determined above divided by an amount equal to 1 minus the Eurodollar Reserve Percentage.

Eurodollar Borrowing Notice - as defined in Section 3.8(a) of this Agreement.

Eurodollar Interest Period - with respect to a Eurodollar Loan, a period of one (1), two (2), three (3) or six (6) months commencing on a Business Day selected by Borrower pursuant to this Agreement. Such Eurodollar Interest Period shall end on (but exclude) the day which corresponds numerically to such date one (1), two (2), three (3) or six (6) months thereafter, provided, however, that if there is no such numerically corresponding day in such first (1st), second (2nd), third (3rd) or sixth (6th) succeeding month, such Eurodollar Interest Period shall end on the last Business Day of such first (1st), second (2nd), third (3rd) or sixth (6th) succeeding month. If a Eurodollar Interest Period would otherwise end on a day which is not a Business Day, such Eurodollar Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new month, such Eurodollar Interest Period shall end on the immediately preceding Business Day.

Eurodollar Loan - a Revolving Credit Loan or any portion of the Term Loan which bears interest at a Eurodollar Base Rate.

Eurodollar Margin - (i) for all Revolving Credit Loans which are Eurodollar Loans, for the period commencing from the Closing Date and continuing until September 30, 2003, the Eurodollar Margin shall be 2.75% per annum, (ii) for all Term Loans which are Eurodollar Loans, for the period commencing from the Closing Date and continuing until September 30, 2003, the Eurodollar Margin shall be 3.00% per annum, and thereafter (iii) for all Eurodollar Loans outstanding during the period beginning on a Eurodollar Adjustment Date and ending on the day preceding the subsequent Eurodollar Adjustment Date, the applicable percent per annum set forth in the pricing table below respectively for Revolving Credit Loans and for the Term Loans opposite the ratio of (i) the aggregate principal amount of all Senior Debt outstanding on the calculation date of the applicable Quarterly Compliance Certificate to (ii) the EBITDA calculated for the trailing twelve calendar month period ending on the calculation date of the applicable Quarterly Compliance Certificate.

PRICING TABLE

	Eurodollar Margin for Revolving Credit Loans	Eurodollar Margin for Term Loans
Ratio of Senior Debt		

to EBITDA

(i) Less than 3.50 to 1.00	(i) 2.25%	(i) 2.50%
(ii) Greater than or equal to 3.50 to 1.00, but less than 4.00 to 1.00	(ii) 2.50%	(ii) 2.75%
(iii) Greater than or equal to 4.00 to 1.00, but less than 4.75 to 1.00	(iii) 2.75%	(iii) 3.00%
(iv) Greater than or equal to 4.75	(iv) 3.00%	(iv) 3.25%

If Borrower shall fail to deliver a Quarterly Compliance Certificate by the date required pursuant to Section 9.1(j) of this Agreement, then effective as of the date such Quarterly Compliance Certificate becomes delinquent, the applicable Eurodollar Margin shall be conclusively presumed to equal the highest applicable Eurodollar Margin specified in the pricing table set forth above, such automatic adjustment to remain in effect until the first Business Day of the calendar month during which such delinquent Quarterly Compliance Certificate is delivered. From and after the first Business Day of the calendar month during which such delinquent Quarterly Compliance Certificate is delivered and until the next Eurodollar Adjustment Date, the Eurodollar Margin shall be determined by reference to such delinquent Quarterly Compliance Certificate and the pricing table set forth above.

Eurodollar Reserve Percentage - the maximum aggregate reserve requirement (including all basic, supplemental and other reserves) which is imposed on member banks of the Federal Reserve System against "Euro-currency Liabilities" as defined in Regulation D.

Event of Default - as defined in Section 11.1 of this Agreement.

Excess - as defined in Section 3.1(c) of this Agreement.

Existing Loan Agreements - has the meaning assigned thereto in the preamble.

Fixed Charge Ratio - for any fiscal period of Borrower means, the ratio of (i) an amount equal to (a) the sum of (1) the Adjusted Net Earnings From Operations of Parent and its Subsidiaries for such period, plus (2) non-cash charges of Parent and its Subsidiaries in respect to depreciation and amortization for such period, plus (3) Interest Expense of Parent and its Subsidiaries for such period minus (4) Capital Expenditures made by Parent and its Subsidiaries during such period, to (ii) Fixed Charges of Parent and its Subsidiaries for such period, all of the above being determined on a consolidated basis in accordance with GAAP.

Fixed Charges - for any fiscal period of Borrower means the sum of (i) scheduled principal payments required to be made by Parent and its Subsidiaries during such period in respect to Indebtedness, plus (ii) Interest Expense of Parent and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

Fixture - has the meaning assigned thereto under the Code.

GAAP - generally accepted accounting principles in the United States of America in effect from time to time.

General Intangibles - has the meaning assigned thereto under the Code.

Goods - has the meaning assigned thereto under the Code.

Guarantors - Each Borrower, David Little, and any other Person who may hereafter guarantee payment or performance of the whole or any part of the obligations.

Guaranty Agreements - the Continuing Guaranty Agreements executed by Guarantors in favor of Lender guaranteeing payment of all or part of the Obligations.

Hedging Agreement - any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

Indebtedness - as applied to a Person means, without duplication (i) all items which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as at the date as of which Indebtedness is to be determined, including, without limitation, capitalized lease obligations, (ii) all obligations of other Persons which such Person has guaranteed and (iii) in the case of Borrower (without duplication), the obligations.

Instrument - has the meaning assigned thereto under the Code.

Interest Expense - with respect to any fiscal period, the interest expense incurred for such period as determined in accordance with GAAP plus Letter of Credit and LC Guaranty fees owing for such period.

Inventory - has the meaning assigned thereto under the Code.

Investment Property - has the meaning assigned thereto under the Code.

LC Amount - at any time, the aggregate face amount of all Letters of Credit and all LC Guaranties then outstanding.

LC Guaranty - a guaranty executed by Lender at Borrower's request in favor of a Person who has issued a Letter of Credit.

Letter of Credit - a letter of credit at any time issued for the account of Borrower.

Letter of Credit Rights - has the meaning assigned thereto under the Code.

Lien - any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes.

Loan Account - the loan account established on the books of Lender pursuant to Section 2.4 of this Agreement.

Loan Documents - this Agreement and the Other Agreements.

Loans - all loans and advances made by Lender pursuant to this Agreement, including, without limitation, all Revolving Credit Loans and the Term Loan.

London Banking Day - any date on which commercial banks are open for business in London, England.

Maximum Legal Rate - as defined in Section 3.1(b) of this Agreement.

Money Borrowed - means (i) Indebtedness arising from the lending of money by any Person to Parent or any Subsidiary of Parent, (ii) Indebtedness, whether or not in any such case arising from the lending by any Person of money to Parent or any Subsidiary of Parent (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar instruments or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iii) Indebtedness that constitutes a Capitalized Lease Obligation; (iv) reimbursement obligations with respect to letters of credit or guaranties of letters of credit to the extent such letters of credit have been drawn upon; and (v) Indebtedness of Parent or any Subsidiary of Parent under any guaranty of obligations that would constitute Indebtedness for Money Borrowed under clauses (i) through (iv) hereof, if owed directly by Parent or such Subsidiary of Parent.

Mortgages - has the same meaning as in each of the Existing Loan Agreements and also includes, without limitation, all presently existing and hereafter arising mortgages and deeds of trust, executed by Borrower and/or Guarantors, by which Borrower and/or such Guarantor grant and convey to Lender, as security for the Obligations, a Lien (of such priority as shall be required by Lender) upon all real Property of Borrower or such Guarantor, as the case may be, wherever located.

Note - the Term Note.

Obligations - all Loans and all other advances, debts, liabilities, obligations, covenants and duties (including, without limitation, Banking Relationship Indebtedness) owing, arising, due or payable from Borrower or any Affiliate of Borrower to Lender or any Affiliate of Lender (including Bank), of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the Other Agreements or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, the reimbursement obligations of Borrower under Section 2.4 of this Agreement, and all other interest, charges, expenses, fees, attorneys' fees and any other sums chargeable to Borrower under any of the Other Agreements.

Original Term - as defined in Section 3.3(a) of this Agreement.

Other Agreements - any and all agreements, instruments and documents heretofore, now or hereafter executed by Borrower or Guarantors, as the case may be, and delivered to Lender in respect to the transactions contemplated by this Agreement, including, without limitation, the Notes, the Shareholder Pledge Agreement, the Parent Security Agreement, the Parent Pledge Agreement, the Guaranty Agreements and the Mortgages.

Overadvance - as defined in Section 2.1 of this Agreement.

Parent - has the meaning assigned thereto in the preamble.

Parent Pledge Agreement - collectively, these certain stock pledge agreements executed by Parent, in favor of Lender, whereby Parent grants to Lender a first priority Lien in all capital stock of Pelican, Sepco and DXP owned by Parent, securing payment of the Obligations and Parent's obligations under its Guaranty Agreements, including (a) Stock Pledge Agreement, dated June 16, 1997, executed by Parent, in favor of Lender, covering all capital stock in DXP owned by Parent, (b) Stock Pledge Agreement, dated May 29, 1997, executed by Parent, in favor of Lender, covering all capital stock in Pelican owned by Parent, and (c) Stock Pledge Agreement, dated May 29, 1997, executed by Parent, in favor of Lender, covering all capital stock in Sepco owned by Parent.

Parent Security Agreement - that certain Security Agreement, dated July 27, 2000, executed by Parent in favor of Lender, whereby Parent grants to Lender a security interest (having the priority therein specified) in all assets of Parent, securing payment of the Obligations and Parent's obligations under its Guaranty Agreements, as thereafter renewed, amended and modified.

Participating Lender - each Person who shall be granted the right by Lender to participate in any of the Loans described in this Agreement and who shall have entered into a participation agreement in form and substance satisfactory to Lender.

Payment Intangibles - has the meaning assigned thereto in the Code.

Pelican Loan Agreement - has the meaning assigned to such term in the preamble.

Pelican Revolver Obligations - means the revolving credit loans outstanding on the Closing Date pursuant to the Pelican Loan Agreement.

Permitted Liens - any Lien of a kind specified in subparagraphs (i) through (viii) of Section 9.2(e) of this Agreement.

Person - an individual, partnership, corporation, joint stock company, trust or unincorporated organization, or a government or agency or political subdivision thereof.

Plan - an employee benefit plan now or hereafter maintained for employees of Borrower that is covered by Title IV of ERISA.

Pre-Existing Sepco, Pelican and DXP Obligations - as defined in Section 1.5 of this Agreement.

Prohibited Transaction - any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code of 1986.

Projections - Borrower's forecasted (a) balance sheets, (b) profit and loss statements, (c) cash flow statements, and (d) capitalization statements, all prepared on a consistent basis with Borrower's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

Property - any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

Renewal Terms - as defined in Section 3.3(a) of this Agreement.

Reportable Event - any of the events set forth in Section 4043 (b) of ERISA.

Restricted Investment - any investment in cash or by delivery of Property to any Person, whether by acquisition of stock, Indebtedness or other obligation or security, or by loan, advance or capital contribution, or otherwise, or in any Property except the following: (a) investments in one or more Subsidiaries of Borrower; (b) Property to be used in the ordinary course of business; (c) Current Assets arising from the sale of goods and services in the ordinary course of business of Borrower; (d) investments in direct obligations of the United States of America, or any agency thereof or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof; (e) investments in certificates of deposit maturing within one year from the date of acquisition issued by a bank or trust company organized under the laws of the United States or any state thereof having capital surplus and undivided profits aggregating at least \$100,000,000; and (f) investments in commercial paper given the highest rating by a national credit rating agency and maturing not more than 270 days from the date of creation thereof.

Revolving Credit Loan - a Loan made by Lender as provided in Section 2.1 of this Agreement.

Schedule of Accounts - as defined in Section 5.2 of this Agreement.

Security - shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

Security Entitlement - has the meaning assigned thereto under the Code.

Senior Debt - means all Money Borrowed, excluding Subordinated Debt.

Sepeco - has the meaning assigned thereto in the preamble.

Sepeco Loan Agreement - has the meaning assigned thereto in the preamble.

Sepeco Revolver Obligations - means the revolving credit loans outstanding on the Closing Date pursuant to the Sepeco Loan Agreement.

Sepeco Term Obligations - as defined in Section 1.5 of this Agreement.

Seventh Amendment - has the meaning assigned thereto in the Sepeco Loan Agreement.

Shareholder Pledge Agreement means collectively, those certain stock pledge agreements executed by shareholders of Parent, in favor of Lender, whereby such shareholders grant to Lender a first priority Lien in all capital stock of Parent owned by such shareholders, including (a) Stock Pledge Agreement, dated January 1, 1997, executed by Andrea Rae Little 1988 Trust, in favor of Lender, covering all capital stock in Parent owned by Andrea Rae Little 1988 Trust, (b) Stock Pledge Agreement, dated January 1, 1997, executed by Kacey Joyce Little 1988 Trust, in favor of Lender, covering all capital stock in Parent owned by Kacey Joyce Little 1988 Trust, and (c) Stock Pledge Agreement, dated January 1, 1997, executed by Nicholas David Little 1988 Trust, in favor of Lender, covering all capital stock in Parent owned by Nicholas David Little 1988 Trust.

Sixth Amendment - has the meaning assigned thereto in the Sepeco Loan Agreement.

SmartSource Inventory - Eligible Inventory located at the premises of a customer of Borrower to the extent Borrower has personnel at such premises managing inventory for such customer as part of Borrower's "SmartSource" program and Borrower has designated such Eligible Inventory to be "SmartSource Inventory."

SmartSource Inventory Amount - the lesser of (a) \$1,500,000 and (b) 50% of the value of SmartSource Inventory (as determined by Lender in its sole discretion) at such date consisting of finished goods, calculated on the basis of the lower of cost or fair market value (as determined by Lender in its sole discretion) with the cost of finished goods calculated on a first-in, first-out basis; provided the maximum SmartSource Inventory Amount set forth in clause (a) above shall be increased, at the sole discretion of Lender, up to the amount of \$3,000,000 upon receipt by Lender of letters in the form of Exhibit A attached hereto from all parties with an interest in the premises where SmartSource Inventory is located.

Software - has the meaning assigned thereto in the Code.

Solvent - as to any Person, such Person (a) owns Property whose fair saleable value is greater than the amount required to pay all of such Person's Indebtedness (including contingent debts), (b) is able to pay all of its Indebtedness as such Indebtedness matures, and (c) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

Subordinated Debt - Indebtedness of Borrower to whose existence Lender has consented in writing and that is subordinated to the Obligations pursuant to a written agreement acceptable to Lender in all respects as to both form and substance.

Subsidiary - any corporation of which a Person owns, directly or indirectly through one or more intermediaries, more than 50% of the voting Securities at the time of determination.

Supporting Obligations - has the meaning assigned thereto under the Code.

Tangible Chattel Paper - has the meaning assigned thereto in the Code.

Tax Expense - with respect to any fiscal period, the tax expense incurred for such period as determined in accordance with GAAP.

Term Loan - as defined in Section 2.2 of this Agreement.

Term Note - that certain Secured Promissory Note, dated March 1, 1994, in the original principal amount of \$1,329,277.37, executed by Sepco, and payable to the order of Lender, as renewed, extended, modified and restated from time to time, including, without limitation, as modified and extended by (i) the Third Amendment Modification Agreements (which Third Amendment Modification Agreements, among other things, modified the Term Note to reflect the increase of the Term Loan to \$5,000,000), (ii) the Sixth Amendment (which Sixth Amendment, among other things, modified the Term Note to reflect the increase of the Term Loan to \$9,887,000), (iii) the Seventh Amendment (which Seventh Amendment, among other things, modified the Term Note to reflect the increase of the Term Loan to \$12,387,000), (iv) that certain May 1999 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements executed by Sepco (which document, among other things, modified the Term Note to extend the maturity of the Term Loan until April 1, 2000), (v) that certain August 1999 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements, executed by Sepco and Lender (which document, among other things, modified the Term Note to extend the maturity of the Term Loan until April 1, 2001), (vi)

that certain August 2000 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements, executed by Lender and Sepco (which document, among other things, modified the Term Note to extend the maturity of the Term Loan until June 1, 2001), (vii) that certain November 2000 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements, executed by Lender and Sepco which document, among other things, modified the Term Note to extend the maturity of the Term Loan until October 1, 2001), (viii) that certain April 2001 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements, executed by Lender and Sepco (which document, among other things, modified the Term Note to reflect the increase of the Term Loan on the date of such document from \$8,547,730.06 to \$9,002,730.06 and to extend the maturity of the Term Loan until April 1, 2002), (ix) that certain August 2001 Amendment to Second Amended and Restated Loan and Security Agreement and Modification to Other Agreements (which document, among other things, extended the maturity of the Term Loan until April 1, 2004), and (x) this Agreement.

Third Amendment - has the meaning assigned thereto in the Sepco Loan Agreement.

Third Amendment Modification Agreements - has the meaning assigned thereto in the Sepco Loan Agreement.

Uncertified Security - has the meaning assigned thereto under the Code.

1.2 Accounting and Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistent with that applied in preparation of the financial statements referred to in Section 9.1(j), and all financial data pursuant to the Agreement shall be prepared in accordance with such principles. All other terms contained in this Agreement shall have, when the context so indicates, the meanings provided for by the Code to the extent the same are used or defined therein.

1.3 Certain Matters of Construction. The terms "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. The section titles, table of contents and list of exhibits appear as a matter of convenience only and shall not affect the interpretation of this Agreement. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. All references to any instruments or agreements, including, without limitation, references to this Agreement or any of the Other Agreements, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

1.4 The Term "Borrower" or "Borrowers". All references to "Borrower" or "Borrowers" herein shall refer to and include each Borrower separately and all representations contained herein shall be deemed to be separately made by each of them, and each of the covenants, agreements and obligations set forth herein shall be deemed to be the joint and several covenants, agreements and obligations of them. Any notice, request, consent, report or other information or agreement delivered to Lender by any Borrower shall be deemed to be ratified by, consented to and also delivered by the other Borrower. Each Borrower recognizes and agrees that each covenant and agreement of "Borrower" or "Borrowers" under this Agreement and the Other Agreements shall create a joint and several obligation of the Borrowers, which may be enforced against Borrowers, jointly, or against each Borrower separately. Without limiting the terms of this Agreement and the Other Agreements, security interests granted under this Agreement and Other Agreements in properties, interests, assets and collateral shall extend to the properties, interests, assets and collateral of each Borrower. Similarly, the term "Obligations" shall include, without limitation, all obligations, liabilities and indebtedness of such corporations, or any one of them, to Lender, whether such obligations, liabilities and indebtedness shall be joint, several, joint and several, or individual.

1.5 Sepco Term Obligations; Pre-Existing Sepco, Pelican and DXP Obligations. Notwithstanding any other provision of the Term Note or this Agreement to the contrary, it is hereby agreed that (i) neither American nor Pelican nor DXP nor Parent has or is assuming payment of the indebtedness evidenced by the Term Note (collectively, the "Sepco Term Obligations"), and (ii) in addition, Parent is not assuming payment of the unpaid principal balance of the other Obligations which were incurred by Sepco, Pelican and/or DXP prior to the Closing Date pursuant to the Existing Loan Agreements and the other "Loan Documents" (as respectively defined in the Existing Loan Agreements) (the "Pre-Existing Sepco, Pelican and DXP Obligations"). However, the parties hereto agree and acknowledge that the preceding sentence shall not (i) limit any contingent liability of (a) either American or Pelican or DXP or Parent for payment of any of the Sepco Term Obligations which arises pursuant to any Guaranty Agreement to which it is a party which guaranties payment of indebtedness of Sepco to Lender, or (b) limit any contingent liability of Parent for payment of any of the Pre-Existing Sepco, Pelican and DXP Obligations which arises pursuant to any Guaranty Agreement to which Parent is a party, or (ii) limit the security interest and Liens in favor of Lender granted by either American or Pelican or DXP or Parent against the assets of such Person, which Liens shall secure payment of all Obligations arising in connection with this Agreement, whether currently existing or hereafter arising. For purposes of determining on or after the date hereof which payments are applied to Sepco Term Obligations, and which payments are applied to the Pre-Existing Sepco, Pelican and DXP Obligations, (x) all payments received by Lender from Sepco on account of the Obligations shall be deemed to be applied first in payment of all then due and payable Sepco Term Obligations (until such time as the Sepco Term Obligations shall have been reduced to zero), and thereafter to the Pre-Existing Sepco, Pelican and DXP Obligations, and thereafter to the other Obligations, all as hereinafter set forth, and unless Borrower specifically indicates to the contrary in writing to Lender, all payments received by Lender through the Dominion Account shall be deemed to be payments received by Lender from Sepco, (y) all payments received by Lender from any Borrower other than Sepco or Parent shall be deemed to be applied on account of Obligations which are not Sepco Term Obligations and all payments received by Lender from Parent shall be deemed to be applied on account of Obligations which are neither Sepco Term Obligations nor Pre-Existing Sepco, Pelican and DXP Obligations, and to the extent that, notwithstanding the foregoing, for any reason any payment received by Lender from any Borrower other than Sepco or Parent shall instead be determined to have been applied on account of any Sepco Term Obligations, such payment shall be deemed to have been made by such Borrower pursuant to any Guaranty Agreement to which it is a party which guaranties payment of indebtedness of Sepco to Lender and, to the extent that, notwithstanding the foregoing, for any reason any payment received by Lender from Parent shall instead be determined to be applied on account of any Sepco Term Obligations or any Pre-Existing Sepco, Pelican and DXP Obligations, such payment shall be deemed to have

been made by Parent pursuant to the relevant Guaranty Agreement to which it is a party, and (z) unless Borrower specifically indicates to the contrary in writing to Lender, all payments received by Lender on the Term Note shall be deemed to be payments received from Sepco, and to the extent that, notwithstanding the foregoing, for any reason any payment received by Lender on the Term Note shall instead be determined to have been made by a Borrower other than Sepco, such payment shall be deemed to have been made by such Borrower pursuant to any Guaranty Agreement to which it is a party which guaranties payment of indebtedness of Sepco to Lender, and, unless Borrower specifically indicates to the contrary in writing to Lender, all payments received by Lender on the Pre-Existing Sepco, Pelican and DXP Obligations shall be deemed to be payments received from a Borrower other than Parent, and to the extent that, notwithstanding the foregoing, for any reason any payment received by Lender on the Pre-Existing Sepco, Pelican and DXP Obligations shall instead be deemed to have been made by Parent, such payment shall be deemed to have been made by Parent pursuant to the Guaranty Agreements to which it is a party.

1.6 Structure of Credit Facility. Each Borrower agrees and acknowledges that the present structure of the credit facilities detailed in this Agreement is based in part upon the financial and other information presently known to Lender regarding each Borrower, the corporate structure of Borrowers, and the present financial condition of each Borrower. Each Borrower hereby agrees that Lender shall have the right, in its sole discretion, at any time to require that any or all of the following changes be made to these credit facilities: (i) establish a separate "borrowing base" for each Borrower, (ii) advance a Revolving Credit Loan specifically to a specific Borrower, based on such Borrower's availability under its own "borrowing base," (iii) restrict loans and advances between Borrowers, (iv) establish separate lockbox and dominion accounts for each Borrower, and (v) establish such other procedures as shall be deemed by Lender to be useful in tracking where Loans are made under this Agreement and the source of payments received by Lender on such Loans.

SECTION 2. CREDIT FACILITY

2.1 Revolving Credit Loans. Subject to the terms and conditions of this Agreement, Lender agrees to make Revolving Credit Loans to Borrower from time to time, in amounts determined by Lender, in its sole discretion, up to a maximum principal amount at any time outstanding equal to the Borrowing Base at such time. Unless otherwise agreed to by Lender, proceeds of any Revolving Credit Loan hereafter advanced by Lender shall be disbursed to Sepco. On the Closing Date, Lender may make Revolving Credit Loans to Borrower to repay the Sepco Revolver Obligations, the DXP Revolver Obligations and the Pelican Revolver Obligations. If the unpaid balance of the Revolving Credit Loans should exceed the Borrowing Base or any other limitation set forth in this Agreement, such Revolving Credit Loans shall nevertheless constitute Obligations that are secured by the Collateral and entitled to all benefits thereof. Insofar as Borrower may request and Lender may be willing, in its sole and absolute discretion, to make Revolving Credit Loans to Borrower at a time when the unpaid balance of Revolving Credit Loans exceeds, or would exceed with the making of any such Revolving Credit Loan, the Borrowing Base (any such Loan or Loans being herein referred to individually as an "Overadvance" and collectively as "Overadvances"), Lender shall enter such Overadvances as debits in the Loan Account. All Overadvances shall be payable ON DEMAND, shall be secured by the Collateral and shall bear interest as provided herein for Revolving Credit Loans generally. The Revolving Credit Loans shall be used solely for the satisfaction of existing Indebtedness of Borrower and for Borrower's general operating capital needs to the extent not inconsistent with the provisions of this Agreement.

Subject to the provisions of Section 3.8(a) hereof, a request for a Revolving Credit Loan shall be made or shall be deemed to be made in the following manner: (i) unless otherwise agreed to by Lender, Sepco shall give Lender notice of Borrower's intention to borrow, in which notice Sepco shall specify the amount of the proposed borrowing and the proposed borrowing date, no later than 12:00 p.m. Dallas, Texas time on the proposed borrowing date; (ii) the becoming due of any amount required to be paid under this Agreement as interest shall be deemed irrevocably to be a request for a Revolving Credit Loan on the due date in the amount required to pay such interest; (iii) the becoming due of any amount required to be paid under this Agreement as principal shall be deemed irrevocably to be a request for a Revolving Credit Loan on the due date for the amount required to pay such principal; (iv) any payment made by Lender pursuant to a Letter of Credit or LC Guaranty which is not immediately reimbursed by Borrower shall be deemed irrevocably to be a request for a Revolving Credit Loan on the date of such payment by Lender; and (v) the becoming due of any other Obligations shall be deemed irrevocably to be a request for a Revolving Credit Loan on the due date in the amount then so due. As an accommodation to Borrower, Lender may permit telephonic or electronic requests for Loans and electronic transmittal of instructions, authorizations, agreements or reports to Lender by Borrower. Unless Borrower specifically directs Lender in writing not to accept or act upon telephonic or electronic communications from Borrower, Lender shall have no liability to Borrower for any loss or damage suffered by Borrower as a result of Lender's honoring of any requests, execution of any instructions, authorizations or agreements or reliance on any reports communicated to it telephonically or electronically and purporting to have been sent to Lender by Borrower, and Lender shall have no duty to verify the origin of any such communication or the authority of the person sending it.

2.1(A) Letters of Credit; LC Guaranties. Lender agrees, so long as no Default or Event of Default exists, and if requested by Borrower to (i) issue its or cause to be issued by its Affiliate, Standby Letters of Credit for the account of Borrower, provided that the aggregate amount of the LC Amount shall at no time exceed \$1,000,000, or (ii) execute an LC Guaranty by which Lender shall guaranty the payment or performance by Borrower of its reimbursement obligations with respect to a Standby Letter of Credit. Any amounts paid by Lender under any LC Guaranty or in connection with any Letter of Credit shall be treated as a Loan, shall be payable on demand by Borrower, shall be secured by all the Collateral, and shall bear interest at the same rate as the other Loans, with such interest being payable at the same time as when interest is payable on the other Loans. Notwithstanding anything herein to the contrary, upon termination of this Agreement, Lender shall be entitled to retain its security interests in the Collateral (even if the Obligations have been paid in full) unless the Letters of Credit and all LC Guaranties shall have expired or have been cash collateralized on a dollar-for-dollar basis to Lender's satisfaction or have been covered by an irrevocable letter of credit issued by a financial institution acceptable to Lender, and in form and substance acceptable to Lender. Any Standby Letters of Credit issued for the account of Borrower by Lender or an Affiliate of Lender or covered by an LC Guaranty executed by Lender in existence on the Closing Date under the Existing Loan Agreements shall be deemed to be subject to and covered by the provisions of this Section 2.1(A).

2.2 Term Loan. Sepco represents and warrants to Lender that (i) effective as of April 1, 1994, Lender made to Sepco that certain term loan in the original principal amount of \$1,329,277.37, evidenced by that certain Secured Promissory Note, dated April 1, 1994, in the original principal amount of \$1,329,277.37, executed by Sepco and payable to the order of Lender, and (ii) as of the date of execution of the Third Amendment,

the unpaid principal amount of such term loan was \$82,231.76, and that in connection with the Third Amendment, at the request of Sepco, Lender converted \$4,917,768.24 of the principal amount of Revolving Credit Loans made to Sepco by Lender outstanding on the date of execution of the Third Amendment to a term loan, which term loan was combined and consolidated with the outstanding principal amount of the term loan made to Sepco on April 1, 1994, such that the combined term loan was in the aggregate principal amount of \$5,000,000, and (iii) as of the date of execution of the Sixth Amendment, the unpaid principal amount of such term loan was \$4,887,000.00, and that in connection with the Sixth Amendment, at the request of Sepco, Lender made on the date of execution of the Sixth Amendment an additional \$5,000,000 term loan to Sepco, the proceeds of which were used to replace working capital used by Sepco to acquire assets of Tri-Electric Supply, Ltd., and that such additional \$5,000,000 term loan was combined and consolidated with the existing term loan, such that the combined and consolidated term loan was in the aggregate principal amount of \$9,887,000.00, and (iv) as of the date of execution of the Seventh Amendment, the unpaid principal amount of such term loan was \$9,887,000.00, and that in connection with the Seventh Amendment, at the request of Sepco, Lender on the date of execution of the Seventh Amendment provided to Sepco an additional \$2,500,000 term loan, the proceeds of which were used to purchase the real property legally described on Exhibit A to the Seventh Amendment, and that such additional \$2,500,000 term loan was combined and consolidated with the outstanding principal amount of the existing term loan such that the combined and consolidated term loan (after the full principal amount of the new \$2,500,000 term loan was funded) was in the aggregate principal amount of \$12,387,000, and (v) as of the date of execution of the April 2001 Amendment, the unpaid principal amount of such term loan was \$8,547,730.06, and that in connection with the April 2001 Amendment, at the request of Sepco an additional \$455,000 term loan was made to Sepco, and that such additional \$455,000 term loan was combined and consolidated with the existing term loan, such that the combined and consolidated term loan was in the aggregate principal amount of \$9,002,730.06 (such combined and consolidated term loan being referred to in this Agreement as the "Term Loan"). Sepco hereby represents and warrants that on the date hereof the unpaid principal amount of the Term Loan is \$3,937,599.15 and that there are no claims or offsets against, or defenses or counterclaims to, payment of such amount to Lender. The Term Loan shall be repayable in accordance with the terms of the Term Note, and shall be secured by the Collateral. The parties hereto agree that the Term Loan represents a portion of the "Sepco Term Obligations" referred to and defined in Section 1.5 of this Agreement. If Sepco sells any of its Equipment or real Property, or if any of the other Property owned by Sepco is taken by condemnation, Sepco shall pay to Lender, unless otherwise agreed to by Lender, as and when received by Sepco and as a mandatory prepayment of the Term Loan (or, at Lender's option, such of the other Obligations as Lender may elect), a sum equal to the proceeds received by Sepco from such sale or condemnation, less any state or federal income tax directly attributable thereto. Sepco and Lender hereby agree to extend the maturity of the Term Note until April 1, 2006, and to revise the principal amortization provisions of the Term Note, and accordingly, effective as of January 1, 2003, Sepco and Lender amend and restate the last paragraph of page two of the Term Note to read in its entirety as follows :

"The principal amount of and accrued interest on this Note shall be due and payable on the dates and in the manner hereinafter set forth:

- A. interest shall be due and payable monthly, in arrears, on the first day of each month, continuing until such time as the full principal balance, together with all other amounts owing hereunder, shall have been paid in full;
- B. the principal shall be due and payable in monthly installments of NINETY-SEVEN THOUSAND AND NO/100 DOLLARS (\$97,000.00) each, payable on the first day of each month, commencing on January 1, 2003, and continuing thereafter on the first day of each month thereafter to and including March 1, 2006; and

(c) the entire unpaid principal balance hereof, together with any and all other amounts due hereunder, shall be due and payable on April 1, 2006."

2.2(A) Acquisition Term Loans. Sepco represents and warrants to Lender and agrees with Lender that (i) the Acquisition Term Loans have been paid off in full, and (ii) there is no continuing commitment on the part of Lender to make any further Acquisition Term Loans pursuant to the Sepco Loan Agreement.

2.3 All Loans to Constitute One Obligation. All Loans shall constitute one general obligation of Borrower, and shall be secured by Lender's security interest in and Lien upon all of the Collateral, and by all other security interests and Liens heretofore, now or at any time or times hereafter granted by Borrower to Lender.

2.4 Reimbursement Obligations. If Lender shall pay any amount under a Letter of Credit or LC Guaranty, then Borrower shall automatically become obligated to immediately reimburse such amount to Lender, together with interest from and after the date Lender makes such payment under such Letter of Credit or LC Guaranty until payment in full to Lender by Borrower of Borrower's reimbursement obligation which shall accrue at the applicable per annum rate of interest then applicable for Revolving Credit Loans.

2.5 Audit and Appraisal Fees. Borrower shall reimburse Lender for all reasonable out-of-pocket costs and expenses incurred by Lender in connection with audits and appraisals of Borrower's books and records and such other matters as Lender shall deem appropriate; provided, however, so long as Borrower maintains a Fixed Charge Coverage Ratio, on a consolidated basis, of 1.15:1.0 for the previous twelve-month period ending on the date of such appraisal or field exam and no Default or Event of Default has occurred and is continuing, (i) Borrower will not be required to reimburse Agent for any new Inventory or real estate appraisal and (ii) Borrower will only be required to reimburse Agent for one field exam for such twelve month period. In connection with any audit by Lender of Parent's or Borrower's books and records, Borrower shall also pay Lender an aggregate per diem fee of Eight Hundred Fifty Dollars (\$850). All such out-of-pocket costs, fees and expenses shall be payable on demand.

2.6 Loan Account. Lender shall enter all Loans as debits to the Loan Account and shall also record in the Loan Account all payments made by Borrower on any Obligations and all proceeds of Collateral which are finally paid to Lender, and may record therein, in accordance with customary accounting practice, all charges and expenses properly chargeable to Borrower and any other obligation.

7. Joint and Several Liability; Rights of Contribution.

(a) Each Borrower states and acknowledges that: (i) pursuant to this Agreement, Borrowers desire to utilize their borrowing potential on a consolidated basis to the same extent possible if they were merged into a single corporate entity; (ii) it has determined that it will benefit specifically and materially from the advances of credit contemplated by this Agreement; (iii) it is both a condition precedent to the obligations of Lender hereunder and a desire of the Borrowers that each Borrower execute and deliver to Lender this Agreement; and (iv) Borrowers have requested and bargained for the structure and terms of and security for the advances contemplated by this Agreement.

(b) Each Borrower hereby irrevocably and unconditionally: (i) agrees that it is jointly and severally liable to Lender for the full and prompt payment of the Obligations and the performance by each Borrower of its obligations hereunder in accordance with the terms hereof; (ii) agrees to fully and promptly perform all of its obligations hereunder with respect to each advance of credit hereunder as if such advance had been made directly to it; and (iii) agrees as a primary obligation to indemnify Lender on demand for and against any loss incurred by Lender as a result of any of the obligations of any Loan being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to Lender or any Person, the amount of such loss being the amount which Lender would otherwise have been entitled to recover from Borrower.

(c) It is the intent of each Borrower that the indebtedness, obligations and liability hereunder of no one of them be subject to challenge on any basis. Accordingly, as of the date hereof, the liability of each Borrower under this Section 2.7, together with all of its other liabilities to all Persons as of the date hereof and as of any other date on which a transfer is deemed to occur by virtue of this Agreement, calculated in an amount sufficient to pay its probable net liabilities on its existing Indebtedness as the same become absolute and matured ("Dated Liabilities") is, and is to be, less than the amount of the aggregate of a fair valuation of its Property as of such corresponding date ("Dated Assets"). To this end, each Borrower under this Section 2.7, (i) grants to and recognizes in each other Borrower, ratably, rights of subrogation and contribution in the amount, if any, by which the Dated Assets of such Borrower, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Liabilities of such Borrower or, as the case may be, (ii) acknowledges receipt of and recognizes its right to subrogation and contribution ratably from the other Borrower in the amount, if any, by which the Dated Liabilities of such Borrower, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Assets of such Borrower under this Section 2.7. In recognizing the value of the Dated Assets and the Dated Liabilities, it is understood that Borrowers will recognize, to at least the same extent of their aggregate recognition of liabilities hereunder, their rights to subrogation and contribution hereunder. It is a material objective of this Section 2.7 that each Borrower recognizes rights to subrogation and contribution rather than be deemed to be insolvent (or in contemplation thereof) by reason of an arbitrary interpretation of its joint and several obligations hereunder.

SECTION 3. INTEREST, FEES, TERM AND REPAYMENT

3.1 Interest and Charges.

(a) Outstanding principal on the Loans shall bear interest, calculated daily, at the following rates per annum (individually called, as applicable, an "Applicable Annual Rate"): (i) Eurodollar Loans shall bear interest at a rate per annum equal to the applicable Eurodollar Margin plus the Eurodollar Base Rate for the Eurodollar Interest Period applicable thereto, and (ii) all other Loans shall bear interest at a rate per annum equal to the applicable Domestic Margin plus the Base Rate. All Loans shall bear interest at a rate per annum equal to the applicable Domestic Margin plus the Base Rate unless the Borrower provides a Eurodollar Borrowing Notice to the Lender in accordance with Section 3.8(a) irrevocably electing that all or a portion of the Loans are to bear interest at a Eurodollar Base Rate. Each Loan that is not a Eurodollar Loan shall be increased or decreased, as the case may be, by an amount equal to any increase or decrease in the Base Rate, with such adjustments to be effective as of the opening of business on the day that any such change in the Base Rate becomes effective. The Base Rate in effect on the date hereof shall be the Base Rate effective as of the opening of business on the date hereof, but if this Agreement is executed on a day that is not a Business Day, the Base Rate in effect on the date hereof shall be the Base Rate effective as of the opening of business on the last Business day immediately preceding the date hereof. Interest shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of 360 days), commencing on the date hereof, and shall be payable monthly, in arrears, on the first day of each month; provided, however, that interest at the Maximum Legal Rate shall be computed on the actual number of days elapsed over a year of 365 or 366 days, as the case may be. Upon and after the occurrence of an Event of Default, and during the continuation thereof, the principal amount of the Obligations shall bear interest at the lesser of (i) the Maximum Legal Rate or (ii) a fluctuating rate per annum, calculated daily (computed on the actual days elapsed over a year of 360 days), equal to 4.0% above the Applicable Annual Rate or other applicable rate of interest (the "Default Rate").

(b) Notwithstanding the foregoing or any other provision in this Agreement, (i) if at any time the amount of interest computed on the basis of the Applicable Annual Rate or the Default Rate would exceed the amount of such interest computed upon the basis of the maximum rate of interest permitted by applicable state or federal law in effect from time to time hereafter (the "Maximum Legal Rate"), the interest payable under this Agreement shall be computed upon the basis of the Maximum Legal Rate, but any subsequent reduction in the Applicable Annual Rate or Default Rate, as applicable, shall not reduce such interest thereafter payable hereunder below the amount computed on the basis of the Maximum Legal Rate until the aggregate amount of such interest accrued and payable under this Agreement equals the total amount of interest which would have accrued if such interest had been at all times computed solely on the basis of the Applicable Annual Rate or Default Rate, as applicable; and (ii) unless preempted by federal law, the Applicable Annual Rate or Default Rate, as applicable, from time to time in effect hereunder may not exceed the applicable "weekly ceiling" (as such term is defined in Chapter 303 of the Texas Finance Code [Vernon's Texas Codes Annotated], as amended from time to time) from time to time in effect.

(c) No agreements, conditions, provisions or stipulations contained in this Agreement or any other instrument, document or agreement between Borrower and Lender or default of Borrower, or the exercise by Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Agreement or any other agreement between Borrower and Lender, or the arising

of any contingency whatsoever, shall entitle Lender to contract for, charge, or receive, in any event, interest exceeding the Maximum Legal Rate. In no event shall Borrower be obligated to pay interest exceeding such Maximum Legal Rate and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel Borrower to pay a rate of interest exceeding the Maximum Legal Rate, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such Maximum Legal Rate. In the event any interest is contracted for, charged or received in excess of the Maximum Legal Rate (" Excess "), Borrower acknowledges and stipulates that any such contract, charge, or receipt shall be the result of an accident and bona fide error, and that any Excess received by Lender shall be applied, first, to reduce the principal then unpaid hereunder; second, to reduce the other Obligations; and third, returned to Borrower, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Borrower recognizes that, with fluctuations in the Base Rate, the Eurodollar Base Rate and the Maximum Legal Rate, such a result could inadvertently occur. By the execution of this Agreement, Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by Borrower of such Excess, and (ii) Borrower shall not seek or pursue any other remedy, legal or equitable, against Lender, based in whole or in part upon contracting for, charging or receiving of any interest in excess of the maximum authorized by applicable law. For the purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by Lender in connection with this Agreement shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

(d) The provisions of Section 3.1(c) shall be deemed to be incorporated into every document or communication relating to the Obligations which sets forth or prescribes any account, right or claim or alleged account, right or claim of Lender with respect to Borrower (or any other obligor in respect of Obligations), whether or not any provision of Section 3.1 is referred to therein. All such documents and communications and all figures set forth therein shall, for the sole purpose of computing the extent of the obligations and obligations of the Borrower (or other obligor) asserted by Lender thereunder, be automatically recomputed by Borrower or obligor, and by any court considering the same, to give effect to the adjustments or credits required by Section 3.1(c).

(e) If the applicable state or federal law is amended in the future to allow a greater rate of interest to be charged under this Agreement or the Other Agreements than is presently allowed by applicable state or federal law, then the limitation of interest hereunder shall be increased to the maximum rate of interest allowed by applicable state or federal law as amended, which increase shall be effective hereunder on the effective date of such amendment, and all interest charges owing to Lender by reason thereof shall be payable upon demand.

3.2 Unused Line Fee . Borrower agrees to pay Lender a quarterly unused facility fee, equal to one-quarter of one percent (0.25%) of the daily unused portion of the Commitment, payable quarterly in arrears, the first payment being due on July 1, 2003 (at which date all accrued but unpaid facility fees incurred pursuant to the Existing Loan Agreements shall also be due and payable) and continuing on the first day of each October, January, April and July thereafter during the term of this Agreement and upon termination hereof.

3.3 Term of Agreement; Termination .

(a) Subject to Lender's right to cease making Loans to Borrower at any time upon or after the occurrence of a default or an Event of Default, the provisions of this Agreement shall be in effect for a period from the date hereof, through and including April 1, 2006 (the "Original Term "). Upon written request by Borrower, Lender may, in its sole and absolute discretion, renew this Agreement for any number of successive one year periods thereafter (a "Renewal Term "), but Lender shall have no obligation to do so.

(b) Upon at least one hundred eighty (180) days prior written notice to Lender, Borrower may, at its option, terminate this Agreement: provided, however, no such termination shall be effective until (i) Borrower has paid all of the Obligations in immediately available funds, and (ii) all Letters of Credit issued by Lender for the account of Borrower and all LC Guaranties have expired or been cash collateralized on a dollar-for-dollar basis to Lender's satisfaction or are covered by an irrevocable letter of credit issued for the benefit of Lender, issued by a financial institution acceptable to Lender, and in form and substance satisfactory to Lender. It is understood that Borrower may elect to terminate this Agreement in its entirety only: no section or lending facility may be terminated singly.

(c) All of the Obligations shall be forthwith due and payable upon any termination of this Agreement. Except as otherwise expressly provided in this Agreement or any of the Other Agreements, no termination or cancellation (regardless of cause or procedure) of this Agreement or any of the Other Agreements shall in any way affect or impair the rights, powers or privileges of Lender or the obligations or liabilities of Borrower in any way relating to (i) any transaction or event occurring prior to such termination or cancellation or (ii) any of the undertakings, agreements, covenants, warranties or representations of Borrower contained in this Agreement or any of the Other Agreements. All such undertakings, agreements, covenants, warranties and representations of Borrower shall survive such termination or cancellation, and, notwithstanding such termination or cancellation, Lender shall retain its Liens in the Collateral and all of its rights and remedies under this Agreement and the Other Agreements until Borrower has paid the Obligations to Lender, in full, in immediately available funds.

3.4 Payments . Principal and interest on the Term Loan shall be payable as provided in the Term Note. Except where evidenced by notes or other instruments issued or made by Borrower to Lender specifically containing payment provisions which are in conflict with this Section 3.4 (in which event the conflicting provisions of said notes or other instruments shall govern and control), the Obligations shall be payable as follows:

(a) Principal payable on account of Revolving Credit Loans made by Lender to Borrower, shall be payable by Borrower to Lender immediately upon the earliest of (i) the receipt by Lender or Borrower of any proceeds of any of the Collateral, to the extent of said proceeds, (ii) the occurrence of an Event of Default in consequence of which Lender elects to accelerate the maturity and payment of the obligations, or (iii) termination of this Agreement; provided, however, that if the principal balance of Revolving Credit Loans outstanding at any time shall exceed the Borrowing Base at such time, Borrower shall, on demand, repay the Revolving Credit Loans in an amount sufficient to reduce the aggregate unpaid principal amount of such Revolving Credit Loans by an amount equal to such excess.

(b) Interest accrued on the Obligations shall be due on the earliest of (i) the first day of each month (for the immediately preceding month), computed through the last calendar day of the preceding month, (ii) the occurrence of an Event of Default in consequence of which Lender elects to accelerate the maturity and payment of the Obligations, or (iii) termination of this Agreement; provided, however, that Borrower hereby irrevocably authorizes Lender, in Lender's sole discretion, to advance to Borrower, and to charge to the Loan Account hereunder as a Revolving Credit Loan, a sum sufficient each month to pay all interest accrued on the Obligations during the immediately preceding month.

(c) The balance of the Obligations requiring the payment of money, if any, shall be payable by Borrower to Lender as and when provided in this Agreement or the Other Agreements, or on demand, whichever is earlier.

3.5 Application of Payments and Collections. All items of payment received by Lender by 12:00 p.m. Dallas, Texas time, on any Business Day, shall be deemed received on that Business Day. All items of payment received after 12:00 p.m. Dallas, Texas time, on any Business Day, shall be deemed received on the following Business Day. Borrower irrevocably waives the right to direct the application of any and all payments and collections at any time or times hereafter received by Lender from or on behalf of Borrower, and Borrower does hereby irrevocably agree that Lender shall have the continuing exclusive right to apply and reapply any and all such payments and collections received at any time or times hereafter by Lender or its agent against the Obligations, in such manner as Lender may deem advisable, notwithstanding any entry by Lender upon any of its books and records. If as the result of collections of Accounts as authorized by Section 5.4 hereof a credit balance exists in the Loan Account, such credit balance shall not accrue interest in favor of Borrower, but shall be available to Borrower at any time or times for so long as no Default or Event of Default exists. In no event shall such credit balance be applied or be deemed to have been applied as a prepayment of the Term Loan unless so requested by Borrower, but Lender may offset such credit against the Obligations upon or after the occurrence of any Event of Default.

3.6 Statements of Account. Lender will account to Borrower monthly with a statement of Loans, charges and payments made pursuant to this Agreement, and such account rendered by Lender shall be deemed final, binding and conclusive upon Borrower unless Lender is notified by Borrower in writing to the contrary within 30 days of the date each account is mailed to Borrower. Such notice shall only be deemed an objection to those items specifically objected to therein.

3.7 Letter of Credit and LC Guaranty Fees. Borrower shall pay to Lender for each Letter of Credit and LC Guaranty of a Letter of Credit, a fee equal to two and one-half percent (2.5%) per annum of the aggregate face amount of such Letters of Credit (if issued by Lender) and the LC Guaranties outstanding from time to time during the term of this Agreement, plus all normal customary charges associated with the issuance thereof, which fees and charges shall be deemed fully earned upon issuance of each such Letter of Credit or each such LC Guaranty, shall be due and payable in full upon issuance of each such Letter of Credit or such LC Guaranty, and shall not be subject to rebate or proration upon the termination of this Agreement for any reason.

3.8 Additional Provisions Regarding Eurodollar Loans.

(a) **Manner of Borrowing a Eurodollar Loan.** Notwithstanding the provisions of Section 2.1, in the event Borrower desires to obtain a Eurodollar Loan, Borrower shall give Lender written notice of its intention to borrow a Eurodollar Loan (a "Eurodollar Borrowing Notice"), in which Eurodollar Borrowing Notice Borrower shall specify (x) the aggregate amount of such Eurodollar Loan, (y) the requested date of such Eurodollar Loan, and (z) the Eurodollar Interest Period applicable thereto. Borrower shall give Lender the Eurodollar Borrowing Notice no later than 12:00 p.m. Dallas, Texas time on the second Business Day prior to the requested date of the Eurodollar Loan. With respect to such Eurodollar Loans, (i) each Eurodollar Loan shall be in an integral multiple of \$1,000,000, (ii) no more than five (5) Eurodollar Interest Periods may be in existence at any one time, and (iii) Borrower may not request a Eurodollar Loan if there exists a Default or Event of Default. The Borrower shall select Eurodollar Interest Periods with respect to Eurodollar Loans so that no Eurodollar Interest Period expires after the end of the Original Term, or if extended pursuant to Section 3.3(a), any Renewal Term. An outstanding Revolving Credit Loan may be converted to a Eurodollar Loan at any time subject to the provisions of this Section 3.8.

(b) **Interest on Eurodollar Loans.** Each Eurodollar Loan shall bear interest from and including the first day of the Eurodollar Interest Period applicable thereto (but not including the last day of such Eurodollar Interest Period) at the interest rate determined as applicable to such Eurodollar Loan, but interest on such Eurodollar Loan shall be payable as provided in Section 3.4. If at the end of a Eurodollar Interest Period for an outstanding Eurodollar Loan, Borrower has failed to deliver to Lender a new Eurodollar Borrowing Notice with respect to such Eurodollar Loan or to pay such Eurodollar Loan, then such Eurodollar Loan shall be converted to a Revolving Credit Loan bearing interest at a rate, and subject to all other terms and conditions of this Agreement, applicable to Revolving Credit Loans not constituting Eurodollar Loans on and after the last day of such Eurodollar Interest Period until paid or until the effective date of a new Eurodollar Borrowing Notice with respect thereto.

(c) **Availability of Eurodollar Loans.** If Lender determines that maintenance of any of its Eurodollar Loans would violate any applicable law, rule, regulation or directive, whether or not having the force of law, Lender shall suspend the availability of Eurodollar Loans and require any Eurodollar Loans outstanding to be repaid (provided, that, without in any way impairing Borrower's obligations under Section 3.8(d) and Section 3.8(e), to the extent that Borrower is entitled to request a Revolving Credit Loan bearing interest at the Base Rate, Borrower may request such a Revolving Credit Loan in order to repay the Eurodollar Loans); or if Lender determines that (x) deposits of a type or maturity appropriate to match fund Eurodollar Loans are not available or (y) the Eurodollar Base Rate does not accurately reflect the cost of making a Eurodollar Loan, then Lender shall suspend the availability of Eurodollar Loans after the date of any such determination.

(d) **Funding Indemnification.** If any payment of a Eurodollar Loan occurs on a date which is not the last day of the applicable Eurodollar Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Loan is not made on the date specified by Borrower because Borrower has not satisfied the conditions precedent to such Eurodollar Loan contained in this Agreement or has otherwise breached the terms of this Agreement, Borrower will indemnify Lender for any loss or cost incurred by it resulting therefrom, including without limitation any loss or

cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Loan.

(e) Lender Statements: Survival of Indemnity. Within sixty (60) days of the date upon which Lender suspends the availability of Eurodollar Loans under Section 3.8(c) hereof or learns of any loss or cost for which Borrower has indemnified Lender under Section 3.8(d) hereof, Lender shall deliver a written statement as to the amount due under Section 3.8(c) or (d). Such written statement shall set forth in reasonable detail the calculations and basis therefor upon which Lender determined such amount and shall be final, conclusive and binding on Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though the Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Base Rate applicable to such Eurodollar Loan whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement shall be payable on demand after receipt by Borrower of the written statement.

3.9 Yield Protection. If either (i) the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Lender with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall subject Lender to any tax (including without limitation any United States interest equalization or similar tax, however named), duty or other charge with respect to any Eurodollar Loan or Lender's obligation to compute interest on the principal balance of any Eurodollar Loan at a rate based upon the Eurodollar Base Rate, or shall change the basis of taxation of payments to Lender of the principal or interest on any Eurodollar Loan or any other amounts due under this Agreement in respect of any Eurodollar Loan or Lender's obligation to compute the interest on the principal balance of any Eurodollar Loan at a rate based upon the Eurodollar Base Rate, or (ii) any governmental authority, central bank or other comparable authority shall at any time impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, Lender, or shall impose on Lender (or its eurodollar lending office) or any relevant interbank eurodollar market any other condition affecting any Eurodollar Loan or Lender's obligation to compute the interest on the principal balance of any Eurodollar Loan at a rate based upon the Eurodollar Base Rate; and the result of any of the foregoing is to increase the cost to Lender of maintaining any Eurodollar Loans, or to reduce the amount of any sum received or receivable by Lender under this Agreement by an amount deemed by Lender to be material, then upon demand by Lender, Borrower shall pay to Lender such additional amount or amounts as will compensate Lender for such increased cost or reduction. Lender will promptly notify Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle Lender to compensation pursuant to this Section 3.9. A certificate of Lender claiming compensation under this Section 3.9 and setting forth the additional amount or amounts to be paid to Lender hereunder shall be conclusive in the absence of manifest error.

SECTION 4. COLLATERAL: GENERAL TERMS

4.1 Security Interest in Collateral. To secure the prompt payment and performance to Lender of the Obligations, each Borrower hereby grants to Lender a continuing security interest in and Lien upon all of each Borrower's assets, whether now owned or existing or hereafter created, acquired or arising and wheresoever located including, without limitation, the following Property and interests in Property of each Borrower:

(A) Accounts;

(B) Certificated Securities;

(C) Chattel Paper;

(D) Computer Hardware and Software and all rights with respect thereto, including, any and all licenses, options, warranties, service contracts, program services, test rights, maintenance rights, support rights, improvement rights, renewal rights and indemnifications, and any substitutions, replacements, additions or model conversions of any of the foregoing;

(E) Contract Rights;

(F) Deposit Accounts;

(G) Documents;

(H) Equipment;

(I) Financial Assets;

(J) Fixtures;

(K) General Intangibles, including Payment Intangibles and Software;

(L) Goods (including all of its Equipment, Fixtures and Inventory), and all accessions, additions, attachments, improvements, substitutions and replacements thereto and therefor;

- (M) Instruments;
- (N) Intellectual Property;
- (O) Inventory;
- (P) Investment Property;
- (Q) money (of every jurisdiction whatsoever);
- (R) Letter-of-Credit Rights;
- (S) Payment Intangibles;
- (T) Security Entitlements;
- (U) Software;
- (V) Supporting Obligations;
- (W) Uncertificated Securities; and
- (X) to the extent not included in the foregoing, all other personal property of any kind or description;

together with all books, records, writings, data bases, information and other property relating to, used or useful in connection with, or evidencing, embodying, incorporating or referring to any of the foregoing, and all Proceeds, products, offspring, rents, issues, profits and returns of and from any of the foregoing; provided that to the extent that the provisions of any lease or license of Computer Hardware and Software or Intellectual Property expressly prohibit (which prohibition is enforceable under applicable law) any assignment thereof, and the grant of a security interest therein, Lender will not enforce its security interest in Borrower's rights under such lease or license (other than in respect of the Proceeds thereof) for so long as such prohibition continues, it being understood that upon request of Lender, Borrower will in good faith use reasonable efforts to obtain consent for the creation of a security interest in favor of Lender (and to Lender's enforcement of such security interest) in the Lender's rights under such lease or license.

The security interests granted in the Collateral are given in renewal, extension and modification of the security interests previously granted to Lender by Borrower (including, without limitation, the security interests granted pursuant to the Existing Loan Agreements and the Parent Security Agreement); such existing security interests are not extinguished hereby; and the ranking, perfection and priority of such existing security interests shall continue in full force and effect.

4.2 Lien on Realty. The due and punctual payment and performance of the Obligations shall also be secured by the Lien created by the Mortgages upon all real Property of Borrower described therein. Upon request by Lender, Borrower shall deliver to Lender, at Borrower's expense, mortgagee title insurance policies issued by a title insurance company satisfactory to Lender insuring Lender as mortgagee; such policies shall be in form and substance satisfactory to Lender and shall insure a valid first Lien in favor of Lender on the Property covered thereby, subject only to those exceptions acceptable to Lender and its counsel. Borrower shall deliver to Lender such other documents, including, without limitation, as-built survey prints of the real Property, as Lender and its counsel may reasonably request relating to the real Property subject to the Mortgage.

4.3 [RESERVED]

4.4 Lien Perfection. Borrower agrees to execute the UCC-1 financing statements provided for by the Code or otherwise together with any and all other instruments, assignments or documents and shall take such other action as may be reasonably required to perfect or to continue the perfection of Lender's security interest in the Collateral as a first priority Lien subject to Permitted Liens only. Unless prohibited by applicable law, Borrower hereby authorizes Lender to execute and file any such financing statement on Borrower's behalf. The parties agree that a carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement and may be filed in any appropriate office in lieu thereof

4.5 Location of Collateral. All Collateral, other than Inventory in transit, will at all times be kept by Borrower at one or more of the business locations set forth in Exhibit B and shall not, without the prior written approval of Lender, be moved therefrom except, prior to an Event of Default, for sales of Inventory in the ordinary course of business and dispositions of Equipment that are authorized by Section 7.2 hereof.

4.6 Insurance of Collateral. Borrower agrees to maintain and pay for insurance upon all Collateral wherever located, in storage or in transit in vehicles, including goods evidenced by documents, covering casualty, hazard, public liability and such other risks and in such amounts and with

such insurance companies as shall be reasonably satisfactory to Lender to insure Lender's interest in the Collateral. Borrower shall deliver the originals of such policies to Lender with satisfactory endorsements naming Lender as loss payee and as mortgagee pursuant to a standard mortgagee clause. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to Lender in the event of cancellation of the policy for any reason whatsoever and a clause that the interest of Lender shall not be impaired or invalidated by any act or neglect of Borrower or owner of the Property nor by the occupation of the premises for purposes more hazardous than are permitted by said policy. If Borrower fails to provide and pay for such insurance, Lender may, at Borrower's expense, procure the same, but shall not be required to do so. Borrower agrees to deliver to Lender, promptly as rendered, true copies of all reports made in any reporting forms to insurance companies.

4.7 Protection of Collateral . All insurance expenses and all expenses of protecting, storing, warehousing, insuring, handling, maintaining and shipping the Collateral, any and all taxes imposed by any governmental authority on any Collateral or in respect of the sale thereof shall be borne and paid by Borrower. If Borrower fails to promptly pay any portion thereof when due, Lender may, at its option, but shall not be required to, pay the same and charge the Loan Account therefor. Borrower agrees to reimburse Lender promptly therefor with interest accruing thereon daily at the Default Rate. All sums so paid or incurred by Lender for any of the foregoing and all reasonable costs and expenses (including reasonable attorneys' fees, legal expenses, and court costs) which Lender may incur in enforcing or protecting its Lien on or rights and interest in the collateral or any of its rights or remedies, together with interest at the Default Rate, shall be considered obligations hereunder secured by all Collateral. Lender shall not be liable or responsible in any way for the safekeeping of any Collateral or for any loss or damage thereto (except for reasonable care in the custody thereof while any Collateral is in Lender's actual possession) or for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency, or other person whomsoever, but the same shall be at Borrower's sole risk.

4.8 Other Collateral .

(a) Commercial Tort Claims . Borrower shall promptly notify Lender in writing upon incurring or otherwise obtaining a Commercial Tort Claim against any third party and, upon request of Lender, promptly enter into an amendment to this Agreement and do such other acts or things deemed appropriate by Lender to give Lender a security interest in any such Commercial Tort Claim.

(b) Other Collateral . Borrower shall promptly notify Lender in writing upon acquiring or otherwise obtaining any Collateral after the date hereof consisting of Deposit Accounts, Investment Property, Letter-of-Credit Rights or Electronic Chattel Paper and, upon the request of Lender, promptly execute such other documents, and do such other acts or things deemed appropriate by Lender to deliver to Lender control with respect to such Collateral; promptly notify Lender in writing upon acquiring or otherwise obtaining any Collateral after the date hereof consisting of Documents or Instruments and, upon the request of Lender, will promptly execute such other documents, and do such other acts or things deemed appropriate by Lender to deliver to Lender possession of such Documents which are negotiable and Instruments, and, with respect to nonnegotiable Documents, to have such nonnegotiable Documents issued in the name of Lender; and with respect to Collateral in the possession of a third party, other than Certificated Securities and Goods covered by a Document and obtain an acknowledgement from the third party that it is holding the Collateral for the benefit of Lender.

SECTION 5. PROVISIONS RELATING TO ACCOUNTS

5.1 Representations, Warranties and Covenants . With respect to all Accounts, Borrower represents and warrants to Lender that Lender may rely, in determining which Accounts are Eligible Accounts, on all statements and representations made by Borrower with respect to any Account or Accounts, and, unless otherwise indicated in writing to Lender, that with respect to each Account: it is genuine and in all respects what it purports to be, and it is not evidenced by a judgment; it arises out of a completed, bona fide sale and delivery of goods or rendition of services by Borrower in the ordinary course of its business and in accordance with the terms and conditions of all purchase orders, contracts or other documents relating thereto and forming a part of the contract between Borrower and the Account Debtor; it is for a liquidated amount maturing as stated in the duplicate invoice covering such sale or rendition of services; such Account, and Lender's security interest therein, is not, and will not be in the future, subject to any offset, Lien, deduction, defense, dispute, counterclaim or any other adverse condition except for disputes resulting in returned goods where the amount in controversy is deemed by Lender to be immaterial, and each such Account is absolutely owing to Borrower and is not contingent in any respect or for any reason; Borrower has made no agreement with any Account Debtor thereunder for any deduction therefrom, except discounts or allowances which are granted by Borrower in the ordinary course of its business for prompt payment and which are reflected in the calculation of the net amount of each respective invoice related thereto; there are no facts, events or occurrences which in any way impair the validity or enforceability thereof or tend to reduce the amount payable thereunder from the face amount of the invoice and statements delivered to Lender with respect thereto; to the best of Borrower's knowledge, the Account Debtor thereunder is Solvent and, at the time any contract or other document giving rise to the Account was executed, such Account Debtor had the capacity to contract; and Borrower has no knowledge of any fact or circumstance which would impair the validity or collectibility of such Account.

5.2 Assignments, Records and Schedules of Accounts . If requested to do so by Lender, Borrower shall execute and deliver to Lender formal written assignments of all of its Accounts weekly (or, if requested by Lender, daily), together with copies of invoices or invoice registers related thereto. Borrower shall keep accurate and complete records of its Accounts and all payments and collections thereon and shall submit to Lender on a daily basis a sales and collections report for the preceding day, in form satisfactory to Lender. On or before the fifteenth day of each month from and after the date hereof, Borrower shall deliver to Lender, in form satisfactory to Lender, a detailed aged trial balance of all Accounts existing as of the last day of the preceding month, specifying the names, addresses, face value, dates of invoices and due dates for each Account Debtor obligated on an Account so listed ("Schedule of Accounts"), and, upon Lender's request therefor, copies of proof of delivery and the original copy of all documents, including, without limitation, repayment histories and present status reports relating to the Accounts so scheduled and such other matters and information relating to the status of then existing Accounts as Lender shall reasonably request. If any amounts due and owing in excess of \$50,000 are in dispute between Borrower and any Account Debtor, Borrower shall provide Lender with written notice thereof at the time of submission of the next Schedule of Accounts, explaining in detail the reason for the dispute, all claims related thereto and

the amount in controversy.

5.3 Administration of Accounts. Upon the granting of any discounts, allowances or credits by Borrower that are not shown on the face of the invoice for the Account involved, Borrower shall promptly report such discounts, allowances or credits, as the case may be, to Lender and in no event later than the time of its submission to Lender of the next Schedule of Accounts as provided in Section 5.2. If an Account includes a charge for any tax payable to any governmental taxing authority, Lender is authorized, in its sole discretion, to pay the amount thereof to the proper taxing authority for the account of Borrower and to charge the Loan Account therefor. Whether or not a Default or an Event of Default has occurred, Lender shall have the right, at any time or times hereafter, in the name of Lender, any designee of Lender or Borrower, to verify the validity, amount or any other matter relating to any Accounts by mail, telephone, telegraph or otherwise. Borrower shall cooperate fully with Lender in an effort to facilitate and promptly conclude any such verification process.

5.4 Collection of Accounts. To expedite collection, Borrower shall endeavor in the first instance to make collection of its Accounts for Lender. All remittances received by Borrower on account of Accounts shall be held as Lender's property by Borrower as trustee of an express trust for Lender's benefit and Borrower shall immediately deposit same in the Dominion Account. After the occurrence of an Event of Default, Lender shall have the right to notify Account Debtors that Accounts have been assigned to Lender and to collect Accounts directly in its own name and to charge the collection costs and expenses, including reasonable attorneys' fees, to Borrower. Lender has no duty to protect, insure, collect or realize upon the Accounts or preserve rights in them. For the purpose of computing interest hereunder, all items of payment received by Lender shall be deemed applied by Lender on account of the Obligations on the first Business Day after Lender's receipt of payment in Hartford, Connecticut, in immediately available funds.

SECTION 6. PROVISIONS RELATING TO INVENTORY

6.1 Representations, Warranties and Covenants. With respect to Inventory, Borrower represents and warrants to Lender that Lender may rely, in determining which items of Inventory constitute Eligible Inventory, on all statements and representations made by Borrower with respect to any Inventory and that: All Inventory is presently and will continue to be located at either Borrower's places of business or at locations of certain of Borrower's customers (which currently existing places of business and such customer locations are listed on Exhibit B attached hereto), and at each time upon request by Lender (and automatically if an Event of Default has occurred and is continuing) Borrower shall give Lender prompt written notice of any additional place of business or any such additional customer location which occurs after the date hereof; no Inventory is now, nor shall any Inventory at any time or times hereafter be, stored with a bailee, warehouseman or similar party without Lender's prior written consent; and no Inventory is or will be produced in violation of the Fair Labor Standards Act.

6.2 Inventory Reports. Borrower agrees to furnish Lender with Inventory reports at such times as Lender may request, but at least once each month. Such reports shall be in form and detail satisfactory to Lender. Borrower shall continue to do periodic cycle counts of Inventory in the same manner and at the same frequency as such periodic cycle counts are being presently conducted, and upon request by Lender, Borrower shall furnish the results of such cycle counts to Lender. After the occurrence and during the continuation of an Event of Default, upon request by Lender Borrower shall conduct a physical inventory and shall provide to Lender a report based on each such physical inventory promptly thereafter, together with such supporting information as Lender shall in its discretion request.

6.3 Returns of Inventory. If at any time or times hereafter any Account Debtor returns any Inventory to Borrower the shipment of which generated an Account on which such Account Debtor is obligated in excess of \$150,000, Borrower shall notify Lender of the same immediately, specifying the reason for such return and the location and condition of the returned Inventory.

SECTION 7. PROVISIONS RELATING TO EQUIPMENT

7.1 Representations, Warranties and Covenants. With respect to the Equipment, Borrower represents, warrants and covenants to and with Lender that the Equipment is in good operating condition and repair, and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved, reasonable wear and tear excepted. Borrower will not permit any of the Equipment to become affixed to any real Property leased to Borrower so that an interest arises therein under the real estate laws of the applicable jurisdiction unless the landlord of such real Property has executed a landlord waiver or leasehold mortgage in favor of Lender, and Borrower will not permit any of the Equipment to become an accession to any personal Property other than Equipment subject to first priority Liens in favor of Lender or subject to Permitted Liens. Immediately on request therefor by Lender, Borrower shall deliver to Lender any and all evidence of ownership, if any, of any of the Equipment (including, without limitation, certificates of title and applications for title). Borrower shall maintain accurate records itemizing and describing the kind, type, quality, quantity and value of its Equipment and all dispositions made in accordance with Section 7.2 hereof, and shall furnish Lender with a current schedule containing the foregoing information on at least an annual basis and more often if requested by Lender.

7.2 Dispositions of Equipment. Borrower will not sell, lease or otherwise dispose of or transfer any of the Equipment or any part thereof without the prior written consent of Lender; provided, however, that the foregoing restriction shall not apply, for so long as no Default or Event of Default exists, to dispositions of Equipment which, in the aggregate during any consecutive twelve-month period, have a fair market value or book value, whichever is less, of \$150,000 or less, provided that all proceeds thereof are turned over to Lender.

SECTION 8. REPRESENTATIONS AND WARRANTIES

8.1 General Representations and Warranties. To induce Lender to enter into this Agreement and to make advances hereunder, each Borrower warrants, represents and covenants to Lender as follows:

- (a) Each Borrower is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation; has duly qualified and is authorized to do business and is in good standing as a foreign corporation in all states and jurisdictions where the character of its Properties or the nature of its activities make such qualification necessary; and has not been known as or used any corporate, fictitious or trade names in the past seven years except as disclosed on Exhibit C attached hereto and made a part hereof.
- (b) Borrower has the right and power and is duly authorized to enter into, deliver and perform this Agreement and each of the Other Agreements to which it is a party, and this Agreement is, and each of the Other Agreements when delivered under this Agreement will be, a legal, valid and binding obligation of Borrower enforceable against it in accordance with their respective terms.
- (c) Borrower is not engaged principally, or as one of its important activities, in the business of purchasing or carrying "margin stock" (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loans to Borrower will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, or be used for any purpose which violates or is inconsistent with the provisions of Regulations T, U or X of said Board of Governors.
- (d) Borrower has, and is in good standing with respect to, all governmental consents, approvals, authorizations, permits, certificates, inspections, and franchises which materially affect its ability to conduct its business as heretofore or proposed to be conducted by it and to own or lease and operate its Properties as now owned or leased by it.
- (e) Borrower owns or possesses all the patents, trademarks, service marks, trade names, copyrights and licenses necessary for the present and planned future conduct of its business without any known conflict with the rights of others.
- (f) Except as set forth on Exhibit D attached hereto and made a part hereof, there are no actions, suits, proceedings or investigations pending, or to the knowledge of Borrower, threatened, against or affecting Borrower or any of its Properties in any court or before any governmental authority or arbitration board or tribunal, and no action, suit, proceeding or investigation shown on Exhibit D involves the possibility of materially and adversely affecting the Properties or condition (financial or otherwise) of Borrower or the ability of Borrower to perform this Agreement.
- (g) Borrower has good, indefeasible and marketable title to and fee simple ownership of, or valid and subsisting leasehold interests in, all of its real Property, and good title to all of its other Property, in each case, free and clear of all Liens except Permitted Liens.
- (h) The balance sheet of Parent, on a consolidated basis, and such other Persons described therein as of December 31, 2002, and the related statements of income, for the periods ended on such dates, have been prepared, to the best of Borrower's knowledge, in accordance with GAAP (except for changes in application in which Parent's independent certified public accountants concur), and present fairly the financial positions of Parent and its Subsidiaries at such dates and the results of Borrower's operations for such periods. Since December 31, 2002, there has been no material change in the condition, financial or otherwise, of Parent and such other Persons as shown on the balance sheet as of such date and no change in the aggregate value of Equipment and real Property owned by Parent or such other Persons, except changes in the ordinary course of business, none of which individually or in the aggregate has been materially adverse. The fiscal year of Parent for accounting purposes ends on December 31 of each year.
- (i) There is no fact which Borrower has failed to disclose to Lender in writing which materially affects adversely or, so far as Borrower can now foresee, will materially affect adversely the Properties, business, prospects, profits, or condition (financial or otherwise) of Borrower or the ability of Borrower to perform this Agreement.
- (j) Borrower has not received any notice to the effect that it is not in full compliance with any of the requirements of ERISA and the regulations promulgated thereunder. No fact or situation that could result in a material adverse change in the financial condition of Borrower (including, but not limited to, any Reportable Event or Prohibited Transaction) exists in connection with any Plan. Borrower has no withdrawal liability in connection with a Multi-Employer Plan.
- (k) Borrower has filed all federal, state and local tax returns and other reports it is required by law to file and has paid, or made provision for the payment of, all taxes, assessments, fees and other governmental charges that are due and payable.
- (l) Borrower has duly complied with, and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all federal, state and local laws, rules and regulations applicable to Borrower, its Properties or the conduct of its business.
- (m) No Default or Event of Default will exist or result from the execution and delivery of this Agreement or Borrower's performance hereunder.
- (n) There are no claims for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement.

8.2 Reaffirmation and Survival of Representations. Each request for a Loan made by Borrower pursuant to this Agreement or any of the Other Agreements shall constitute (A) an automatic representation and warranty by Borrower to Lender that there does not then exist any Default or Event of Default, and (B) a reaffirmation as of the date of said request of all of the representations and warranties of Borrower contained in this Agreement and the Other Agreements are true in all material respects, except for any changes in the nature of Borrower's business or operations that would render the information contained in any exhibit hereto either materially inaccurate or materially incomplete, so long as Lender has

consented to such changes or such changes are expressly permitted by this Agreement. Borrower covenants, warrants and represents to Lender that all representations and warranties of Borrower contained in this Agreement or any of the Other Agreements shall be true at the time of Borrower's execution of this Agreement and the Other Agreements, and shall survive the execution, delivery and acceptance thereof by Lender and the parties thereto and the closing of the transactions described therein or related thereto.

SECTION 9. COVENANTS AND CONTINUING AGREEMENTS

9.1 Affirmative Covenants. During the term of this Agreement, and thereafter for so long as there are any obligations to Lender, each Borrower covenants that, unless otherwise consented to by Lender in writing, it shall:

- (a) Pay and discharge all taxes, assessments and governmental charges upon it, its income and Properties as and when such taxes, assessments and charges are due and payable, except and to the extent only that such taxes, assessments and charges are being actively contested in good faith and by appropriate proceedings, Borrower maintains adequate reserves on its books therefor and the nonpayment of such taxes does not result in a Lien upon any Properties or Borrower other than a Permitted Lien. Borrower shall also pay and discharge any lawful claims which, if unpaid, might become a Lien against any of Borrower's Properties except for Permitted Liens.
- (b) File all federal, state and local tax returns and other reports Borrower is required by law to file and maintain adequate reserves for the payment of all taxes, assessments, governmental charges, and levies imposed upon it, its income, or its profits, or upon any Property belonging to it.
- (c) Pay to Lender, on demand, any and all fees, costs or expenses which Lender pays to a bank or other similar institution (including, without limitation, any reasonable fees paid by Lender to any Participating Lender) arising out of or in connection with (i) the forwarding to Borrower or any other Person on behalf of Borrower, by Lender of proceeds of loans made by Lender to Borrower pursuant to this Agreement and (ii) the depositing for collection, by Lender, of any check or item of payment received or delivered to Lender on account of the obligations.
- (d) Preserve and maintain its separate corporate existence and all rights, privileges, and franchises in connection therewith, and maintain its qualification and good standing in all states in which such qualification is necessary.
- (e) Maintain its Properties in good condition and make all necessary renewals, repairs, replacements, additions and improvements thereto.
- (f) Comply with all laws, ordinances, governmental rules and regulations to which it is subject, and obtain and keep in force any and all licenses, permits, franchises, or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its business, which violation or failure to obtain might materially and adversely affect the Properties or condition (financial or otherwise) of Borrower.
- (g) (i) At all times make prompt payment of contributions required to meet the minimum funding standards set forth in ERISA with respect to each Plan; (ii) promptly after the filing thereof, furnish to Lender copies of any annual report required to be filed pursuant to ERISA in connection with each Plan and any other employee benefit plan of it and its Affiliates subject to said section; (iii) notify Lender as soon as practicable of any Reportable Event and of any additional act or condition arising in connection with any Plan which Borrower believes might constitute grounds for the termination thereof by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States district court of a trustee to administer the Plan; and (iv) furnish to Lender, promptly upon Lender's request therefor, such additional information concerning any Plan or any other such employee benefit plan as may be reasonably requested.
- (h) Keep adequate records and books of account with respect to its business activities in which proper entries are made in accordance with GAAP (to the best of Borrower's knowledge) reflecting all its financial transactions.
- (i) Permit representatives of Lender, from time to time, as often as may be reasonably requested, but only during normal business hours, to visit and inspect the Properties of Borrower, inspect and make extracts from its books and records, and discuss with its officers, its employees and its independent accountants, Borrower's business, assets, liabilities, financial condition, business prospects and results of operations.
- (j) Cause to be prepared and furnished to Lender the following (all to be kept and prepared in accordance with GAAP applied on a consistent basis, unless Parent's certified public accountants concur in any change therein and such change is disclosed to Lender and are consistent with GAAP): (i) as soon as possible, but not later than 95 days after the close of each fiscal year of Parent, unqualified audited financial statements of Parent and its Subsidiaries (including Sepco, Pelican, DXP and American) as of the end of such year, certified as to the statements by a firm of independent certified public accountants of recognized standing selected by Parent but acceptable to Lender (except for a qualification for a change in accounting principles with which such accounting firm concurs) and an unaudited consolidated and consolidating financial statement of Parent and its Subsidiaries (including Sepco, Pelican, DXP and American), certified by the principal financial officer of Parent as prepared in accordance with GAAP to the best of his knowledge and fairly presenting the financial position and results of operations of Parent and its Subsidiaries (including Sepco, Pelican, DXP and American) for such year; and (ii) as soon as possible, but not later than 30 days after the end of each January, February, April, May, July, August, October and November hereafter, and not later than 45 days after the end of each March, June, September and December hereafter, unaudited interim financial statements of Parent and its Subsidiaries (including Sepco, Pelican, DXP and American) as of the end of such month and of the portion of Parent's fiscal year then elapsed, certified by the principal financial officer of Parent as prepared in accordance with GAAP to the best of his knowledge, and fairly presenting the financial position and results of operations of Parent and its Subsidiaries (including Sepco, Pelican, DXP and American) for such month and period subject only to changes from audit and year-end adjustments and except that such statements need not contain notes. Concurrently with the delivery of the financial statements described in clauses (i) and (ii) of this Section 9.1(j), Borrower shall cause to be prepared and furnished to Lender a certificate from the chief

financial officer of Borrower certifying to Lender that to the best of his knowledge, Borrower has kept, observed, performed and fulfilled each and every covenant, obligation and agreement binding upon Borrower in this Agreement and the Other Agreements and that no Default or Event of Default has occurred, or, if such Default or Event of Default has occurred, specifying the nature thereof.

(k) At Lender's request, promptly execute or cause to be executed and deliver to Lender any and all documents, instruments and agreements reasonably deemed necessary by Lender to perfect or to continue the perfection of Lender's Liens as first priority Liens subject only to Permitted Liens, to facilitate collection of the Collateral or otherwise to give effect to or carry out the terms or intent of this Agreement or any of the Other Agreements.

(l) Within 30 days after the end of each January, February, April, May, July, August, October and November and within 45 days after the end of each March, June, September and December, or more frequently if requested by Lender, cause the chief financial officer of Borrower to prepare and deliver to Lender a Compliance Certificate in the form of Exhibit E attached hereto, with appropriate insertions.

(m) As soon as available, and in any event no later than 60 days after the end of each fiscal year of Borrower, deliver to Lender Projections of Borrower for the forthcoming fiscal year, month by month.

(n) Promptly after sending or filing thereof, as the case may be, copies of any proxy statements, financial statements or reports which Parent has made available to its shareholders and copies of any regular periodic and special reports or registration statements which Parent files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor or any national securities exchange.

2. Negative Covenants. During the term of this Agreement, and thereafter for so long as there are any obligations to Lender, Borrower covenants that, unless Lender has first consented thereto in writing, it will not:

(a) Merge or consolidate, or permit any Subsidiary to merge or consolidate, with any Person; nor acquire all or any substantial part of the Properties of any Person.

(b) Make any loans or other advances of money (other than for salary, travel advances, advances against commissions and other similar advances in the ordinary course of business) to any Person in excess of an aggregate \$100,000 outstanding at any time for all such loans; provided, however, that notwithstanding the foregoing, (i) a Borrower may make loans or other advances of money to another Borrower, and (ii) the existing loans described on Exhibit G attached hereto shall not be prohibited by the provisions of this Section 9.2(b).

(c) Enter into any transaction with any Affiliate or stockholder, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms which are fully disclosed to Lender and are no less favorable to Borrower than would obtain in a comparable arm's length transaction with a Person not an Affiliate or stockholder of Borrower.

(d) Guarantee, assume, endorse or otherwise, in any way, become directly or contingently liable with respect to the Indebtedness of any Person except by endorsement of instruments or items of payment for deposit or collection.

(e) Create or suffer to exist any Lien upon any of its Property, income or profits, whether now owned or hereafter acquired, except: (i) Liens at any time granted in favor of Lender; (ii) Liens for taxes (excluding any Lien imposed pursuant to any of the provisions of ERISA) not yet due or being contested as permitted by Section 9.1(a) hereof, but only if in Lender's judgment such Lien does not affect adversely Lender's rights or the priority of Lender's Lien in the Collateral; (iii) Liens securing the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons for labor, materials, supplies or rentals incurred in the ordinary course of Borrower's business, but only if the payment thereof is not at the time required and only if such Liens are junior to the Liens in favor of Lender; (iv) Liens resulting from deposits made in the ordinary course of business in connection with workmen's compensation, unemployment insurance, social security and other like laws; (v) attachment, judgment and other similar non-tax Liens arising in connection with court proceedings, but only if and for so long as the execution or other enforcement of such Liens is and continues to be effectively stayed and bonded on appeal in a manner satisfactory to Lender for the full amount thereof, the validity and amount of the claims secured thereby are being actively contested in good faith and by appropriate lawful proceedings and such Liens do not, in the aggregate, materially detract from the value of the Property of Borrower or materially impair the use thereof in the operation of Borrower's business; (vi) reservations, exceptions, easements, rights of way, and other similar encumbrances affecting real Property, provided that, in Lender's judgment, they do not in the aggregate materially detract from the value of said Properties or materially interfere with their use in the ordinary conduct of Borrower's business and, if said real Property constitutes Collateral, Lender has consented thereto; (vii) a Lien upon fixed assets or improvements granted by Borrower to secure Capital Expenditures permitted under Section 9.2(i) hereof to the extent such Lien is only upon such fixed assets or improvements and secures payment of only such permitted Capital Expenditures; and (viii) such other Liens as Lender may hereafter approve in writing.

(f) Make any payment of any part or all of any Subordinated Debt in violation of the subordination agreement relating to such Subordinated Debt or voluntarily prepay any Subordinated Debt; or enter into any agreement (oral or written) which could in any way be construed to amend, modify, alter or terminate any one or more instruments or agreements evidencing or relating to any Subordinated Debt.

(g) Declare or make any Distributions; provided, however, that notwithstanding the foregoing, (i) a Borrower shall be permitted to make cash dividends on its capital stock to the extent such capital stock is owned by another Borrower, and (ii) Parent may pay each fiscal year cash dividends of up to the aggregate amount of \$100,000 on any capital stock of Parent, provided that no Default or Event of Default exists at the time of payment of such cash dividend or would result as a result of such payment.

- (h) Hereafter create any Subsidiary or divest itself of any material assets by transferring them to any Subsidiary to whose existence Lender has consented.
- (i) Permit Capital Expenditures made by Borrower (including, without limitation, by way of capitalized leases) to exceed in the aggregate \$1,000,000 during each fiscal year of Parent.
- (j) Transfer its principal place of business or chief executive office, except upon at least 60 days prior written notice to Lender and after the delivery to Lender of financing statements, if required by Lender, in form satisfactory to Lender to perfect or continue the perfection of Lender's Lien and security interest hereunder.
- (k) Enter into any new business or make any material change in any of Borrower's business objectives, purposes and operations.
- (l) Sell, lease or otherwise dispose of any of its Properties, including any disposition of Property as part of a sale and leaseback transaction, to or in favor of any Person, except (i) sales of Inventory in the ordinary course of Borrower's business for so long as no Event of Default exists hereunder, (ii) a transfer of Property to Borrower by a Subsidiary or (iii) dispositions expressly authorized by this Agreement.
- (m) Use any corporate name (other than its own) or any fictitious name, tradestyle or "d/b/a" except for names disclosed in writing to Lender on or before the Closing Date.
- (n) [RESERVED]
- (o) Own, purchase or acquire (or enter into any contract to purchase or acquire) any "margin security" as defined by any regulation of the Federal Reserve Board as now in effect or as the same may hereafter be in effect unless, prior to any such purchase or acquisition or entering into any such contract, Lender shall have received an opinion of counsel satisfactory to Lender to the effect that such purchase or acquisition will not cause this Agreement to violate Regulations T, U, or X or any other regulation of the Federal Reserve Board then in effect.
- (p) Make or have any Restricted Investment.
- (q) Change its fiscal year or permit any Subsidiary to have a fiscal year different from that of Borrower.
- (r) Create, assume or suffer to exist any indebtedness for borrowed money or issue or sell any obligation of Borrower (whether absolutely, concurrently or otherwise), excluding only (i) the Obligations; (ii) accounts payable and accrued liabilities arising in the ordinary course of Borrower's business; (iii) indebtedness incurred for the payment of Capital Expenditures permitted by this Agreement; (iv) existing indebtedness of Borrower which shall have been approved in writing by Lender, and which shall be set forth on Exhibit F attached hereto and made a part hereof (and to the extent set forth on Exhibit F, such indebtedness is approved by Lender); and (v) such other indebtedness as Lender may hereafter approve in writing.

9.3 Specific Financial Covenants. During the term of this Agreement, and thereafter for so long as there are any Obligations to Lender, Borrower covenants that, unless otherwise consented to by Lender in writing, Parent and its Subsidiaries shall:

- (a) Maintain, as of the last day of each calendar month, on a consolidated basis, in accordance with GAAP, a Fixed Charge Ratio of not less than 1.15 to 1.00 for the twelve calendar month period ending on the last day of such month.
- (b) Maintain for each calendar month, beginning with June, 2003, Average Daily Availability for such calendar month of at least \$2,000,000.

SECTION 10. CONDITIONS PRECEDENT

Notwithstanding any other provision of this Agreement or any of the Other Agreements, and without affecting in any manner the rights of Lender under the other sections of this Agreement, it is understood and agreed that this Agreement will not become effective and Lender will not make any Loan under Section 2 of this Agreement unless and until each of the following conditions has been and continues to be satisfied, all in form and substance satisfactory to Lender and its counsel:

10.1 Documentation. Lender shall have received the following documents, each in form and substance satisfactory to Lender and its counsel:

- (a) the relevant Consent and Ratification respectively duly executed by each Borrower, David R. Little, and David C. Vinson, Trustee for Kacey Joyce Little, Nicholas David Little and Andrew Rae Little 1988 Trusts, in the form required by Lender;
- (b) Modifications to the existing Mortgages, duly executed by the relevant Borrower party to such Mortgage, in the form required by Lender;
- (c) a closing certificate signed by the chief executive officer and chief financial officer of Borrower dated as of the date hereof, stating that (i) the representations and warranties set forth in Section 8 hereof are true and correct on and as of such date, (ii) Borrower is on such date in compliance with all the terms and provisions set forth in this Agreement and (iii) on such date no Default or Event of Default has occurred or is continuing;

(d) the written opinion of counsel to Borrower, regarding Borrower, the Loan Documents and the transactions contemplated by this Agreement and the Other Agreements; and

(e) such other documents, instruments and agreements as Lender shall reasonably request in connection with the transaction contemplated hereby.

10.2 Other Conditions. The following conditions have been and shall continue to be satisfied:

A. no Default or Event of Default shall exist;

(b) each of the conditions precedent set forth in the Other Agreements shall have been satisfied; and

(c) no action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, or which is related to or arises out of this Agreement or the consummation of the transactions contemplated hereby or which, in Lender's judgment, would make it inadvisable to consummate the transactions contemplated by this Agreement or any of the Other Agreements.

SECTION 11. EVENTS OF DEFAULT; RIGHTS AND REMEDIES ON DEFAULT

11.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) Borrower shall fail to pay any installment of principal, interest or premium, if any, owing on the Term Note within ten days after the due date of such installment;

(b) Borrower shall fail to pay any of the Obligations that are not evidenced by the Term Note on the due date thereof (whether due at stated maturity, on demand, upon acceleration or otherwise);

(c) any warranty, representation, or other statement made or furnished to Lender by or on behalf of Borrower or Guarantor or in any instrument, certificate or financial statement furnished in compliance with or in reference to this Agreement or any of the Other Agreements proves to have been false or misleading in any material respect when made or furnished;

(d) Borrower shall fail or neglect to perform, keep or observe (i) any covenant contained in this Agreement (other than a covenant a default in the performance or observance of which is dealt with specifically in clause (ii) hereof or elsewhere in this Section 11.1) and the breach of such covenant is not cured to Lender's satisfaction within 15 days after the sooner to occur of Borrower's receipt of notice of such breach from Lender or the date on which such failure or neglect becomes known to any officer of Borrower or (ii) shall fail or neglect to perform, keep or observe any covenant contained in Sections 4.3, 4.4, 4.5, 4.6, 5.2, 5.4, 7.2, 9.1(a), 9.1(e), 9.1(f), 9.1(j), 9.1(k), 9.1(n), 9.2 or 9.3;

(e) any event of default shall occur under, or Borrower or any Guarantor shall default in the performance or observance of any term, covenant, condition or agreement contained in, any of the Other Agreements and such default shall continue beyond any applicable period of grace;

(f) here shall occur any default or event of default on the part of Borrower or any Guarantor under any agreement, document or instrument to which Borrower is a party or by which Borrower or any Guarantor or any of Borrower's or any Guarantor's Property is bound, creating or relating to any Indebtedness (other than the Obligations) if the payment or maturity of such Indebtedness is accelerated in consequence of such event of default or demand for payment of such Indebtedness is made;

(g) any material loss, theft, damage or destruction not materially covered by insurance (as required by this Agreement and subject to such deductibles as Lender shall have agreed to in writing), or sale, lease or encumbrance of any of the Collateral or the making of any levy, seizure, or attachment thereof or thereon except in all cases as may be specifically permitted by other provisions of this Agreement;

(h) [RESERVED]

(i) Borrower or any Guarantor shall cease to be Solvent or shall suffer the appointment of a receiver, trustee, custodian or similar fiduciary, or shall make an assignment for the benefit of creditors, or any petition for an order for relief shall be filed by or against Borrower or any Guarantor under the Bankruptcy Code (if against Borrower or any Guarantor, the continuation of such proceeding for more than 30 days), or Borrower or any Guarantor shall make any offer of settlement, extension or composition to their respective unsecured creditors generally;

(j) a Reportable Event shall occur which Lender shall determine in good faith constitutes grounds for the termination by the Pension Benefit Guaranty Corporation of any Plan or for the appointment by the appropriate United States district court of a trustee for any Plan, or if any Plan shall be terminated or any such trustee shall be requested or appointed;

(k) any Guarantor shall revoke or attempt to revoke the Guaranty Agreement signed by such Guarantor, or shall repudiate such Guarantor's liability thereunder or shall be in default under the terms thereof;

(l) any money judgment, writ or attachment or similar process is entered or filed against Borrower or any of its Property and results in the creation or imposition of any Lien that is not a Permitted Lien;

(m) Borrower shall incur, assume or suffer to exist any Indebtedness, whether direct or contingent, other than (i) Indebtedness listed on Exhibit F hereto, and (ii) additional Indebtedness (exclusive of trade payables) incurred each fiscal year, provided the aggregate amount of such additional indebtedness does not exceed \$500,000 during such fiscal year;

(n) Lender shall in good faith deem itself insecure; or

(o) Sepco ceases to be a Subsidiary of Parent, unless due to the merger of Sepco into Parent, with Parent being the surviving entity.

11.2 Acceleration of the Obligations. Without in any way limiting the right of Lender to demand payment of any portion of the obligations payable on demand in accordance with Section 3.4 hereof, upon and at any time after the occurrence of an Event of Default, all or any portion of the obligations due or to become due from Borrower to Lender (whether under this Agreement, any Other Agreement or otherwise) shall, at Lender's option, become at once due and payable without presentment, demand, protest, notice of dishonor, notice of default, notice of intent to accelerate, notice of acceleration, or any other notice whatsoever, and Borrower shall forthwith pay to Lender, in addition to any and all sums and charges due, the entire principal of and interest accrued on the obligations.

11.3 Remedies. Upon and after the occurrence of an Event of Default, Lender shall have and may exercise from time to time the following rights and remedies:

(a) All of the rights and remedies of a secured party under the Code or under other applicable law, and all other legal and equitable rights to which Lender may be entitled, all of which rights and remedies shall be cumulative, and none of which shall be exclusive, and shall be in addition to any other rights or remedies contained in this Agreement or any of the Other Agreements;

(b) The right to take immediate possession of the Collateral, and (i) to require Borrower to assemble the Collateral, at Borrower's expense, and make it available to Lender at a place designated by Lender which is reasonably convenient to both parties, and (ii) to enter any of the premises of Borrower or wherever any of the Collateral shall be located, and to keep and store the same on said premises until sold (and if said premises be the Property of Borrower, Borrower agrees not to charge Lender for storage thereof);

(c) The right to sell or otherwise dispose of all or any Inventory or Equipment in its then condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, for cash or on credit, all as Lender, in its discretion, may deem advisable. Borrower agrees that fifteen days written notice to Borrower of any public or private sale or other disposition of such Collateral shall be reasonable notice thereof, and such sale shall be at such locations as Lender may designate in said notice. Lender shall have the right to conduct such sales on Borrower's premises, without charge therefor, and such sales may be adjourned from time to time in accordance with applicable law. Lender shall have the right to sell, lease or otherwise dispose of such Collateral, or any part thereof, for cash, credit or any combination thereof, and Lender may purchase all or any part of such Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set-off the amount of such price against the Obligations;

(d) Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, tradenames, trademarks and advertising matter, or any Property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Lender's benefit;

(e) The proceeds realized from the sale of any Collateral may be applied, after allowing two Business Days for collection, first to the costs, expenses and reasonable attorneys' fees incurred by Lender in collecting the Obligations, in enforcing Lender's rights under the Loan Documents and in collecting, retaking, completing, protecting, removing, storing, advertising for sale, selling and delivering any of the Collateral; secondly, to interest due upon any of the Obligations; and thirdly, to the principal of the Obligations. If any deficiency shall arise, Borrower shall remain liable to Lender therefor; or

(f) Lender may, at its option, require Borrower to deposit with Lender funds equal to the LC Amount. Any such deposit shall be held by Lender as a reserve to fund future payments on such LC Guaranties and future drawings against such Letters of Credit issued by Lender for the account of Borrower. At such time as all LC Guaranties have been paid or terminated and the Letters of Credit issued by Lender for the account of Borrower have been drawn upon or expired, any amounts remaining in such reserve shall be applied against any outstanding Obligations, or, if all Obligations have been indefeasibly paid in full, returned to Borrower.

11.4 Remedies Cumulative; No Waiver. All covenants, conditions, provisions, warranties, guaranties, indemnities, and other undertakings of Borrower contained in this Agreement and the Other Agreements, or in any document referred to herein or contained in any agreement supplementary hereto or in any schedule given to Lender or contained in any other agreement between Lender and Borrower, heretofore, concurrently, or hereafter entered into, shall be deemed cumulative to and not in derogation or substitution of any of the terms, covenants, conditions, or agreements of Borrower herein contained. The failure or delay of Lender to exercise or enforce any rights, Liens, powers or remedies hereunder or under any of the aforesaid agreements or other documents or security or Collateral shall not operate as a waiver of such Liens, rights, powers and remedies, but all such Liens, rights, powers, and remedies shall continue in full force and effect until all Loans and all other Obligations owing or to become owing from Borrower to Lender shall have been fully satisfied, and all Liens, rights, powers, and remedies herein provided for are cumulative and none are exclusive.

SECTION 12. MISCELLANEOUS

12.1 Power of Attorney. Borrower hereby irrevocably designates, makes, constitutes and appoints Lender (and all Persons designated by Lender) as Borrower's true and lawful attorney (and agent-in-fact) and Lender, or Lender's agent, may, without notice to Borrower and in either Borrower's or Lender's name, but at the reasonable cost and expense of Borrower:

(a) At such time or times hereafter as Lender or said agent may determine, endorse Borrower's name on any checks, notes, acceptances, drafts, money orders or any other evidence of payment or proceeds of the Collateral which come into the possession of Lender or under Lender's control; and

(b) At such time or times upon or after the occurrence of an Event of Default as Lender or its agent may determine: (i) demand and enforce payment of the Accounts by legal proceedings or otherwise and exercise generally all of Borrower's rights and remedies with respect to the collection of the Accounts; (ii) settle, adjust, compromise, discharge or release any of the Accounts or other Collateral or any legal proceedings brought to collect any of the Accounts or other Collateral; (iii) prepare, file and sign Borrower's name to a proof of claim in bankruptcy or similar document against any Account Debtor or to any notice of lien, assignment or satisfaction of lien or similar document in connection with any of the Collateral; (iv) receive and open all mail addressed to Borrower and to notify postal authorities to change the address for delivery thereof to such address as Lender may designate; (v) endorse the name of Borrower upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of Lender on account of the obligations; (vi) endorse the name of Borrower upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to the Accounts, Inventory and any other Collateral; (vii) use Borrower's stationery and sign the name of Borrower to verifications of the Accounts and notices thereof to Account Debtors; (viii) make and adjust claims under policies of insurance; and (ix) do all other acts and things necessary, in Lender's reasonable determination, to fulfill Borrower's obligations under this Agreement.

12.2 Indemnity. Borrower hereby agrees to indemnify Lender and hold Lender harmless from and against any liability, loss, damage, suit, action or proceeding ever suffered or incurred by Lender as the result of Borrower's failure to observe, perform or discharge Borrower's duties hereunder. Without limiting the generality of the foregoing, this indemnity shall extend to any claims asserted against Lender by any Person under any Environmental Laws or similar laws by reason of Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials or other toxic substances, but this indemnity shall specifically exclude liability for breach of any Environmental Laws caused solely and directly by Lender. Notwithstanding any contrary provision in this Agreement, the obligation of Borrower under this Section 12.2 shall survive the payment in full of the Obligations and the termination of Lender's obligation to make Revolving Credit Loans for a period of four (4) years beyond the date of such payment in full and termination.

12.3 Modification of Agreement. This Agreement and the Other Agreements may not be modified, altered or amended, except by an agreement in writing signed by Borrower and Lender.

12.4 Reimbursement of Expenses. If, at any time or times prior or subsequent to the date hereof, regardless of whether or not an Event of Default then exists or any of the transactions contemplated hereunder are concluded, Lender employs counsel for advice or other representation, or incurs legal expenses or other costs or out-of-pocket expenses in connection with: (A) the negotiation and preparation of this Agreement or any of the Other Agreements, any amendment of or modification of this Agreement or any of the Other Agreements; (B) the reasonable administration of this Agreement or any of the Other Agreements and the transactions contemplated hereby and thereby; (C) any litigation, contest, dispute, suit, proceeding or action (whether instituted by Lender, Borrower or any other Person) in any way relating to the Collateral, this Agreement or any of the other Agreements or Borrower's affairs (other than litigation in which Borrower is the prevailing party and in which Lender is adverse to Borrower); (D) any attempt to enforce any rights of Lender against Borrower or any other Person which may be obligated to Lender by virtue of this Agreement or any of the Other Agreements, including, without limitation, the Account Debtors (other than litigation in which Borrower is the prevailing party and in which Lender is adverse to Borrower); or (E) any attempt to inspect, verify, protect, preserve, restore, collect, sell, liquidate or otherwise dispose of or realize upon the Collateral; then, in any such event, the reasonable attorneys' fees arising from such services and all expenses, costs, charges and other fees of such counsel or of Lender or relating to any of the events or actions described in this Section shall be payable, on demand, by Borrower to Lender and shall be additional Obligations hereunder secured by the Collateral. Additionally, if any taxes (excluding taxes imposed upon or measured by the net income of Lender) shall be payable on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Agreements, or the creation of any of the Obligations hereunder, by reason of any existing or hereafter enacted federal or state statute, Borrower will pay all such taxes, including, but not limited to, any interest and penalties thereon, and will indemnify and hold Lender harmless from and against liability in connection therewith. Borrower shall have no obligation to pay the legal expenses or other costs incurred by a Participating Lender or by Lender in connection with any sale or attempted sale of any interest herein to a Participating Lender.

12.5 Indulgences Not Waivers. Lender's failure, at any time or times hereafter, to require strict performance by Borrower of any provision of this Agreement shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Lender of an Event of Default by Borrower under this Agreement or any of the Other Agreements shall not suspend, waive or affect any other Event of Default by Borrower under this Agreement or any of the Other Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of Borrower contained in this Agreement or any of the Other Agreements and no Event of Default by Borrower under this Agreement or any of the other Agreements shall be deemed to have been suspended or waived by Lender, unless such suspension or waiver is by an instrument in writing specifying such suspension or waiver and is signed by a duly authorized representative of Lender and directed to Borrower.

12.6 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under

applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12.7 Successors and Assigns; Participations by Lender. This Agreement and the Other Agreements shall be binding upon and inure to the benefit of the successors and assigns of Borrower and Lender; provided, however, that Borrower may not sell, assign or transfer any interest in this Agreement or any of the Other Agreements, or any portion thereof, including, without limitation, Borrower's rights, title, interests, remedies, powers and duties hereunder or thereunder. Any purported assignment by Borrower in violation of this Section 12.7 shall be void, without Lender's prior written consent. Borrower hereby consents to Lender's participation, sale, assignment, transfer or of the disposition, at any time or times hereafter, of this Agreement, any of the other Agreements, or any other obligations, or of any portion hereof or thereof, including, without limitation, Lender's rights, title, interests, remedies, powers, and duties hereunder or thereunder. In the case of an assignment, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as it would have if it were the original "Lender" hereunder and Lender shall be relieved of all obligations hereunder upon any such assignment. In the case of a participation, each Participating Lender shall be entitled to receive all information received by Lender regarding the credit-worthiness of Borrower, including, without limitation, information required to be disclosed to a participant pursuant to Banking Circular 181 (Rev., August 2, 1984), issued by the Comptroller of the Currency (whether such Participating Lender is subject to the circular or not).

12.8 Cumulative Effect: Conflict of Terms. The provisions of the Other Agreements are hereby made cumulative with the provisions of this Agreement. Except as otherwise provided in Section 3.4 of this Agreement and except as otherwise provided in any of the Other Agreements by specific reference to the applicable provision of this Agreement, if any provision contained in this Agreement is in direct conflict with, or inconsistent with, any provision in any of the Other Agreements, the provision contained in this Agreement shall govern and control.

12.9 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument.

12.10 Notice. Except as otherwise provided herein, all notices, requests and demands to or upon a party hereto shall be in writing and shall be sent by certified or registered mail, return receipt requested, personal delivery against receipt, or by telegraph or telex and, unless otherwise expressly provided herein, shall be deemed to have been validly served, given or delivered when delivered against receipt or three Business Days after deposit in the mail, postage prepaid, or, in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of telex notice, when sent, answer-back received, addressed as follows:

(A) If to Lender: Fleet Capital Corporation

5950 Sherry Lane

Suite 300

Dallas, Texas 75225

Attention: Loan Administration Manager

with a copy to: Patton Boggs LLP

2001 Ross Avenue

Suite 3000

Dallas, Texas 75201

Attention: Kenneth M. Vesledahl, Esq.

(B) If to Borrower: Sepco Industries, Inc.

7272 Pinemont

Houston, Texas 77040

Attention: David R. Little

with a copy to: Looper, Reed & McGraw

1300 Post Oak Boulevard, Suite 2000

Attention: Gary A. Messersmith, Esq.

or to such other address as each party may designate for itself by like notice given in accordance with this Section 12.10; provided, however, that any notice, request or demand to or upon Lender pursuant to Section 3.3 shall not be effective until received by Lender. Any written notice that is not sent in conformity with the provisions hereof shall nevertheless be effective on the date such notice is actually received by the noticed party.

12.11 Lender's Consent. Whenever Lender's consent is required to be obtained under this Agreement or any of the Other Agreements as a condition to any action, inaction, condition or event, Lender shall be authorized to give or withhold such consent in its sole and absolute discretion (unless otherwise expressly provided herein) and to condition its consent upon the giving of additional collateral security for the Obligations, the payment of money or any other matter.

12.12 Demand Obligations. Nothing in this Agreement shall affect or abrogate the demand nature of any portion of the Obligations expressly made payable on demand by this Agreement or by any instrument evidencing or securing same, and the occurrence of an Event of Default shall not be a prerequisite for Lender's requiring payment of such Obligations.

12.13 Time of Essence. Time is of the essence of this Agreement and the Other Agreements.

12.14 Entire Agreement. This Agreement and the Other Agreements, together with all other instruments, agreements and certificates executed by the parties in connection therewith or with reference thereto, embody the entire understanding and agreement between the parties hereto and thereto with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written.

12.15 Interpretation. No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured, drafted or dictated such provision.

12.16 Nonapplicability of Chapter 303 of Texas Finance Code. Borrower and Lender hereby agree that the provisions of Chapter 346 of the Texas Finance Code [Vernon's Texas Codes Annotated] (which regulates certain revolving loan accounts and revolving triparty accounts) shall not apply to this Agreement or any of the other Loan Documents.

12.17 No Preservation or Marshaling. Borrower agrees that Lender has no obligation to preserve rights to the Collateral against prior parties or to marshal any Collateral for the benefit of any Person.

12.18 GOVERNING LAW; CONSENT. AGREEMENT HAS BEEN NEGOTIATED, EXECUTED AND DELIVERED AT AND SHALL BE DEEMED TO HAVE BEEN MADE IN DALLAS, TEXAS. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS; PROVIDED, HOWEVER, THAT IF ANY OF THE COLLATERAL SHALL BE LOCATED IN ANY JURISDICTION OTHER THAN TEXAS, THE LAWS OF SUCH JURISDICTION SHALL GOVERN THE METHOD, MANNER AND PROCEDURE FOR FORECLOSURE OF LENDER'S LIEN UPON SUCH COLLATERAL AND THE ENFORCEMENT OF LENDER'S OTHER REMEDIES IN RESPECT OF SUCH COLLATERAL TO THE EXTENT THAT THE LAWS OF SUCH JURISDICTION ARE DIFFERENT FROM OR INCONSISTENT WITH THE LAWS OF TEXAS. AS PART OF THE CONSIDERATION FOR NEW VALUE RECEIVED, AND REGARDLESS OF ANY PRESENT OR FUTURE DOMICILE OR PRINCIPAL PLACE OF BUSINESS OF BORROWER OR LENDER, BORROWER HEREBY CONSENTS AND AGREES THAT THE DISTRICT COURT OF DALLAS COUNTY, TEXAS, OR, AT LENDER'S OPTION, THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND LENDER PERTAINING TO THIS AGREEMENT OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT. BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION WHICH BORROWER MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NONCONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. BORROWER HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINT AND OTHER PROCESS MAY BE MADE, AT THE ELECTION OF LENDER, BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO BORROWER AT THE ADDRESS SET FORTH IN THIS AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF BORROWER'S ACTUAL RECEIPT THEREOF OR FIVE DAYS AFTER DEPOSIT IN THE U.S. MAILS, PROPER POSTAGE PREPAID; PROVIDED THAT LENDER SHALL ALSO SEND, BY TELECOPY, TO BORROWER A COPY OF SUCH SUMMONS, COMPLAINT AND OTHER PROCESS (AN AFFIDAVIT OF AN OFFICER, EMPLOYEE OR AGENT OF LENDER STATING THAT SUCH TELECOPY WAS SENT TO BORROWER SHALL BE PRESUMPTIVELY CORRECT IN ALL RESPECTS). NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO AFFECT THE RIGHT OF LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW, OR TO PRECLUDE THE ENFORCEMENT BY LENDER OF ANY JUDGMENT OR ORDER OBTAINED IN SUCH FORUM OR THE TAKING OF ANY ACTION UNDER THIS AGREEMENT TO ENFORCE SAME IN ANY OTHER APPROPRIATE FORUM OR JURISDICTION.

12.19 WAIVERS BY BORROWER. BORROWER WAIVES (A) THE RIGHT TO TRIAL BY JURY (WHICH LENDER HEREBY ALSO WAIVES) IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATED TO ANY OF THE LOAN DOCUMENTS, THE OBLIGATIONS OR THE COLLATERAL; (B) PRESENTMENT, DEMAND AND PROTEST AND NOTICE OF PRESENTMENT, PROTEST, DEFAULT, NON-PAYMENT, INTENT TO ACCELERATE, ACCELERATION, MATURITY, RELEASE, COMPROMISE, SETTLEMENT, EXTENSION OR RENEWAL OF ANY OR ALL COMMERCIAL PAPER, ACCOUNTS, CONTRACT RIGHTS, DOCUMENTS, INSTRUMENTS, CHATTEL PAPER AND GUARANTIES AT ANY TIME HELD BY LENDER ON WHICH BORROWER MAY IN ANY WAY BE LIABLE AND HEREBY RATIFIES AND CONFIRMS WHATEVER LENDER MAY DO IN THIS REGARD; (C) NOTICE PRIOR TO TAKING POSSESSION OR CONTROL OF THE COLLATERAL OR ANY BOND OR SECURITY WHICH MIGHT BE REQUIRED BY ANY COURT PRIOR TO ALLOWING LENDER TO EXERCISE ANY OF LENDER'S REMEDIES; (D) THE BENEFIT OF ALL VALUATION, APPRAISEMENT AND EXEMPTION LAWS; (E) ANY RIGHT BORROWER MAY HAVE UPON PAYMENT IN FULL OF THE OBLIGATIONS TO REQUIRE LENDER TO TERMINATE ITS SECURITY INTEREST IN THE COLLATERAL OR IN ANY OTHER PROPERTY OF BORROWER UNTIL TERMINATION OF THIS AGREEMENT IN ACCORDANCE WITH ITS TERMS AND THE EXECUTION BY BORROWER, AND BY ANY PERSON WHOSE LOANS TO BORROWER IS USED IN WHOLE OR IN PART TO SATISFY THE OBLIGATIONS, OF AN AGREEMENT INDEMNIFYING LENDER FROM ANY LOSS OR DAMAGE LENDER MAY INCUR AS THE RESULT OF DISHONORED CHECKS OR OTHER ITEMS OF PAYMENT RECEIVED BY LENDER FROM BORROWER OR ANY ACCOUNT DEBTOR AND APPLIED TO THE OBLIGATIONS; AND (F) NOTICE OF ACCEPTANCE HEREOF. BORROWER ACKNOWLEDGES THAT THE FOREGOING WAIVERS ARE A MATERIAL INDUCEMENT TO LENDER'S ENTERING INTO THIS AGREEMENT AND THAT LENDER IS RELYING UPON THE FOREGOING WAIVERS IN ITS FUTURE DEALINGS WITH BORROWER. BORROWER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THE FOREGOING WAIVERS WITH ITS LEGAL COUNSEL AND HAS KNOWINGLY AND VOLUNTARILY WAIVED ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

12.20 SPECIAL LOUISIANA PROVISIONS. Insofar as the validity or perfection of the security interest hereunder or the remedies hereunder are governed by the laws of the State of Louisiana, Borrower agrees as follows:

(a) For purposes of Louisiana executory process, Borrower acknowledges the obligations secured hereby, whether now existing or to arise hereafter, and confesses judgment thereon if not paid when due. Upon the occurrence of an Event of Default and at any time thereafter so long as the same shall be continuing, and in addition to all of the rights and remedies granted the Lender hereunder, it shall be lawful for and Borrower hereby authorizes Lender without making a demand or putting Borrower in default, a putting in default being expressly waived, to cause all and singular the Collateral to be seized and sold after due process of law, Borrower waiving the benefit of any and all laws or parts of laws relative to appraisement of property seized and sold under executory process or other legal process, and consenting that the Collateral be sold without appraisement, either in its entirety or in lots or parcels, as Lender may determine, to the highest bidder for cash or on such other terms as the plaintiff in such proceedings may direct. In addition, Lender shall have all of the rights and remedies available to it under this Agreement or under the Louisiana Commercial Laws (Louisiana Revised Statutes, Title 10), then in effect (La. R.S. 10:9-101 *et seq.*).

(b) Borrower hereby waives:

(i) Borrower hereby waives: the benefit of appraisement provided for in Articles 2332, 2336, 2723 and 2724 of the Louisiana Code of Civil Procedure and all other laws conferring the same;

(ii) the demand and three (3) days notice of demand as provided in Articles 2639 and 2721 of the Louisiana Code of Civil Procedure;

(iii) the notice of seizure provided by Articles 2293 and 2721 of the Louisiana Code of Civil Procedure;

(iv) the three (3) day delay provided for in Articles 2331 and 2722 of the Louisiana Code of Civil Procedure;

(v) Borrower expressly authorizes and agrees that Lender shall have the right to appoint a keeper of the Collateral pursuant to the terms and provisions of La. R.S. 9:5136; and

(vi) All liens and security interests created and perfected by Borrower prior to the effective date of Chapter 9 of the Louisiana Commercial Laws (La. R.S. 10:9-101 *et seq.*) (the "Existing Liens") shall remain effective according to their terms and the applicable provisions of law, and nothing contained herein shall constitute a novation of, or otherwise extinguish such Existing Liens.

12.21 ORAL AGREEMENTS INEFFECTIVE. THIS AGREEMENT AND THE OTHER AGREEMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES, AND THE SAME MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

12.22 Release. EACH BORROWER HEREBY ACKNOWLEDGES THAT IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE "OBLIGATIONS" OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. EACH BORROWER HEREBY VOLUNTARILY AND KNOWINGLY

RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AGREEMENT IS EXECUTED, WHICH ANY BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE EXISTING LOAN AGREEMENTS, THE LOAN DOCUMENTS OR THIS AGREEMENT, AND NEGOTIATION FOR AND EXECUTION OF THIS AGREEMENT.

12.23 Amendment, Restatement and Consolidation. This Agreement is an amendment, modification, extension, consolidation and restatement, and not an extinguishment or novation of the Existing Loan Agreements, and the liens, security interests and other obligations arising thereunder or evidenced thereby. Without limiting the foregoing, each Borrower hereby ratifies and confirms each "Loan Document" (as respectively defined in the Existing Loan Agreements) to which it is a party. *[The Remainder of this Page Intentionally Left Blank]*

IN WITNESS WHEREOF, this Agreement has been duly executed in Dallas, Texas, on the day and year specified at the beginning hereof.

BORROWER :

SEPCO INDUSTRIES, INC.

By: ./s/Mac McConnell

Name: Mac McConnell

Title: V.P.

AMERICAN MRO, INC.

By: ./s/Mac McConnell

Name: Mac McConnell

Title: V.P.

DXP ACQUISITION, INC.

d/b/a STRATEGIC ACQUISITION, INC.

By: ./s/Mac McConnell

Name: Mac McConnell

Title: V.P.

PELICAN STATE SUPPLY COMPANY, INC.

By: ./s/Mac McConnell

Name: Mac McConnell

Title: V.P.

DXP ENTERPRISES, INC.

By: ./s/Mac McConnell

Name: Mac McConnell

Title: V.P.

LENDER :

FLEET CAPITAL CORPORATION

By: /s/H. Michael Wills

Name: H. Michael Wills

Title: Senior Vice President

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT ("Agreement") by and between DXP ENTERPRISES, INC., a Texas corporation (the "Company"), and DAVID R. LITTLE (the "Employee"), dated effective as of the 1st day of January, 2004.

Employee and Company desire to have Employee continue employment with Company. Employee and Company desire to set forth the terms and conditions of Employee's employment with Company.

AGREEMENTS

1. **Employment Period.** The Company hereby agrees to continue the Employee in its employ as Chief Executive Officer, and the Employee hereby agrees to remain in the employ of the Company for the period commencing on the date hereof ("Effective Date") and ending on the third anniversary of such date (the "Employment Period"). Unless this Agreement is terminated, on the first annual anniversary date hereof and on each annual anniversary of such date (such date and each annual anniversary thereafter shall be hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate three (3) years from such Renewal Date. Notwithstanding the foregoing, the Renewal Date shall not extend beyond the date of the 70th birthday of Employee or such later retirement date as determined by the Board of Directors ("Retirement Date").

2. Terms of Employment.

(a) **Position and Duties.** During the Employment Period, the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall remain commensurate in all material respects with those held, exercised and assigned as of the Effective Date and the Employee's services shall be performed at Employer's current location at 7272 Pinemont, Houston, Harris County, Texas or only at any other office or location of Company within thirty (30) miles of said current location.

During the Employment Period, and excluding any periods of vacation and sick leave to which the Employee is entitled, the Employee agrees to serve in said capacity and to perform diligently and to the best of Employee's abilities the responsibilities assigned to the Employee hereunder and to perform faithfully and efficiently such responsibilities. Further, Employee shall serve, when elected, as a director of the Company and as a director or officer of any subsidiary of Company and as a member of any committee of any such Board of Directors to which he may be appointed, and Employee shall perform such other duties commensurate with his office as the Board of Directors may from time to time assign. During the Employment Period it shall not be a violation of this Agreement for the Employee to (i) serve on corporate, civic or charitable boards or committees, (ii) deliver lectures and fulfill speaking engagements or (iii) manage personal investments for so long as such activities do not materially interfere with the performance of the Employee's responsibilities in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Employee prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Employee's responsibilities to the Company.

(b) Compensation.

(i) **Base Salary.** During the Employment Period, the Employee shall receive an annual base salary ("Base Salary") of THREE HUNDRED THOUSAND AND NO/100 DOLLARS (\$300,000.00), which shall be payable in equal bi-weekly installments. The Base Salary shall be reviewed at least annually and shall be increased at such time and at any time and from time to time as shall be substantially consistent with previous actions regarding increases in base salary awarded to Employee. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Employee under this Agreement. Base Salary shall never be reduced. Notwithstanding the foregoing, the annual total of the monthly bonus shall not exceed twice the annual Base Salary.

(ii) **Monthly Bonus.** In addition to Base Salary, the Employee shall be awarded each month during the Employment Period, a monthly bonus ("Monthly Bonus") in cash equal to five percent (5%) of the profit before tax of the Company as shown on the books and records of the Company at the end of each month.

(iii) **Incentive, Savings and Retirement Plans.** In addition to Base Salary and Monthly Bonus, the Employee shall be entitled to participate during the Employment Period in all incentive, savings and retirement plans, practices, policies and programs applicable to other key employees of the Company. Such plans, practices, policies and programs, in the aggregate, shall provide the Employee with compensation, benefits and reward opportunities at least as favorable as those in effect as of the Effective Date.

(iv) **Welfare Benefit Plans.** During the Employment Period, the Employee and/or the Employee's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company to other key employees, including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs.

(v) **Expenses.** During the Employment Period, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the policies, practices and procedures of the Company in effect, as of the Effective Date, for

Employee.

(vi) Fringe Benefits. During the Employment Period, the Employee shall be entitled to fringe benefits, including payment of any professional dues and dues for social club memberships, in accordance with the plans, practices, programs and policies of the Company in effect, as of the Effective Date, for Employee.

(vii) Office and Support Staff. During the Employment Period, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to that provided to the Employee by the Company as of the Effective Date.

(viii) Vacation. During the Employment Period, the Employee shall be entitled to paid vacation of three (3) weeks in accordance with the plans, policies, programs and practices of the Company in effect as of the Effective Date for Employee.

(ix) Automobile Allowance. During the Employment Period, the Employee shall be entitled to an automobile allowance of \$4,000 a month.

(x) Discretionary Bonus. Employee shall be fully eligible for any bonuses as awarded by the Compensation Committee of the Board of Directors in its discretion based upon the Employee's performance and the Company's operating results.

3. Termination.

(a) Provision for Termination. This Agreement may be terminated by Company or Employee only in accordance with the terms of Sections 3, 4 and 5 hereof.

(b) Notice of Termination. Any termination by the Company or by the Employee shall be communicated by Notice of Termination to the other party hereto given in accordance with the notice provisions contained in this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which specifies the termination date.

(c) Date of Termination. "Date of Termination" means the date of receipt of the Notice of Termination or any later date specified therein, as the case may be; provided, however, that (i) if the Employee's employment is terminated by the Company, the Date of Termination shall be the date on which the Company notifies the Employee of such termination except for termination for "Good Cause" (as hereinafter defined) (ii) if the Employee's employment is terminated by reason of death or retirement, the Date of Termination shall be the date of death or date of retirement of the Employee, and (iii) if the Employee's employment is terminated by reason of Good Cause the Date of Termination shall be the date of the conviction, adjudication or judgment by the court of competent jurisdiction.

4. Obligation of the Company upon Termination (Except Death or "Good Cause"). If after the date of the Agreement, the Company shall breach any agreement providing for or respecting the employment of the Employee or if during the Employment Period, the Company shall terminate the Employee's employment for any reason other than for Death, Retirement or Good Cause, or if during the Employment Period, the Employee shall terminate his Employment for "Good Reason" (defined hereinbelow) then the Company shall pay or cause to be paid to the Employee in a cash lump sum within 30 days after the Date of Termination the aggregate of the following amounts:

(a) the Employee's then-current annual Base Salary for the remainder of the Employment Period; and

(b) an amount equal to the sum of the most recent twelve months of Monthly Bonuses paid to the Employee, (the "Recent Bonus"); and

(c) the product of two (2) times the sum of the then-current annual Base Salary plus the Recent Bonus; and

(d) in the case of compensation previously deferred by the Employee, all amounts previously deferred (together with any accrued interest hereon) and not yet paid by the Company, and any accrued vacation pay not yet paid by the Company; and

(e) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Employee and/or the Employee's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 2(b)(iv) and (vi) of this Agreement if the Employee's employment had not been terminated, including health insurance and life insurance, in accordance with the plans, practices, programs or policies of the Company in effect prior to the Termination Date, and for purposes of eligibility for retiree benefits pursuant to such plans, practices, programs and policies, the Employee shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period.

For purposes of this Agreement, "Good Reason" means:

(i) if there is a change in the nature or scope of functions, powers, authorities, duties or responsibilities as set forth in Section 2(a) of this Agreement, which change is not remedied by the Company within thirty (30) days after receipt of notice thereof given by the Employee;

(ii) any failure by the Company to comply with any of the provisions of Section 2(b) of this Agreement, which is not remedied by the Company

within thirty (30) days after receipt of notice thereof given by the Employee;

(iii) the Company's requiring the Employee to be based at any office or location other than that described in Section 2(a) hereof, except for travel reasonably required in the performance of the Employee's responsibilities;

- I. any purported termination by the Company of the Employee's employment except for "Good Cause" (hereinafter defined) or Death; or
- II. any failure by the Company to comply with and satisfy Section 11 of this Agreement.

5. **Obligation of the Company Upon Retirement, Death or "Good Cause".** If the Employee's employment is terminated by reason of Employee's retirement, death or "Good Cause" (hereinafter defined), this Agreement shall terminate without further obligations to Employee or the Employee's legal representatives, except as set out in this Section and under this Agreement as it does not conflict with this Section, including those obligations accrued or earned and vested (if applicable) by the Employee as of the Date of Termination, and including (i) the Employee's full Base Salary through the Date of Termination, (ii) the Monthly Bonuses required to be paid to the Employee up to and including the month within which the Date of Termination occurs and (iii) any compensation previously deferred by the Employee (together with any accrued interest thereon) and not yet paid by the Company and any accrued vacation pay not yet paid by the Company (such amounts specified in clauses (i), (ii) and (iii) above are hereinafter referred to as "Accrued Obligations"). All such Accrued Obligations shall be paid to Employee or to Employee's estate or beneficiary, as applicable, in a cash lump sum within thirty (30) days of the Date of Termination. Anything in this Agreement to the contrary notwithstanding, the Employee's family in the event of Employee's death shall be entitled to continue to receive the benefits provided by the Company to surviving families of key employees of the Company and Employee's Base Salary payable in equal bi-weekly installments for a period of twenty-four (24) months after the month in which Employee dies.

For purposes of this Agreement, "Good Cause" means:

- A. Employee has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal.
- B. Employee has been adjudicated by a court of competent jurisdiction to be mentally, physically and/or emotionally incapacitated so as to render him incapable of performing his required duties and services, and such adjudication is no longer subject to direct appeal.
- C. A court of competent jurisdiction has rendered a judgment that Employee has committed acts of fraud, theft or willful malfeasance that has materially damaged the Company and such determination is no longer subject to direct appeal.

6. **Non-exclusivity of Rights.** Nothing in this Agreement shall prevent or limit the Employee's continuing or future participation in any benefit, bonus, incentive or other plans, programs, policies or practices, provided by the Company and for which the Employee may qualify, nor shall anything herein limit or otherwise affect such rights as the Employee may have under any stock option or warrant or other agreements with the Company. Amounts which are vested benefits or which the Employee is otherwise entitled to receive under any plan, policy, practice or program of the Company at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program.

7. **Full Settlement.** The Company's obligation to make or cause to be made the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Employee or others. In no event shall the Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee under any of the provisions of this Agreement. The Company agrees to pay, or cause to be paid, to the full extent permitted by law, all legal fees and expenses which the Employee may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof, plus in each case interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code.

8. **Certain Additional Payments by the Company.**

- A. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.
- B. Subject to the provisions of Section 8(c), all determinations required to be made under this Section 8, including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by the

accounting firm preparing the Company's tax return or, if such firm is not reasonably available, such other firm of similar national recognition mutually acceptable to the Company and the Employee (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Employee within 15 business days of the Date of Termination, if applicable, or such earlier time as is requested by the Company. The initial Gross-Up Payment, if any, as determined pursuant to this Section 8(b), shall be paid to the Employee within 5 days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable to the Employee, it shall furnish the Employee with an opinion that he has substantial authority not to report any Excise Tax on his federal income tax return. Any determination by the Accounting Firm shall be binding upon the Company and the Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that the Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8(c) and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with any penalties and interest) shall be promptly paid by the Company to or for the benefit of the Employee.

C. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Employee knows of such claim and shall apprise the Company of the nature of such claims and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the thirty-day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

A. give the Company any information reasonably requested by the Company relating to such claim;

II. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

III. cooperate with the Company in good faith in order effectively to contest such claim;

IV. permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including attorney fees and any additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 8(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect to such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service, or any other authority.

(d) If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 8(c), the Employee become entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of Section 8(c)), promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 8(c), a determination is made that the Employee shall not be entitled to any refund with respect to such claims and the Company does not notify the Employee in writing of its intent to contest

such denial of refund prior to the expiration of thirty days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

9. Protective Covenants. The Employee recognizes that his employment by the Company is one of the highest trust and confidence because (i) the Employee will become fully familiar with all aspects of the Company's business during the period of his employment with the Company, (ii) certain information of which the Employee will gain knowledge during his employment is proprietary and confidential information which is special and peculiar value to the Company, and (iii) if any such proprietary and confidential information were imparted to or became known by any person, including the Employee, engaging in a business in competition with that of the Company, hardship, loss or irreparable injury and damage could result to the Company, the measurement of which would be difficult if not impossible to ascertain. The Employee acknowledges that the Company has developed unique skills, concepts, designs, marketing programs, marketing strategy, business practices, methods of operation, trademarks, licenses, hiring and training methods, financial and other confidential and proprietary information concerning its operations and expansion plans ("Trade Secrets"). Therefore, the Employee agrees that it is necessary for the Company to protect its business from such damage, and the Employee further agrees that the following covenants constitute a reasonable and appropriate means, consistent with the best interest of both the Employee and the Company, to protect the Company against such damage and shall apply to and be binding upon the Employee as provided herein:

- A. Trade Secrets. The Employee recognizes that his position with the Company is one of the highest trust and confidence by reason of the Employee's access to and contact with certain Trade Secrets of the Company. The Employee agrees and covenants to use his best efforts and exercise utmost diligence to protect and safeguard the Trade Secrets of the Company. The Employee further agrees and covenants that, except as may be required by the Company in connection with this Agreement, or with the prior written consent of the Company, the Employee shall not, either during the term of this Agreement or thereafter, directly or indirectly, use for the Employee's own benefit or for the benefit of another, or disclose, disseminate, or distribute to another, any Trade Secret (whether or not acquired, learned, obtained, or developed by the Employee alone or in conjunction with others) of the Company or of others with whom the Company has a business relationship. All memoranda, notes, records, drawings, documents, or other writings whatsoever made, compiled, acquired, or received by the Employee during the term of this Agreement, arising out of, in connection with, or related to any activity or business of the Company, including, but not limited to, the Company's operations, the marketing of the Company's products, the Company's customers, suppliers, or others with whom the Company has a business relationship, the Company's arrangements with such parties, and the Company's pricing and expansion policies and strategy, are, and shall continue to be, the sole and exclusive property of the Company, and shall, together with all copies thereof and all advertising literature, be returned and delivered to the Company by the Employee immediately, without demand, upon the termination of this Agreement, or at any time upon the Company's demand.
- B. Restriction on Soliciting Employees of the Company. The Employee covenants that for a period of twelve (12) months following the termination of this Agreement, he will not, either directly or indirectly, call on, solicit, or take away, or attempt to call on, solicit or take away any of the employees of the Company, either for himself or for any other person, firm, corporation or other entity.
- C. Covenant Not to Compete. The Employee hereby covenants and agrees that for a period of twenty-four (24) months following the termination of this Agreement, he will not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, shareholder (other than through ownership of publicly-traded capital stock of a corporation which represents less than five percent (5%) of the outstanding capital stock of such corporation), corporate officer, director, investor, financier or in any other individual or representative capacity, engage or participate in any business competitive with the Company within Texas, Oklahoma or Louisiana.
- D. Survival of Covenants. Each covenant of the Employee set forth in this Section 9 shall survive the termination of this Agreement and shall be construed as an agreement independent of any other provision of this Agreement, and the existence of any claim or cause of action of the Employee against the Company whether predicated on this Agreement or otherwise shall not constitute a defense to the enforcement by the Company of said covenant.

(e) Remedies. In the event of breach or threatened breach by the Employee of any provision of this Section 9, the Company shall be entitled to relief by temporary restraining order, temporary injunction, or permanent injunction or otherwise, in addition to other legal and equitable relief to which it may be entitled, including any and all monetary damages which the Company may incur as a result of said breach, violation or threatened breach or violation. The Company may pursue any remedy available to it concurrently or consecutively in any order as to any breach, violation, or threatened breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any other of such remedies as to such breach, violation, or threatened breach or violation, or as to any other breach, violation, or threatened breach or violation.

The Employee hereby acknowledges that the Employee's agreement to be bound by the protective covenants set forth in this Section 9 was a material inducement for the Company entering into this Agreement and agreeing to pay the Employee the compensation and benefits set forth herein.

10. Assignment and Binding Effect. This Agreement is personal to the Employee and without the prior written consent of the Company shall not be assignable by the Employee otherwise than by will or the laws of descent and distribution. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by each party hereto and each party's respective successors, heirs, assigns and legal representatives.

11. Successor. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets.

12. Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas without reference to principles of conflict of laws. This Agreement was executed in Houston, Harris County, Texas and at least partial performance of this Agreement will be made in such place.

13. Notices. All notices and other communications hereunder shall be in writing and shall be personally given by hand delivery to the other party or sent by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employee: David R. Little

427 Thamer

Houston, Texas 77024

If to the Company: DXP Enterprises, Inc.

7272 Pinemont

Houston, Texas 77040

Attention: Senior Vice President/Finance

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee, or if mailed, on the seventh day following the day on which it was deposited in the United States mail.

14. Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws effective during the term hereof, such provision shall be fully severable and this Agreement and each separate provision hereof shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Agreement.

15. Headings. The headings of the paragraph of this Agreement have been inserted for convenience of reference only and shall not be construed or interpreted to restrict or modify any of the terms or provisions hereof.

16. Remedies. With respect to each and every breach, violation, or threatened breach or violation by Employee or Company of any of the covenants set forth herein, Company and Employee, in addition to all other remedies available at law or in equity, including specific performance of the provisions hereof, shall be entitled to enjoin the commencement or continuance thereof and may apply for entry of an injunction.

17. No Waiver. The failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect the validity of this Agreement, or any part hereof, or the right of either party thereafter to enforce each and every such provision of this Agreement in accordance with the terms of this Agreement.

18. Entire Agreement.

(a) This Agreement embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter hereof, unless expressly provided otherwise herein and except for (1) all rights of Employee under any other existing employee benefit plans established and adopted for employees of Company in general, (2) all rights of Employee to indemnity under all indemnification provided by Company or any third parties and (3) other similar arrangements of Company and all agreements with respect to the foregoing.

(b) No amendment or modification of this Agreement, unless expressly provided otherwise herein, shall be valid unless made in writing and signed by each of the parties whose rights, duties, or obligations hereunder would in any way be affected by any amendment or modification.

(c) No representations, inducements, or agreements have been made to induce either Employee or Company to enter into this Agreement, which are not expressly set forth herein. This Agreement is the sole source of rights and duties as between Company and Employee relating to the subject matter of this Agreement, except as expressly provided herein.

IN WITNESS WHEREOF, the Employee has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

EMPLOYEE: COMPANY:

_____ DXP ENTERPRISES, INC. a Texas Corporation

DAVID R. LITTLE By: _____

Printed Name: Mac McConnell

Title: Senior Vice President and

Chief Financial Officer

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

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 19, 2004 included in this Annual Report on Form 10-K, into the Company's previously filed registration statements on Form S-8 (File Nos. 333-61953, 333-92875 and 333-92877).

/s/HEIN & ASSOCIATES LLP

Hein & Associates LLP

Houston, Texas

March 11, 2004

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of DXP Enterprises, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - A. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - C. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
1. The registrant's other certifying officer 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 11, 2004

/s/ David R. Little

David R. Little

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of DXP Enterprises, Inc.;
 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement 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 presents in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - A. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter 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 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 11, 2004

/s/ Mac McConnell

Mac McConnell

Senior Vice President &

Chief Financial Officer

(Principal Financial Officer)

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, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15 (d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 11, 2004 /s/ David R. Little

David R. Little

President and Chief Executive Officer

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

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15 (d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 11, 2004 /s/ Mac McConnell

Mac McConnell

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.