DXP ENTERPRISES INC
Form 10-K/A
May 23, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
Amendment No. 1
(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the fiscal year ended December 31, 2017
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from to

Commission file number 0-21513

DXP Enterprises, Inc.
(Exact name of registrant as specified in its charter)

Texas	76-0509661
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas	77040	(713) 996-4700
(Address of principal executive offices)	(Zip Code)	(Registrant's telephone number, including area code)

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

Common Stock, $0.01 Par Value	NASDAQ
(Title of Class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (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, 2017: $536,658,521

Number of shares of registrant's Common Stock outstanding as of March 21, 2018: 17,358,186.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the annual meeting of shareholders to be held in 2018 are incorporated by reference into Part III hereof.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of DXP Enterprises, Inc., (the "Company") for the year ended December 31, 2017 is filed solely to correct an error of a missing signature on the Report of the Company's Independent Registered Public Accounting Firm under Item 8 of the Form 10-K and to correct an error regarding the date of the Report in the accompanying Exhibit 23.1 Consent of Independent Registered Public Accounting Firm to the Form 10-K.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the certifications by our principal executive officer and principal financial officer, filed as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively, have been revised, re-executed and re-filed as of the date of this Amendment No. 1 to the Annual Report on Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
DXP Enterprises, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of DXP Enterprises, Inc. and subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and the consolidated results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2018 expressed an adverse opinion on the Company's internal control over financial reporting due to material weaknesses.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moss Adams LLP

Houston, TX
March 28, 2018

We have served as the Company's auditor since 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
DXP Enterprises, Inc.

We have audited the accompanying consolidated balance sheet of DXP Enterprises, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2016, and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and cash flows for the year ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DXP Enterprises, Inc. and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated March 31, 2017 expressed an opinion that the Company had not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ Hein & Associates LLP

Houston, Texas
March 31, 2017

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
DXP Enterprises, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of DXP Enterprises, Inc. (a Texas corporation) and subsidiaries (the "Company") as of December 31, 2015 (not represented herein), and the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DXP Enterprises, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Houston, Texas

February 29, 2016

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
DXP Enterprises, Inc.

Opinion on Internal Control over Financial Reporting

We have audited DXP Enterprises, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of DXP Enterprises, Inc. and subsidiaries as of December 31, 2017, the related consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 28, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment in Item 9A:
<u>Ineffective control environment and monitoring to support the financial reporting process.</u>
The Company's control environment did not sufficiently promote effective internal control over financial reporting; specifically, the following factors relating to the control environment:
The Company did not maintain effective management review controls over the monitoring and review of certain accounts, thus we were not able properly conclude these account reconciliations and analyses were performed at an appropriate level of detail.
The Company did not effectively design, document nor monitor (review, evaluate and assess) the key internal control activities that provide the accounting information contained in the Company's financial statements.

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Ineffective Information Technology General Controls ("ITGC").
The Company did not maintain effective ITGC, which are required to support automated controls and information technology ("IT") functionality; therefore, automated controls and IT functionality were deemed ineffective for the same period under audit.

We considered the material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the Company's consolidated financial statements as of and for the year ended December 31, 2017, and our opinion on such consolidated financial statements was not affected.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Moss Adams LLP

Houston, TX
March 28, 2018

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	$ 22,047	$ 1,590
Restricted Cash	3,532	-
Trade accounts receivable, net of allowances for doubtful accounts of $9,015 in 2017 and $8,160 in 2016	167,272	148,919
Inventories	91,413	83,699
Costs and estimated profits in excess of billings on uncompleted contracts	26,915	18,421
Prepaid expenses and other current assets	5,296	2,138
Federal income taxes recoverable	1,440	2,558
Total current assets	317,915	257,325
Property and equipment, net	53,337	60,807
Goodwill	187,591	187,591
Other intangible assets, net of accumulated amortization of $84,624 in 2017 and $70,027 in 2016	78,525	94,831
Other long-term assets	1,715	1,498
Total assets	$ 639,083	$ 602,052
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 3,381	$ 51,354
Trade accounts payable	80,303	78,698
Accrued wages and benefits	18,483	16,962
Customer advances	2,189	2,441
Billings in excess of costs and estimated profits on uncompleted contracts	4,249	2,813
Other current liabilities	16,220	14,391
Total current liabilities	124,825	166,659
Long-term debt, less current maturities and unamortized debt issuance costs	238,643	173,331
Deferred income taxes	7,069	9,513
Total long-term liabilities	245,712	182,844
Commitments and Contingencies (Note 15)		
Equity:		
Series A preferred stock, 1/10th vote per share; $1.00 par value; liquidation preference of $100 per share ($112 at December 31, 2017 and 2016); 1,000,000 shares authorized; 1,122 shares issued and outstanding	1	1
Series B convertible preferred stock, 1/10th vote per share; $1.00 par value; $100 stated value; liquidation preference of $100 per share ($1,500 at December 31, 2017 and 2016); 1,000,000 shares authorized; 15,000 shares issued and outstanding	15	15
Common stock, $0.01 par value, 100,000,000 shares authorized; 17,315,573 in 2017 and 17,197,380 in 2016 shares issued	174	173
Additional paid-in capital	153,087	152,313
Retained earnings	134,193	117,395
Accumulated other comprehensive loss	(19,491)	(18,274)
Total DXP Enterprises, Inc. equity	267,979	251,623

Noncontrolling interest	567	926
Total equity	268,546	252,549
Total liabilities and equity	$639,083	$602,052

The accompanying notes are an integral part of these consolidated financial statements.
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DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share amounts)

	Years Ended December 31, 2017	2016	2015
Sales	$1,006,782	$962,092	$1,247,043
Cost of sales	735,201	697,290	895,057
Gross profit	271,581	264,802	351,986
Selling, general and administrative expense	238,091	245,470	303,819
Impairment expense	-	-	68,735
B27 settlement	-	-	7,348
Operating income (loss)	33,490	19,332	(27,916)
Other expense (income), net	(456)	(5,906)	72
Interest expense	17,054	15,564	10,932
Income (loss) before income taxes	16,892	9,674	(38,920)
Provision for income taxes	363	2,523	150
Net income (loss)	16,529	7,151	(39,070)
Net loss attributable to noncontrolling interest	(359)	(551)	(534)
Net income (loss) attributable to DXP Enterprises, Inc.	16,888	7,702	(38,536)
Preferred stock dividend	90	90	90
Net income (loss) attributable to common shareholders	$16,798	$7,612	$(38,626)
Net income (loss)	$16,529	$7,151	$(39,070)
Cumulative translation adjustment, net of income taxes	(1,217)	(7,658)	(4,916)
Comprehensive income (loss)	$15,312	$(507)	$(43,986)
Basic earnings (loss) per share	$0.97	$0.51	$(2.68)
Weighted average common shares outstanding	17,400	15,042	14,423
Diluted earnings (loss) per share	$0.93	$0.49	$(2.68)
Weighted average common shares and common equivalent shares outstanding	18,240	15,882	14,423

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

DXP ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2017, 2016 and 2015
(in thousands, except share amounts)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Non-Control Interest	Accum. Other Comp. Income	Total Equity
BALANCES AT January 1, 2015	$ 1	$ 15	$ 146	$115,605	$148,409	$(15,524)	$ -	$(5,700)	$242,952
Dividends paid	-	-	-	-	(90)	-	-	-	(90)
Compensation expense for restricted stock	-	-	-	2,973	-	-	-	-	2,973
Tax related items for share based awards	-	-	-	(815)	-	-	-	-	(815)
Issuance of 148,769 treasury shares in connection with an acquisition	-	-	-	(4,825)	-	9,223	-	-	4,398
Acquisition of 191,420 shares of treasury stock	-	-	-	-	-	(8,908)	-	-	(8,908)
Issuance of 57,401 treasury shares upon vesting of restricted stock	-	-	-	(2,632)	-	2,632	-	-	-
Noncontrolling interest holder contributions, net of tax benefits	-	-	-	-	-	-	2,346	-	2,346
Cumulative translation adjustment	-	-	-	-	-	-	-	(4,916)	(4,916)
Net loss	-	-	-	-	(38,536)	-	(534)	-	(39,070)
BALANCES AT DECEMBER 31, 2015	$1	$15	$146	$110,306	$109,783	$(12,577)	$1,812	$(10,616)	$198,870
Dividends paid	-	-	-	-	(90)	-	-	-	(90)
Compensation expense for restricted stock	-	-	-	3,580	-	-	-	-	3,580
Tax related items for share based awards	-	-	-	(858)	-	-	-	-	(858)
Issuance of 2,722,858 shares of Common stock	-	-	27	51,862	-	-	-	-	51,889
Issuance of 264,297 treasury shares	-	-	-	(12,577)	-	12,577	-	-	-
Noncontrolling interest holder contributions, net of tax benefits	-	-	-	-	-	-	(335)	-	(335)
Cumulative translation adjustment	-	-	-	-	-	-	-	(7,658)	(7,658)
Net income (loss)	-	-	-	-	7,702	-	(551)	-	7,151

BALANCES AT DECEMBER 31, 2016	$1	$15	$173	$152,313	$117,395	$-	$926	$(18,274)	$252,549
Dividends paid	-	-	-	-	(90)	-	-	-	(90)
Compensation expense for restricted stock	-	-	-	1,708	-	-	-	-	1,708
Tax related items for share based awards	-	-	-	(933)	-	-	-	-	(933)
Issuance of shares of Common stock	-	-	1	(1)	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	-	-	(1,217)	(1,217)
Net income (loss)	-	-	-	-	16,888	-	(359)	-	16,529
BALANCES AT DECEMBER 31, 2017	$1	$15	$174	$153,087	$134,193	$-	$567	$(19,491)	$268,546

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

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DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31, 2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) attributable to DXP Enterprises, Inc.	$16,888	$7,702	$(38,536)
Less net loss attributable to noncontrolling interest	(359)	(551)	(534)
Net income (loss)	16,529	7,151	(39,070)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,520	11,933	12,622
Amortization of intangible assets	17,266	18,061	20,621
Impairment of goodwill	-	-	68,735
Bad debt expense	3,416	180	2,014
Amortization of debt issuance costs	1,548	1,856	1,211
Write off of debt issuance costs	578	-	-
Gain on sale of subsidiary	-	(5,635)	-
Stock compensation expense	1,708	3,580	2,973
Tax loss related to vesting of restricted stock	-	619	-
Deferred income taxes	(3,827)	2,687	(9,024)
Changes in operating assets and liabilities, net of assets and liabilities acquired in business acquisitions:			
Trade accounts receivable	(20,539)	12,080	71,261
Costs and estimated profits in excess of billings on uncompleted contracts	(8,419)	3,457	(2,047)
Inventories	(7,544)	5,453	12,724
Prepaid expenses and other assets	(3,287)	620	159
Accounts payable and accrued expenses	3,189	(8,595)	(42,862)
Billings in excess of costs & estimated profits on uncompleted contracts	1,406	(5,203)	(513)
Net cash provided by operating activities	12,544	48,244	98,804
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(2,811)	(4,868)	(13,992)
Proceeds from the sale of fixed assets	-	1,206	-
Proceeds from sale of subsidiary	-	31,476	-
Acquisitions of businesses, net of cash acquired [1]	-	-	(15,501)
Net cash provided by (used in) investing activities	(2,811)	27,814	(29,493)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt	728,822	517,689	393,551
Principal payments on revolving line of credit and other long-term debt	(702,402)	(643,568)	(453,480)
Debt issuance costs	(11,208)	(801)	(543)
Noncontrolling interest holder contributions (distributions), net of tax benefits	-	(335)	2,346
Preferred dividends paid	(90)	(90)	(90)
Purchase of treasury stock	-	-	(8,908)
Proceeds from issuance of common shares, net	-	51,889	-
Payment for employee taxes withheld from stock awards	(934)	(238)	(815)
Tax (loss) related to vesting of restricted stock	-	(619)	-
Net cash provided by (used in) financing activities	14,188	(76,073)	(67,939)

EFFECT OF FOREIGN CURRENCY ON CASH	68	(88)	274
(DECREASE) INCREASE IN CASH	23,989	(103)	1,646
CASH AT BEGINNING OF YEAR	1,590	1,693	47
CASH AT END OF YEAR	$25,579	$1,590	$1,693
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for Interest	$15,205	$13,708	$9,721
Cash paid for Income Taxes	$714	$4,780	$13,792

(1) Purchases of businesses in 2015 exclude $4.4 million in common stock issued in connection with an acquisition.
The accompanying notes are an integral part of these consolidated financial statements

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DXP ENTERPRISES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY

DXP Enterprises, Inc. together with its subsidiaries (collectively "DXP," "Company," "us," "we," or "our") was incorporated in Texas on July 26, 1996. DXP Enterprises, Inc. and its subsidiaries are engaged in the business of distributing maintenance, repair and operating (MRO) products, and service to energy and industrial customers. Additionally, DXP provides integrated, custom pump skid packages, pump remanufacturing and manufactures branded private label pumps to energy and industrial customers. The Company is organized into three business segments: Service Centers ("SC"), Supply Chain Services ("SCS") and Innovative Pumping Solutions ("IPS"). See Note 18 for discussion of the business segments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING AND BUSINESS POLICIES

Basis of Presentation

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its variable interest entity ("VIE").

DXP is the primary beneficiary of a VIE in which DXP owns 47.5% of the equity. DXP consolidates the financial statements of the VIE with the financial statements of DXP. As of December 31, 2017, the total assets of the VIE were approximately $5.2 million including approximately $4.5 million of fixed assets. DXP is the primary customer of the VIE. Consolidation of the VIE increased cost of sales by approximately $0.6 million and $1.3 million for the twelve months ended December 31, 2017 and 2016, respectively. The Company recognized a related income tax benefit of $0.2 million and $0.3 million related to the VIE for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the owners of the 52.5% of the equity not owned by DXP included employees of DXP.

All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation; none affected net income.

Foreign Currency

The financial statements of the Company's Canadian subsidiaries are measured using local currencies as their functional currencies. Assets and liabilities are translated into U.S. dollars at current exchange rates, while income and expenses are translated at average exchange rates. Translation gains and losses are reported in other comprehensive income (loss). Gains and losses on transactions denominated in foreign currency are reported in consolidated statements of income (loss).

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management 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. In the opinion of management, all adjustments necessary in order to make the financial statements not misleading have been included. Actual results could differ from those estimates.

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 90 days or less at time of purchase. The Company places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Company has not historically experienced any losses when in excess of these limits.

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Receivables and Credit Risk

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

The Company has trade receivables from a diversified customer base located primarily in the Rocky Mountain, Northeastern, Midwestern, Southeastern and Southwestern regions of the United States, and Canada. 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. 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 collectability of such accounts. The Company writes off uncollectible trade accounts receivable when the accounts are determined to be uncollectible. No customer represents more than 10% of consolidated sales.

Changes in this allowance for 2017, 2016 and 2015 were as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Balance at beginning of year	$8,160	$9,364	$8,713
Charged to costs and expenses	3,367	180	2,014
Charged to other accounts	22 [3]	(17)[2]	1,255 [2]
Deductions	(2,534)[1]	(1,367)[1]	(2,618)[1]
Balance at end of year	$9,015	$8,160	$9,364

(1) Uncollectible accounts written off, net of recoveries
(2) Includes allowance for doubtful accounts from acquisitions and divestiture
(3) Primarily due to translation adjustments

Fair Value of Financial Instruments

The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. US GAAP establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. US GAAP prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

See Note 4 for further information regarding the Company's financial instruments.

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Inventories

Inventories consist principally of finished goods and are priced at net realizable value, cost being determined using the first-in, first-out ("FIFO") method. Provisions are provided against inventories for estimated obsolescence based upon the aging of the inventories and market trends and are applied as a reduction in cost of associated inventory.

Property and Equipment

Property and equipment are carried on the basis of cost. Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives. Maintenance and repairs of depreciable assets are charged against earnings as incurred. When properties are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to earnings.

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

Buildings	20-39 years
Building improvements	10-20 years
Furniture, fixtures and equipment	3-20 years
Leasehold improvements	Shorter of estimated useful life or related lease term

Impairment of Goodwill and Other Intangible Assets

The Company tests goodwill and other indefinite lived intangible assets for impairment on an annual basis in the fourth quarter and when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assigns the carrying value of these intangible assets to its "reporting units" and applies the test for goodwill at the reporting unit level. A reporting unit is defined as an operating segment or one level below a segment (a "component") if the component is a business and discrete information is prepared and reviewed regularly by segment management.

The Company's goodwill impairment assessment first permits evaluating qualitative factors to determine if a reporting unit's carrying value would more likely than not exceed its fair value. If the Company concludes, based on the qualitative assessment, that a reporting unit's carrying value would more likely than not exceed its fair value, the Company would perform a two-step quantitative test for that reporting unit. When a quantitative assessment is performed, the first step is to identify a potential impairment, and the second step measures the amount of the impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of a reporting unit's goodwill exceeds its estimated fair value. During the third and fourth quarter of 2015, DXP performed interim impairment tests using a quantitative approach and recognized goodwill impairments of $57.8 million and $9.8 million, respectively. No impairment of goodwill was required in 2017 and 2016.

Impairment of Long-Lived Assets, Excluding Goodwill

The Company tests long-lived assets or asset groups for recoverability on an annual basis and when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value. No impairment of long-lived assets excluding goodwill, was required in 2017, 2016 and 2015.

Share-based Compensation

The Company uses restricted stock for share-based compensation programs. The Company measures compensation cost with respect to equity instruments granted as stock-based payments to employees based upon the estimated fair value of the equity instruments at the date of the grant. The cost as measured is recognized as expense over the period which an employee is required to provide services in exchange for the award.

Revenue Recognition

For binding agreements to fabricate tangible assets to customer specifications, the Company recognizes revenues using the percentage of completion method. Under this method, revenues are recognized as costs are incurred and include estimated profits calculated on the basis of the relationship between costs incurred and total estimated costs at completion. If at any time expected costs exceed the value of the contract, the loss is recognized immediately. Revenues of approximately $40.6 million, $31.5 million, and $47.5 million were recognized on contracts in process for the years ended December 31, 2017, 2016, and 2015, respectively. The typical time span of these contracts is approximately one to two years.

For other sales, the Company recognizes revenues when an agreement is in place, the price is fixed, title for product passes to the customer or services have been provided and collectability is reasonably assured, which is generally upon delivery to the customer. Revenues are recorded net of sales taxes.

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

Shipping and Handling Costs

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

Self-insured Insurance and Medical Claims

We generally retain up to $100,000 of risk for each claim for workers compensation, general liability, automobile and property loss. We accrue for the estimated loss on the self-insured portion of these claims. The accrual is adjusted quarterly based upon reported claims information. The actual cost could deviate from the recorded estimate.

We generally retain up to $175,000 of risk on each medical claim for our employees and their dependents with the exception of less than 0.05% of employees where a higher risk is retained. We accrue for the estimated outstanding balance of unpaid medical claims for our employees and their dependents. The accrual is adjusted monthly based on recent claims experience. The actual claims could deviate from recent claims experience and be materially different from the reserve.

The accrual for these claims at December 31, 2017 and 2016 was approximately $2.7 million and $3.1 million, respectively.

Purchase Accounting
DXP estimates the fair value of assets, including property, machinery and equipment and their related useful lives and salvage values, intangibles and liabilities when allocating the purchase price of an acquisition. The fair value estimates are developed using the best information available.

Cost of Sales and Selling, General and Administrative Expense
Cost of sales includes product and product related costs, inbound freight charges, internal transfer costs and depreciation. Selling, general and administrative expense includes purchasing and receiving costs, inspection costs, warehousing costs, depreciation and amortization.

Debt Issuance Cost Amortization

Fees paid to DXP's lenders to secure a firm commitment on a term loan and revolving line of credit are presented as a direct deduction from the carrying amount of the debt liability. For the term loan, fees paid by DXP are amortized over the life of the loan as additional interest. Fees paid to secure a firm commitment from our lender on a revolving line of credit are amortized on a straight-line basis over the entire term of the arrangement. The total unamortized debt issuance costs reported on the consolidated balance sheets as of December 31, 2017 and 2016 was $10.1 million and $1.0 million, respectively. In connection with the extinguishment of the previously existing credit facility we recorded a $0.6 million write-off of debt issuance costs, which was included in interest expense during the third quarter of 2017.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established to reduce deferred income tax assets to the amounts expected to be realized under a more likely than not criterion.

Accounting for Uncertainty in Income Taxes

A position taken or expected to be taken in a tax return is recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to U. S. federal, state and local tax examination by tax authorities for years prior to 2012. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income, foreign currency translation adjustments and unrealized gains and losses on certain investments in debt and equity securities. The Company's other comprehensive (loss) income is comprised of changes in the market value of an investment with quoted market prices in an active market for identical instruments and translation adjustments from translating foreign subsidiaries to the reporting currency. Comprehensive income for the year ended December 31, 2016 was reduced by an $8.6 million charge recorded during the fourth quarter of 2016 to correct errors which accumulated during 2013, 2014 and 2015 due to the Company improperly recognizing an $8.6 million deferred tax asset on unrealized foreign currency losses not expected to be realized within one year. We assessed the materiality of this misstatement and concluded the misstatement was not material to the results of operations or financial condition for the years ended December 31, 2016 and 2015.

Out-of-Period Items

Deferred tax liabilities related to intangibles for customer relationships acquired in Canada during 2012 and 2013 were reduced by $2.2 million during the fourth quarter of 2017 to correct the tax rate used to establish the deferred tax liabilities at the dates of acquisition. The Company evaluated the misstatement of each period since these acquisitions were completed and concluded the effects were immaterial.

During the first quarter of 2015, we identified a $2.5 million ($1.6 million net of tax) overstatement of an accrual at December 31, 2014, which overstated 2014 selling, general and administrative expense. We recorded an out-of-period adjustment to correct this overstatement in the quarter ended March 31, 2015. During the fourth quarter of 2015, we realized $1.5 million of net tax benefits related to events which occurred in earlier years. These out-of-period items reduced the 2015 net loss by $3.1 million and 2015 basic and diluted net loss per share by $0.21. We assessed the materiality of this overstatement and concluded the overstatement was not material to the results of operations or financial condition for the year ended December 31, 2015.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

<u>Standards Effective in 2017 or Earlier</u>
Accounting Changes and Error Corrections. In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-03 ("ASU 2017-03"), Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. This update adds language to the SEC Staff Guidance in relation to ASU 2014-09, ASU 2016-02, and ASU 2016-13. This ASU 2017-03 provides the SEC Staff view that a registrant should consider additional quantitative and qualitative disclosures related to the previously mentioned ASUs in connection with the status and impact of their adoption. This guidance, which was effective immediately, did not have a material impact on our Condensed Consolidated Financial

Statements.

Compensation – Stock Compensation. In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update aims to simplify aspects of accounting for share-based payment award transactions, including (a) income tax consequences, (b) classification of awards as either equity or liabilities, and (c) classification on the statement of cash flows. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company adopted the ASU January 1, 2017 and it had the following impact on the Company's Condensed Consolidated Financial Statements:

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Topic	Method of Adoption	Impact on Consolidated Financial Statements
Recognize all excess tax benefits and tax deficiencies as income tax benefit or expense	Prospective	The Company recognized $0.1 million of excess tax benefit in income taxes for the year ended December 31, 2017, decreasing the effective tax rate for the year.
Excess tax benefits and deficiencies on the statement of cash flows are classified as an operating activity	Prospective	The Company recognized $0.1 million of excess tax benefit for the year ended December 31, 2017 as an operating activity. Prior to the adoption of the ASU 2016-09, the excess tax expense for the year ended December 31, 2016 of $0.6 million was recognized as a financing activity. The excess tax expense for the year ended December 31, 2015 was zero.
Employee taxes paid when an employer withholds shares for tax-withholding purposes on the statement of cash flows are classified as financing activity	Retrospective	The Company reclassified $0.2 million and $0.8 million of employee taxes paid from cash flows from operating activities to cash flows from financing activities on the Consolidated Statements of Cash Flows for the years ended December 31, 2016 and December 31, 2015.
Accounting for forfeitures and tax withholding elections	Prospective	The Company has not changed its accounting policy for forfeitures. There is no significant impact on Consolidated Financial Statements.

Income Taxes. In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes. The update requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. The update simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within. The Company adopted this ASU January 1, 2017 and reclassified $9.5 million of current deferred income tax assets from current assets to non-current deferred income tax liabilities on the Condensed Consolidated Balance Sheet as of December 31, 2016.

Inventory. In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330), Simplifying the Measurement of Inventory. The amendments in ASU 2015-11 clarify the subsequent measurement of inventory requiring an entity to subsequently measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. This ASU applies only to inventory that is measured using the first-in, first-out (FIFO) or average cost method. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments in ASU 2015-11 should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this ASU January 1, 2017 and it did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Statement of Cash Flows. In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), Classification of Restricted Cash. The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amounts should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU 2016-18 should be applied retrospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company early adopted this ASU September 30, 2017 and classified $3.5 million of cash to restricted cash on the Condensed Consolidated Balance Sheet as of December 31, 2017. This cash deposit was required as collateral for letters of credit outstanding under our previously existing credit facility.

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Standards Effective in 2018 or Later

Compensation - Stock Compensation. In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. An entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company is currently assessing the impact, if any, that this ASU will have upon adoption.
Intangibles-Goodwill and Other. In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU is to simplify how an entity is required to test goodwill for impairment. The effective date of the amendment to the standard is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company early adopted this ASU December 31, 2017. The Company's annual tests of goodwill for impairment, including qualitative assessments of all of its reporting units goodwill, determined a quantitative impairment test was not necessary.
Business Combinations. In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The effective date of this ASU is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

Statement of Cash Flows. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The effective date of the amendment to the standard is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU 2016-13: Financial Instruments – Credit Losses, which replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect, if any, that the guidance will have on the Company's Consolidated Financial Statements and related disclosures.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The update requires organizations that lease assets ("lessees") to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its Consolidated Financial Statements.

Financial Instruments. In January 2016, the FASB issued ASU 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities. This change to the financial instrument model primarily affects the accounting for equity investments, financial liabilities under fair value options and the presentation and disclosure requirements for financial instruments. The effective date for the standard is for fiscal years and interim periods within those years beginning after December 15, 2017. Certain provisions of the new guidance can be adopted early. The Company is evaluating the impact of this ASU.

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance on revenue recognition. The core principal of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers, (2) identify the performance obligation(s) in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation(s) in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This pronouncement, as amended by ASU 2015-14, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017.

The Company has evaluated the provisions of the new standard and is in the process of assessing its impact on financial statements, information systems, business processes and financial statement disclosures. We have engaged third party consultants to assist us in assessing our contracts with customers, processes and controls required to address the impact that ASU No. 2014-09 will have on our business. The Company has elected the modified retrospective method and will adopt the new revenue guidance effective January 1, 2018, with an expected immaterial impact to the opening retained earnings.

The analysis of contracts with customers under the new revenue recognition standard was consistent with the Company's current revenue recognition model, whereby revenue is recognized primarily on the date products are shipped to the customer. The ASU also requires expanded qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, significant judgments and accounting policy.

Based on our overall assessment performed to date, the adoption of the new standard is not expected to have an ongoing material impact on the Company's Consolidated Financial Statements.

NOTE 4 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Authoritative guidance for financial assets and liabilities measured on a recurring basis applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Fair value, as defined in the authoritative guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

During the third and fourth quarters of 2015, in connection with interim tests for impairment, DXP recorded impairment charges of $57.8 million and $9.8 million, respectively, in order to reflect the implied fair values of goodwill, which is a non-recurring fair value adjustment. The fair values of goodwill used in the impairment calculations were estimated based on discounted estimated future cash flows with the discount rates of 10.0% to 11.5%. The measurements utilized to determine the implied fair value of goodwill represent significant unobservable inputs (Level 3) in accordance with the fair value hierarchy.

NOTE 5 - INVENTORIES

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

	December 31, 2017	December 31, 2016
Finished goods	$ 79,820	$ 74,269
Work in process	11,593	9,430
Inventories	$ 91,413	$ 83,699

NOTE 6 – COSTS AND ESTIMATED PROFITS ON UNCOMPLETED CONTRACTS

Costs and estimated profits in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of a contract.

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Costs and estimated profits on uncompleted contracts and related amounts billed for 2017 and 2016 were as follows (in thousands):

	December 31, 2017	December 31, 2016
Costs incurred on uncompleted contracts	$37,899	$25,214
Estimated earnings, thereon	2,665	6,274
Total	40,564	31,488
Less: billings to date	17,881	15,864
Net	$22,683	$15,624

Such amounts were included in the accompanying Consolidated Balance Sheets for 2017 and 2016 under the following captions (in thousands):

	December 31, 2017	December 31, 2016
Costs and estimated profits in excess of billings on uncompleted contracts	$26,915	$18,421
Billings in excess of costs and estimated profits on uncompleted contracts	(4,249)	(2,813)
Translation Adjustment	17	16
Net	$22,683	$15,624

NOTE 7 - PROPERTY AND EQUIPMENT

The carrying values of property and equipment were as follows (in thousands):

	December 31, 2017	December 31, 2016
Land	$2,346	$2,346
Buildings and leasehold improvements	16,724	16,259
Furniture, fixtures and equipment	94,475	94,784
Less – Accumulated depreciation	(60,208)	(52,582)
Total Property and Equipment	$53,337	$60,807

Depreciation expense was $10.5 million, $11.9 million, and $12.6 million for the years ended December 31, 2017, 2016, and 2015, respectively. Capital expenditures by segment are included in Note 18.

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill and other intangible assets during the year ended December 31, 2017 (in thousands):

	Goodwill	Other Intangible Assets	Total
Balances as of December 31, 2016	$187,591	$94,831	$282,422
Translation adjustment	-	960	960
Amortization	-	(17,266)	(17,266)
Balances as of December 31, 2017	$187,591	$78,525	$266,116

The following table presents the changes in the carrying amount of goodwill and other intangible assets during the year ended December 31, 2016 (in thousands):

	Goodwill	Other Intangible Assets	Total
Balances as of December 31, 2015	$197,362	$112,297	$309,659
Sale of subsidiary	(9,620)	-	(9,620)
Purchase accounting adjustment	(151)	-	(151)
Translation adjustment	-	595	595
Amortization	-	(18,061)	(18,061)
Balances as of December 31, 2016	$187,591	$94,831	$282,422

The following table presents goodwill balance by reportable segment as of December 31, 2017 and 2016 (in thousands):

	As of December 31,	
	2017	2016
Service Centers	$154,473	$154,473
Innovative Pumping Solutions	15,980	15,980
Supply Chain Services	17,138	17,138
Total	$187,591	$187,591

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During the third quarter of 2015, the price of DXP's common stock and the price of crude oil declined over 40% and over 20%, respectively. This decline in oil prices reduced spending by our customers and reduced our revenue expectations. This sustained decline in crude oil prices, reduced capital spending by customers and reduced revenue expectations were determined to be a triggering event during the third quarter of 2015. This triggering event required us to perform testing for possible goodwill impairment in two of our reporting units, and our step one testing indicated there was an impairment in the B27 IPS and B27 SC reporting units. No triggering event was identified in our other reporting units during the third quarter. ASC 350 step two of the goodwill impairment testing for the reporting units was performed preliminarily during the third quarter of 2015. Our preliminary analysis concluded that $48.0 million of our B27 IPS reporting unit's goodwill and $9.8 million of our B27 SC reporting unit's goodwill was impaired. The remaining goodwill for the B27 IPS and B27 SC reporting units at September 30, 2015 was $4.9 million and $10.3 million, respectively. The September 30, 2015 ASC 350 step two testing was completed in the fourth quarter of 2015 without any adjustment to the amount recorded in the third quarter of 2015. Fair value was based on expected future cash flow using Level 3 inputs under Account Standards Codification 820 Fair Value Measurements ("ASC 820"). The cash flows are those expected to be generated by market participants, discounted at a rate of return market participants would expect. Approximately 60% of the goodwill associated with the B27 acquisition is not deductible for tax purposes. Accordingly, the financial statement tax benefit is calculated for only 40% of the goodwill impairment. The pretax impairment impacted DXP's effective tax rate for 2015. For the year ended December 31, 2014, accumulated impairment for the B27 IPS and B27 SC reporting units was $95.1 million and $10.2 million, respectively. After recording the third quarter impairment loss, accumulated impairment expenses for the B27 IPS and B27 SC reporting units were $143.1 million and $20.0 million, respectively, at September 30, 2015.

DXP recorded $1.1 million of impairment expense in the third quarter of 2015 to write off an acquired intangible asset related to an ITT Goulds distribution agreement, which was terminated by ITT Goulds during 2015. The remaining intangible asset value of vendor distribution agreements for the year ended December 31, 2015 was zero. None of the impairment is expected to be deductible for tax purposes.

During the fourth quarter of 2015, the price of DXP's common stock and the price of crude oil declined over 16% and over 18%, respectively. This decline in oil prices reduced spending by our customers during the fourth quarter and resulted in fourth quarter actual earnings for the B27 IPS and B27 SC reporting units declining significantly from the forecasts used in the impairment analysis at the end of the third quarter of 2015. The declines in forecasted earnings for these two reporting units were determined to be a triggering event during the fourth quarter of 2015. This triggering event required us to perform testing for possible goodwill impairment in these two reporting units, and our step one testing indicated there may be an impairment in the B27 IPS and B27 SC reporting units. No triggering event was identified in our other reporting units during the fourth quarter. ASC 350 step two of the goodwill impairment testing for the reporting units was performed during the fourth quarter of 2015. Our analysis concluded that $4.9 million of our B27 IPS reporting unit's goodwill and $5.0 million of our B27 SC reporting unit's goodwill was impaired. Fair value was based on expected future cash flow using Level 3 inputs under ASC 820. The cash flows are those expected to be generated by market participants, discounted at a rate of return market participants would expect. The remaining goodwill for the B27 IPS and B27 SC reporting units at December 31, 2015 was zero and $5.3 million, respectively. Approximately 60% of the goodwill associated with the B27 acquisition is not deductible for tax purposes. Accordingly, the financial statement tax benefit is calculated for only 40% of the goodwill impairment. The pretax impairment impacted DXP's effective tax rate for 2015. After recording the fourth quarter impairment loss, accumulated impairment for the B27 IPS and B27 SC reporting units were $148.0 million and $25.0 million, respectively, for the year ended December 31, 2015. As none of the Company's other reporting units recorded impairment losses in 2015, accumulated impairment for these units remained at $12.3 million.

The impairment losses during the year ended December 31, 2015 are included in the "impairment expense" line item on the consolidated statements of income (loss).

The following table presents a summary of amortizable other intangible assets (in thousands):

	As of December 31, 2017			As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Carrying Amount, net	Gross Carrying Amount	Accumulated Amortization	Carrying Amount, net
Customer relationships	$162,200	$ (83,806)	$78,394	$163,022	$ (68,446)	$94,576
Non-compete agreements	949	(818)	131	1,836	(1,581)	255
Total	$163,149	$ (84,624)	$78,525	$164,858	$ (70,027)	$94,831

Gross carrying amounts as well as accumulated amortization are partially affected by the fluctuation of foreign currency rates. Other intangible assets are amortized according to estimated economic benefits over their estimated useful lives.

Customer relationships are amortized over their estimated useful lives. Amortization expense is recognized according to estimated economic benefits and was $17.3 million, $18.1 million, and $20.6 million for the years ended December 31, 2017, 2016, and 2015, respectively. The estimated future annual amortization of intangible assets for each of the next five years and thereafter are as follows (in thousands):

2018	$15,615
2019	14,170
2020	10,292
2021	8,911
2022	7,264
Thereafter	22,273
Total	$78,525

The weighted average remaining estimated life for customer relationships and non-compete agreements are 8.3 years and 1.8 years, respectively.

NOTE 9 – LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	December 31, 2017	2016
ABL Revolver	$-	$-
Term Loan B	249,375	-
Line of credit	-	147,600
Term loan	-	74,500
Promissory note payable in monthly installments at 2.9% through January 2021, collateralized by equipment	2,722	3,577
Less unamortized debt issuance costs	(10,073)	(992)
Total Debt	242,024	224,685
Less: Current maturities	(3,381)	(51,354)
Total Long-term Debt	$238,643	$173,331

ABL Facility

On August 29, 2017, DXP entered into a five year, $85 million Asset Based Loan and Security Agreement (the "ABL Credit Agreement"). The ABL Credit Agreement provides for asset-based revolving loans in an aggregate principal amount of up to $85.0 million (the "ABL Loans"). The ABL Loans may be increased, in increments of $10.0 million, up to an aggregate of $50.0 million. The facility will mature on August 29, 2022. Interest accrues on outstanding borrowings at a rate equal to LIBOR or CDOR plus a margin ranging from 1.25% to 1.75% per annum, or at an alternate base rate, Canadian prime rate or Canadian base rate plus a margin ranging from 0.25% to 0.75% per annum, in each case, based upon the average daily excess availability under the facility for the most recently completed calendar quarter. Fees ranging from 0.25% to 0.375% per annum are payable on the portion of the facility not in use at any given time. The interest rate for the ABL facility was 2.9% at December 31, 2017. The unused line fee was 0.375% at December 31, 2017.

The obligations of the Borrowers are guaranteed by the Company and its direct and indirect material wholly-owned subsidiaries other than certain excluded subsidiaries.

The ABL Credit Agreement contains a financial covenant restricting the Company from allowing its Fixed Charge Coverage Ratio be less than 1.00 to 1.00 during a compliance period, which is triggered when the availability under ABL facility falls below a threshold set forth in the ABL Credit Agreement. As of December 31, 2017, the Company's consolidated Fixed Charge Coverage Ratio was 3.67 to 1.00.

The ABL Loan is secured by substantially all of the assets of the Company.

Senior Secured Term Loan B:

On August 29, 2017, DXP entered into a six year Senior Secured Term Loan B (the "Term Loan") with an original principal amount of $250 million which amortizes in equal quarterly installments of 0.25% with the balance payable in August 2023, when the facility matures. Subject to securing additional lender commitments, the Term Loan allows for incremental increases in facility size up to an aggregate of $30 million, in minimum increments of $10 million, plus an additional amount such that DXP's Secured Leverage Ratio (as defined under the Term Loan) would not exceed 3.60 to 1.00. We are required to repay the Term Loan in connection with certain asset sales and insurance proceeds, certain debt proceeds and 50% of excess cash flow, reducing to 25%, if our total leverage ratio is no more than 3.00 to 1.00 and 0%, if our total leverage ratio is no more than 2.50 to 1.00. In addition, the Term Loan contains a number of customary restrictive covenants. The interest rate for the Term Loan was 7.1 % as of December 31, 2017. The Term Loan requires that the company's Secured Leverage Ratio, defined as the ratio, as of the last day of any fiscal quarter of consolidated secured debt (net of restricted cash, not to exceed $30 million) as of such day to

EBITDA, beginning with the fiscal quarter ending December 31, 2017, is either equal to or less than as indicated in the table below:

Fiscal Quarter	Secured Leverage Ratio
December 31, 2017	5.75:1.00
March 31, 2018	5.75:1.00
June 30, 2018	5.50:1.00
September 30, 2018	5.50:1.00
December 31, 2018	5.25:1.00
March 31, 2019	5.25:1.00
June 30, 2019	5.00:1.00
September 30, 2019	5.00:1.00
December 31, 2019	4.75:1.00
March 31, 2020	4.75:1.00
June 30, 2020 and each Fiscal Quarter thereafter	4.50:1.00

As of December 31, 2017, the Company's consolidated Secured Leverage Ratio was 3.59 to 1.00.

The Term Loan is guaranteed by each of the Company's direct and indirect material wholly owned subsidiaries, other than any of the Company's Canadian subsidiaries and certain other excluded subsidiaries.

The Term Loan is secured by substantially all of the assets of the Company.

Extinguishment of Previously Existing Credit Facility

As set forth above, on August 29, 2017, the Company terminated its previously existing credit agreement and facility and replaced it with the Term Loan and the ABL Credit Agreement. The terminated facility was under the Amended and Restated Credit Agreement, dated as of January 2, 2014, by and among the Company, as borrower, and Wells Fargo Bank, National Association, as issuing lender and administrative agent for other lenders (the "Original Credit Agreement"). This Original Credit Agreement was subsequently amended five times by the First Amendment to Restated Credit Agreement dated as of August 6, 2015, Second Amendment to Restated Credit Agreement dated as of September 30, 2015, Third Amendment to Restated Credit Agreement dated as of May 12, 2016, Fourth Amendment to Restated Credit Agreement dated as of August 15, 2016, and Fifth Amendment to Amended and Restated Credit Agreement dated as of November 28, 2016. A description of the material terms of these terminated agreements can be found in the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2017. In connection with the extinguishment of the previously existing Credit Facility we recorded a $0.6 million write-off of debt issuance costs, which was included in interest expense during the third quarter of 2017.

As of December 31, 2017, the maturities of long-term debt for the next five years and thereafter were as follows (in thousands):

2018	$3,381
2019	3,405
2020	3,436
2021	2,500
2022	2,500
Thereafter	236,875
Total	$252,097

NOTE 10 - INCOME TAXES

The components of income before income taxes were as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Domestic	$13,183	$11,079	$(42,179)
Foreign	3,709	(1,405)	3,259
Total income before taxes	$16,892	$9,674	$(38,920)

The provision for income taxes consisted of the following (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Current -			
Federal	$1,400	$(902)	$5,182
State	698	136	1,499
Foreign	2,092	602	2,493
	4,190	(164)	9,174
Deferred -			
Federal	686	4,174	(7,090)
State	(464)	120	-
Foreign	(4,049)	(1,607)	(1,934)
	(3,827)	2,687	(9,024)
	$363	$2,523	$150

The difference between income taxes computed at the federal statutory income tax rate (35%) and the provision for income taxes is as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Income taxes computed at federal statutory rate	$5,912	$3,386	$(13,622)
State income taxes, net of federal benefit	152	166	974
Non-tax deductible impairment expense computed at federal statutory rate	-	-	15,765
Foreign adjustment	255	140	689
Meals and entertainment	422	361	620
Gain on sale of Vertex	-	(1,971)	-
Domestic Production Activity Deduction	(98)	-	(1,143)
Research and development tax credit	(641)	(886)	(1,730)
Foreign tax credit	-	(383)	(921)
Valuation Allowance	(791)	-	-
Tax Reform Deferred Tax Remeasurement	(1,294)	-	-
Canadian Acquisition Deferred Tax Liability True Up	(2,180)	-	-
Foreign rate difference	(297)	112	(261)
Other	(1,077)	1,598	(221)
	$363	$2,523	$150

Deferred tax liabilities and assets were comprised of the following (in thousands):

	December 31,	
	2017	2016
Deferred tax assets:		
Goodwill	$2,668	$4,029
Allowance for doubtful accounts	1,707	2,469
Inventories	2,365	3,944
Accruals	(61)	97
Research and development credit carryforward	1,115	886
Foreign Tax Credit Carryforward	64	64
Charitable Contribution Carryforward	559	138
Net operating loss carryforward	136	760
Capital loss carryforward	12,225	18,903
Deferred Compensation	475	1,881
Other Accruals	266	-
Other	65	107
Total deferred tax assets	21,584	33,278
Less valuation allowance	(12,220)	(19,633)
Total deferred tax asset, net of valuation		
Deferred tax liabilities :	9,364	13,645
Intangibles	(8,695)	(10,042)
Property and equipment	(6,860)	(12,762)
Unremitted foreign earnings	(354)	(354)
Cumulative translation adjustment	(67)	-
Other	(457)	-
Net deferred tax liability	$(7,069)	$(9,513)

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At December 31, 2017, the Company had $51.4 million of capital loss carryforward, which will expire in 2021. The Company has recorded a valuation allowance for nearly all of this carryforward amount. The valuation allowance represents a provision for uncertainty as to the realization of the tax benefits of these carryforwards and the deferred tax assets that may not be realized.

On December 22, 2017, the Tax Cuts and Jobs Act ("The Act") was enacted into law. The majority of the provisions signed into law in 2017 do not take effect until January 1, 2018. The Act is a comprehensive tax reform legislation that contains significant changes to corporate taxation. Provisions on the enacted law include a permanent reduction of the corporate income tax rate from 35% to 21%, imposing a mandatory one-time tax on un-repatriated accumulated earnings of foreign subsidiaries, a partial limitation on the deductibility of business interest expense, a limitation on net operating losses to 80% of taxable income each year, a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a partial territorial system (along with rules that create a new U.S. minimum tax on earnings of foreign subsidiaries), and other related provisions to maintain the U.S. tax base.

In accordance with SAB 118 issued by the Securities and Exchange Commission on December 22, 2017, companies are allowed a one year measurement period to complete the accounting related to The Act. Specifically, SAB 118 permits companies to record a provisional amount which can be remeasured during the measurement period due to obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the enacted date. As a result, we remeasured our net deferred income tax liabilities by a provisional $1.3 million benefit and a corresponding provisional decrease in the net deferred tax liability as of December 31, 2017. We are still in the process of analyzing The Act's impact as permitted under SAB 118. The largest impact to the Company being the remeasurement of deferred taxes due to the U.S. statutory tax rate change. The mandatory repatriation and resulting toll charge on accumulated foreign earnings and profits has limited impact on the Company as unremitted earnings from non-US jurisdictions is minimal. The Company is provisional in its approach and assertion that there is no financial statement impact as of December 31, 2017.

Deferred tax liabilities related to intangibles for customer relationships acquired in Canada during 2012 and 2013 were reduced by $2.2 million during the fourth quarter of 2017 to correct the tax rate used to establish the deferred tax liabilities at the dates of acquisition. The Company evaluated the misstatement of each period since these acquisitions were completed and concluded the effects were immaterial.

Total deferred tax assets at December 31, 2016 were reduced by an $8.6 million charge recorded during the fourth quarter of 2016 to correct errors of $1.3 million, $2.7 million and $4.6 million which were recorded during 2013, 2014 and 2015, respectively, due to the Company improperly recognizing a deferred tax asset related to cumulative translation adjustment losses. The Company evaluated the misstatement of each period and concluded the effects were immaterial. Therefore, the Company decided to correct the accumulated $8.6 million error in the fourth quarter of 2016. We assessed the materiality of this misstatement and concluded the misstatement was not material to the results of operations or financial condition for the years ended December 31, 2017, 2016 and 2015.

NOTE 11 - SHARE-BASED COMPENSATION

Restricted Stock

Under the restricted stock plans approved by our shareholders, directors, consultants and employees may be awarded shares of DXP's common stock. The shares of restricted stock granted to employees and that are outstanding as of December 31, 2017 vest in accordance with one of the following vesting schedules: 100% one year after date of grant; 33.3% each year for three years after date of grant; 20% each year for five years after date of grant; or 10% each year for ten years after date of grant. The shares of restricted stock granted to non-employee directors of DXP vest one year after the grant date. The fair value of restricted stock awards is measured based upon the closing prices of DXP's common stock on the grant dates and is recognized as compensation expense over the vesting period of the awards. Once restricted stock vests, new shares of the Company's stock are issued. At December 31, 2017, 401,223 shares were available for future grant.

Changes in restricted stock for the twelve months ended December 31, 2017 were as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested at December 31, 2016	143,380	$ 26.76
Granted	18,672	$ 34.07
Forfeited	(298)	$ 59.60
Vested	(83,853)	$ 24.92
Non-vested at December 31, 2017	77,901	$ 30.36

Changes in restricted stock for the twelve months ended December 31, 2016 were as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested at December 31, 2015	137,507	$ 54.58
Granted	108,553	$ 17.07
Forfeited	(39,000)	$ 65.41
Vested	(63,680)	$ 46.65
Non-vested at December 31, 2016	143,380	$ 26.76

Changes in restricted stock for the twelve months ended December 31, 2015 were as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested at December 31, 2014	179,942	$ 52.71
Granted	35,821	$ 40.95
Forfeited	(20,855)	$ 41.34
Vested	(57,401)	$ 44.99
Non-vested at December 31, 2015	137,507	$ 54.58

Compensation expense, associated with restricted stock, recognized in the years ended December 31, 2017, 2016 and 2015 was $1.7 million, $2.0 million, and $3.0 million, respectively. Related income tax benefits recognized in earnings in the years ended December 31, 2017, 2016 and 2015 were approximately $0.7 million, $0.8 million and $1.2 million, respectively. Unrecognized compensation expense under the DXP Enterprises, Inc. 2016 Omnibus Incentive Plan at December 31, 2017, December 31, 2016 and December 31, 2015 was $1.6 million, $2.7 million and $4.9 million, respectively. As of December 31, 2017, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 15.2 months.

NOTE 12 - EARNINGS PER SHARE DATA

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. For the year ended December 31, 2015, we excluded the potential dilution of convertible preferred stock, which could be converted into 840,000 shares because they would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	December 31,		
	2017	2016	2015
Basic:			
Weighted average shares outstanding	17,400	15,042	14,423
Net income (loss) attributable to DXP Enterprises, Inc.	$16,888	$7,702	$(38,536)
Convertible preferred stock dividend	(90)	(90)	(90)
Net income (loss) attributable to common shareholders	$16,798	$7,612	$(38,626)
Per share amount	$0.97	$0.51	$(2.68)
Diluted:			
Weighted average shares outstanding	17,400	15,042	14,423
Assumed conversion of convertible preferred stock	840	840	-
Total dilutive shares	18,240	15,882	14,423
Net income (loss) attributable to common shareholders	$16,798	$7,612	$(38,626)
Convertible preferred stock dividend	90	90	-
Net income (loss) attributable to DXP Enterprises, Inc. for diluted earnings per share	$16,888	$7,702	$(38,626)
Per share amount	$0.93	$0.49	$(2.68)

Basic earnings per share have been computed by dividing net earnings by the weighted average number of common shares outstanding during the period and excludes dilutive securities. Diluted earnings per share reflects the potential dilution that could occur if the preferred stock was converted into common stock. Restricted stock is considered a participating security and is included in the computation of basic earnings per share as if vested. Because holders of Preferred Stock do not participate in losses, the loss was not allocated to Preferred Stock for fiscal year 2015. The Preferred Stock is convertible into 840,000 shares of common stock.

NOTE 13 – CAPITAL STOCK

The Company has Series A and Series B preferred stock of 1,122 shares and 15,000 shares outstanding as of year-end 2017, 2016 and 2015, respectively. The preferred stock did not have any activity during 2017, 2016 and 2015. The activity related to outstanding common stock and common stock held in treasury was as follows:

	December 31,		
	2017	2016	2015
Common Stock:	Quantity (in thousands)		
Balance, beginning of period	17,197	14,390	14,375
Issuance of shares for compensation net of withholding	119	84	15
Issuance of common stock related to equity distribution agreements	-	2,723	-
Balance, end of period	17,316	17,197	14,390

	December 31,		
	2017	2016	2015
Treasury Shares:	Quantity (in thousands)		
Balance, beginning of period	-	264	280
Issuance of treasury shares for acquisition	-	-	(149)
Purchase of treasury shares	-	-	191
Issuance of treasury shares upon vesting of restricted shares net of withholding	-	(264)	(58)
Balance, end of period	-	-	264

NOTE 14 - BUSINESS ACQUISITIONS

All of the Company's acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying consolidated financial statements beginning on their respective dates of acquisition. The allocation of purchase price to the acquired assets and liabilities is based on estimates of fair market value and may be revised if and when additional information the Company is awaiting concerning certain asset and liability valuations is obtained, provided that such information is received no later than one year after the date of acquisition. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. It specifically includes the expected synergies and other benefits that we believe will result from combining the operations of our acquisitions with the operations of DXP and any intangible assets that do not qualify for separate recognition such as the assembled workforce.

On April 1, 2015, the Company completed the acquisition of all of the equity interests of Tool Supply, Inc. ("TSI") to expand DXP's cutting tools offering in the Northwest region of the United States. DXP paid approximately $5.0 million for TSI, which was borrowed under the Company's credit facility in effect at the date of acquisition. Estimated goodwill of $2.9 million and intangible assets of $2.0 were recognized for this acquisition. All of the estimated goodwill is included in the Service Centers segment. None of the estimated goodwill or intangible assets are expected to be tax deductible.

On September 1, 2015, the Company completed the acquisition of all of the equity interests of Cortech Engineering, LLC ("Cortech") to expand DXP's rotating equipment offering to the Western seaboard. DXP paid approximately $14.9 million for Cortech. The purchase was financed with borrowings under the Company's credit facility in effect at the date of acquisition, as well as by issuing $4.4 million (148.8 thousand shares) of DXP common stock. Estimated intangible assets of $5.2 were recognized for this acquisition. In the first quarter of 2016, DXP adjusted the deferred tax liability associated with the acquisition by $151 thousand, which resulted in an adjusted goodwill balance of $8.7 million. All of the estimated goodwill is included in the Service Centers segment. Approximately $4.5 million of the goodwill and intangible assets are not deductible for tax purposes.

The value assigned to the non-compete agreements and customer relationships for business acquisitions were determined by discounting the estimated cash flows associated with non-compete agreements and customer relationships as of the date the acquisition was consummated. The estimated cash flows were based on estimated revenues net of operating expenses and net of capital charges for assets that contribute to the projected cash flow from these assets. The projected revenues and operating expenses were estimated based on management estimates. Net capital charges for assets that contribute to projected cash flow were based on the estimated fair value of those assets.

For the twelve months ended December 31, 2016, businesses acquired during 2015 contributed sales of $25.2 million and earnings (loss) before taxes of approximately $(0.3) million.

The pro forma unaudited results of operations for the Company on a consolidated basis for the twelve months ended December 31, 2017 and 2016, assuming the divestiture of a business completed in 2016 were consummated as of January 1, 2016 are as follows (in millions, except per share amounts):

	Years Ended December 31,	
	2017	2016
Net sales	$1,006.8	$939.4
Net income attributable to DXP Enterprises, Inc.	$16.9	$5.5
Per share data		
Basic earnings	$0.97	$0.36
Diluted earnings	$0.93	$0.35

The pro forma unaudited results of operations for the Company on a consolidated basis for the twelve months ended December 31, 2016 and 2015, assuming the acquisition of businesses completed in 2015 and divestiture of a business completed in 2016 (previously discussed in Item 1, Business) was consummated as of January 1, 2015 are as follows (in millions, except per share amounts.

	Years Ended December 31,	
	2016	2015
Net sales	$939.4	$1,228.9
Net income (loss) attributable to DXP Enterprises, Inc.	$5.5	$(40.7)
Per share data		
Basic earnings (loss)	$0.36	$(2.83)
Diluted earnings (loss)	$0.35	$(2.83)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Company leases equipment, automobiles and office facilities under various operating leases. The future minimum rental commitments as of December 31, 2017, for non-cancelable leases are as follows (in thousands):

2018	$19,419
2019	15,002
2020	11,492
2021	9,435
2022	6,637
Thereafter	3,441

Rental expense for operating leases was $27.7 million, $27.6 million and $32.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. While DXP is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on DXP's consolidated financial position, cash flows, or results of operations.

NOTE 16 - EMPLOYEE BENEFIT PLANS

The Company offers a 401(k) plan which is eligible to substantially all employees in the United States. For the year ended December 31, 2015 as well as the first quarter of 2016, the Company elected to match employee contributions at a rate of 50 percent of up to 4 percent of salary deferral. The Company contributed $0.2 million, $0.4 million, and $2.6 million to the 401(k) plan in the years ended December 31, 2017, 2016, and 2015, respectively. In 2016 the Company suspended indefinitely the employee match program. The Company contributed $0.4 million in the first quarter of 2016 to the 401(k) plan. No other contributions were made during the remainder of 2016. The Company reinstated the employee match program in October 2017 contributing $0.2 million to the 401(k) plan for 2017.

NOTE 17 - OTHER COMPREHENSIVE INCOME

Other comprehensive income generally represents all changes in shareholders' equity during the period, except those resulting from investments by, or distributions to, shareholders.

During 2012 and 2013, the Company acquired four entities that operate in Canada. These Canadian entities maintain financial data in Canadian dollars. Upon consolidation, the Company translates the financial data from these foreign subsidiaries into U.S. dollars and records cumulative translation adjustments in other comprehensive income. The Company recorded $(1.2) million, $(7.7) million and ($4.9) million in translation adjustments, net of tax, in other comprehensive income during the years ended December 31, 2017, 2016 and 2015, respectively. Comprehensive income for the year ended December 31, 2016 was reduced by an $8.6 million charge recorded during the fourth quarter of 2016 to correct errors which accumulated during 2013, 2014 and 2015 due to the Company improperly recognizing an $8.6 million deferred tax asset on unrealized foreign currency losses not expected to be realized within one year. We assessed the materiality of this misstatement and concluded the misstatement was not material to the results of operations or financial condition for the years ended December 31, 2016 and 2015.

NOTE 18 – SEGMENT AND GEOGRAPHICAL REPORTING

The Company's reportable business segments are: Service Centers, Innovative Pumping Solutions and Supply Chain Services. The Service Centers segment is engaged in providing maintenance, MRO products and equipment, including logistics capabilities, to industrial customers. The Service Centers segment provides a wide range of MRO products in the rotating equipment, bearing, power transmission, hose, fluid power, metal working, fastener, industrial supply, safety products and safety services categories. The Innovative Pumping Solutions segment fabricates and assembles custom-made pump packages, remanufactures pumps and manufactures branded private label pumps. The Supply Chain Services segment manages all or part of a customer's MRO products supply chain, including warehouse and inventory management.

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.

Business Segmented Financial Information

The following table sets out financial information relating the Company's segments (in thousands):

Years Ended December 31,	Service Centers	Innovative Pumping Solutions	Supply Chain Services	Total
2017				
Sales	$641,275	$204,030	$161,477	$1,006,782
Operating income for reportable segments, excluding amortization	63,250	11,423	15,451	90,124
Identifiable assets at year end	385,744	172,538	59,942	618,224
Capital expenditures	1,076	1,488	82	2,646
Depreciation	5,162	4,198	103	9,463
Amortization	8,989	7,194	1,083	17,266
Interest expense	9,712	5,352	1,990	17,054
2016				
Sales	$621,007	$187,124	$153,961	$962,092
Operating income for reportable segments, excluding impairment expense	47,634	9,867	15,449	72,950
Identifiable assets at year end	370,261	175,198	44,796	590,255
Capital expenditures	447	3,827	129	4,403
Proceeds from sale of fixed assets	(1,038)	(168)	-	(1,206)
Depreciation	6,520	3,834	126	10,480
Amortization	9,152	7,826	1,083	18,061
Interest expense	9,290	4,422	1,852	15,564
2015				
Sales	$826,588	$254,829	$165,626	$1,247,043
Operating income for reportable segments, excluding impairment expense	78,170	21,584	14,213	113,967
Identifiable assets at year end	451,333	159,365	50,012	660,710
Capital expenditures	3,185	8,383	604	12,172
Depreciation	7,734	2,930	227	10,891
Amortization	10,334	8,406	1,881	20,621
Interest expense	2,967	6,881	1,084	10,932
Impairment expense by segment	15,842	52,893	-	68,735

	Years Ended December 31,		
	2017	2016	2015
Operating income for reportable segments, excluding impairment expense	$90,124	$72,950	$113,967
Adjustments for:			
B27 settlement	-	-	7,348
Impairment expense	-	-	68,735
Amortization of intangibles	17,266	18,061	20,621
Corporate and other expense, net	39,368	35,557	45,179
Total operating income (loss)	33,490	19,332	(27,916)
Interest expense	17,054	15,564	10,932
Other expenses (income), net	(456)	(5,906)	72
Income (loss) before income taxes	$16,892	$9,674	$(38,920)

The Company had capital expenditures at Corporate of $0.2 million, $0.5 million, and $1.8 million for the years ended December 31, 2017, 2016, and 2015, respectively. The Company had identifiable assets at Corporate of $19.4 million, $18.3 million, and $23.3 million as of December 31, 2017, 2016, and 2015, respectively. Corporate depreciation was $1.8 million, $1.4 million, and $1.7 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Geographical Information

Revenues are presented in geographic area based on location of the facility shipping products or providing services. Long-lived assets are based on physical locations and are comprised of the net book value of property.

The Company's revenues and property and equipment by geographical location are as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Revenues			
United States	$902,636	$873,926	$1,119,210
Canada	104,146	88,166	127,833
Total	$1,006,782	$962,092	$1,247,043

	As of December 31,	
	2017	2016
Property and Equipment, net		
United States	$42,683	$48,635
Canada	10,654	12,172
Total	$53,337	$60,807

NOTE 19 - QUARTERLY FINANCIAL INFORMATION (unaudited)

Summarized quarterly financial information for the years ended December 31, 2017, 2016 and 2015 is as follows (in millions, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Sales	$238.5	$250.7	$251.9	$265.7
Gross profit	64.5	68.9	67.0	71.2
Net income (loss)	3.1	4.1	3.0	6.6
Net income (loss) attributable to DXP Enterprises, Inc.	3.0	4.0	2.9	6.6
Earnings (loss) per share - basic	$0.18	$0.24	$0.17	$0.38
Earnings (loss) per share - diluted	$0.17	$0.23	$0.16	$0.37
2016				
Sales	$253.6	$256.2	$230.0	$222.3
Gross profit	68.8	71.6	63.8	60.6
Net income (loss)	(5.2)	5.1	0.1	7.1
Net income (loss) attributable to DXP Enterprises, Inc.	(5.1)	5.1	0.2	7.4
Earnings (loss) per share - basic	$(0.36)	$0.36	$0.02	$0.44
Earnings (loss) per share - diluted	$(0.36)	$0.34	$0.02	$0.42
2015				
Sales	$341.6	$323.7	$303.1	$278.6
Gross profit	98.1	91.3	85.7	76.9
Impairment expense	-	-	58.9	9.8
Net income (loss)	9.7	7.2	(52.7)	(3.2)
Net income (loss) attributable to DXP Enterprises, Inc.	9.7	7.2	(52.4)	(3.0)
Earnings (loss) per share - basic	$0.67	$0.50	$(3.64)	$(0.20)

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

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NOTE 20 – RELATED PARTIES

The Board uses policies and procedures, to be applied by the Audit Committee of the Board, for review, approval or ratification of any transactions with related persons. Those policies and procedures will apply to any proposed transactions in which DXP is a participant, the amount involved exceeds $120,000 and any director, executive officer or significant shareholder or any immediate family member of such a person has a direct or material indirect interest. Any related party transaction will be reviewed by the Audit Committee of the Board of Directors to determine, among other things, the benefits of any transaction to DXP, the availability of other sources of comparable products or services and whether the terms of the proposed transaction are comparable to those provided to unrelated third parties.

For the year ended December 31, 2017, the Company paid approximately $1.4 million in lease expenses to entities controlled by the Company's Chief Executive Officer, David Little, $1.2 million in lease expenses to an entity in which a retired senior vice president holds a minority interest, and $0.3 million in lease expenses to an entity in which a retired senior vice president holds an interest, and the children of David Little hold a majority interest. The Company employs six people who work for David Little, and Mr. Little reimbursed the Company for the cost. Total cost to Mr. Little for the year ended December 31, 2017 for payroll, related payroll expenses, vehicles, fuel and supplies was $0.4 million. The Company employs two sons and two sons-in-laws of executives. Total wages and other compensation for 2017 was approximately $1.3 million for the four employees.

NOTE 21 – SUBSEQUENT EVENTS

On January 1, 2018, the Company completed the acquisition of Application Specialties, Inc. ("ASI"), a distributor of cutting tools, abrasives, coolants and machine shop supplies. DXP paid approximately $11.5 million for ASI. The purchase was financed with $10.6 million of cash on hand as well as issuing $0.9 million of DXP common stock.

ITEM 15. Exhibits, Financial Statement Schedules.

(a) Documents included in this Report:

1. Financial Statements – See Part II, Item 8 of this Report.

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

3. Exhibits:

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

Exhibit No.	Description
3.1	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with the Commission on August 20, 1998).
3.2	Bylaws, as amended on July 27, 2011.
4.1	Form of Common Stock certificate (incorporated by reference to Exhibit 4.3 to the Company'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	See Exhibit 3.2 for provisions of the Company's Bylaws defining the rights of security holders.
4.4	Form of Senior Debt Indenture of DXP Enterprises, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (Reg. No. 333-166582), filed with the Commission on May 6, 2010).
4.5	Form of Subordinated Debt Indenture of DXP Enterprises, Inc. (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 (Reg. No. 333-166582), filed with the SEC on May 6, 2010).
+10.1	Employment Agreement dated effective as of January 1, 2004, between DXP Enterprises, Inc. and David R. Little (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K (File No. 000-21513:04663259) for the fiscal year ended December 31, 2003, filed with the Commission on March 11, 2004).
+10.2	Employment Agreement dated effective as of June 1, 2004, between DXP Enterprises, Inc. and Mac McConnell (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 000-21513:04783822) for the quarterly period ended March 31, 2004, filed with the Commission on May 6, 2004).
+10.3	DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K (File No. 000-21513:06677037) for the fiscal year ended December 31, 2005, (filed with the Commission on March 10, 2006).

+10.4	Amendment Number One to Employment Agreement dated effective as of January 1, 2004, between DXP Enterprises, Inc. and David R. Little (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-21513:06979954), filed with the Commission on July 26, 2006).
+10.5	Amendment No. One to DXP Enterprises, Inc. 2005 Restricted Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 000-21513:06979954), filed with the Commission on July 26, 2006).
10.6	Amendment Number Two to Employment Agreement dated effective January 1, 2004 between DXP Enterprises, Inc. and David R. Little (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-21513:09846339) filed with the Commission on May 22, 2009).
10.7	Amendment Number One to Employment Agreement dated effective June 1, 2004 between DXP Enterprises, Inc. and Mac McConnell (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-21513:11823072) filed with the Commission on May 9, 2011).
10.8	Amendment Two to David Little Equity Incentive Program effective May 1, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-21513:11823072) filed with the Commission on May 3, 2013).
10.9	Purchase Agreement, dated as of December 9, 2013, whereby DXP Enterprises, Inc. agreed to acquire all of the equity securities and units of B27, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8K filed with the Commission on December 10, 2013).
10.10	DXP Enterprises, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (File No. 000-21513:161832364) filed with the Commission on August 15, 2016).
10.11	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (File No. 000-21513:161832364) filed with the Commission on August 15, 2016).
10.12	Term Loan and Security Agreement Dated as of August 29, 2017 by and among DXP Enterprises, Inc., Borrower and the Other Persons Party hereto from time to time, as Guarantors, and Goldman Sachs Bank USA, as Administrative Agent and Certain Financial Institutions, as Lenders (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (File No. 000-21513:171191516) filed with the Commission on November 9, 2017).
10.13	Loan and Security Agreement Dated as of August 29, 2017 by and among DXP Enterprises, Inc., Pump-PMI, LLC, PMI Operating Company, LTD., PMI Investment, LLC, Integrated Flow Solutions, LLC, DXP Holdings, Inc., Best Holding, LLC, Best Equipment Service & Sales Company, LLC, B27 Holdings Corp., B27, LLC, B27 Resources, Inc. and Pumpworks 610, LLC as US Borrowers, DXP Canada Enterprises, LTD., Industrial Paramedic Services, LTD., HSE Integrated LTD., and National Process Equipment Inc., as Canadian Borrowers and the Other Persons Party hereto from time to time, as Guarantors, and Bank of America, N.A., as agent and Certain Financial Institutions as Lenders, Bank of America, N.A. as Sole Lead Arranger and Sole Bookrunner and BMO Capital Markets Corp., as Documentation Agent (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (File No. 000-21513:171191516) filed with the Commission on November 9, 2017).

16.1 Letter of Grant Thornton LLP to the SEC dated May 24, 2016 (incorporated by reference to Exhibit 16.1 to Registrant's current report on Form 8-K (File No. 000-21513:161671171) filed with the Commission on May 24, 2016).

16.2 Letter of Hein & Associates LLP to the SEC dated November 17, 2017 (incorporated by reference to Exhibit 16.1 to Registrant's current report on Form 8-K (File No. 000-21513:171210595) filed with the Commission on November 17, 2017).

21.1 Subsidiaries of the Company.

*23.1 Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.

*23.2 Consent of Hein and Associates LLP, Independent Registered Public Accounting Firm.

*23.3 Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm.

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

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

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

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

101 Interactive Data Files

Exhibits designated by the symbol * are filed with this Report. All exhibits not so designated are incorporated by reference to a prior filing with the Commission 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 Report on upon payment to the Company of the reasonable costs incurred by the Company in furnishing any such exhibit.

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: May 23, 2018

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