DXP ENTERPRISES INC
Form 10-Q
November 07, 2012

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

Form 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the quarterly period ended September 30, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from to

Commission file number 0-21513
DXP Enterprises, Inc.
(Exact name of registrant as specified in its charter)

Texas	76-0509661
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7272 Pinemont, Houston, Texas 77040	(713) 996-4700
(Address of principal executive offices)	Registrant's telephone number, including area code.

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of registrant’s Common Stock outstanding as of November 7, 2012: 14,180,792.

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

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

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	$ 12,180	$ 1,507
Trade accounts receivable, net of allowances for doubtful accounts of $7,615 in 2012 and $6,202 in 2011	188,698	137,024
Inventories, net	98,969	93,901
Prepaid expenses and other current assets	2,106	2,230
Deferred income taxes	6,252	4,539
Total current assets	308,205	239,201
Property and equipment, net	52,867	16,911
Goodwill	141,927	101,764
Other intangible assets, net of accumulated amortization of $34,439 in 2012 and $26,175 in 2011	76,184	43,194
Non-current deferred income taxes	-	1,588
Other long-term assets	5,331	2,680
Total assets	$ 584,514	$ 405,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
	$ 18,098	$ 694

Current maturities of long-term debt		
Trade accounts payable	73,496	62,123
Outstanding checks related to acquisition	-	36,697
Accrued wages and benefits	15,196	12,713
Federal income taxes payable	3,387	2,409
Customer advances	9,232	3,767
Other current liabilities	11,895	16,055
Total current liabilities	131,304	134,458
Long-term debt, less current maturities	240,933	114,205
Non-current deferred income taxes	15,901	-
Stockholders' equity:		
Series A preferred stock, 1/10th vote per share; $1.00 par value; liquidation preference of $100 per share ($122 at September 30, 2012); 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 September 30, 2012); 1,000,000 shares authorized;	15	15

15,000 shares issued and outstanding		
Common stock, $0.01 par value, 100,000,000 shares authorized; 14,168,792 in 2012 and 14,118,220 in 2011 shares issued	143	141
Additional paid-in capital	78,025	75,204
Retained earnings	119,542	82,695
Accumulated other comprehensive income	1,141	64
Treasury stock, at cost (91,471 shares at September 30, 2012 and 65,171 shares at December 31, 2011)	(2,491)	(1,445)
Total stockholders' equity	196,376	156,675
Total liabilities and stockholders' equity	$ 584,514	$ 405,338

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

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(in thousands, except per share amounts) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	$ 289,923	$ 207,855	$ 804,104	$ 588,617
Cost of sales	206,414	148,384	572,492	419,454
Gross profit	83,509	59,471	231,612	169,163
Selling, general and administrative expense	58,995	45,035	166,346	129,554
Operating income	24,514	14,436	65,266	39,609
Other expense (income)	(21)	(4)	(33)	(40)
Interest expense	2,287	760	3,878	2,805
Income before income taxes	22,248	13,680	61,421	36,844
Provision for income taxes	9,156	5,406	24,506	14,617
Net income	13,092	8,274	36,915	22,227
Preferred stock dividend	23	23	68	68
Net income attributable to common shareholders	$ 13,069	$ 8,251	$ 36,847	$ 22,159
Net income	$ 13,092	$ 8,274	$ 36,915	$ 22,227
Loss on long-term investment, net of income taxes	(5)	-	(286)	-
Cumulative translation adjustment	1,480	-	1,363	-
Comprehensive income	$ 14,567	$ 8,274	$ 37,992	$ 22,227
Basic earnings per share	$ 0.91	$ 0.58	$ 2.56	$ 1.55

Weighted average common shares outstanding	14,411		14,315		14,375		14,307
Diluted earnings per share	$ 0.86	$	0.55	$	2.43	$	1.47
Weighted average common shares and common equivalent shares outstanding	15,251		15,155		15,215		15,147

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

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 36,915	$ 22,227
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	4,844	2,715
Amortization of intangible assets	8,264	4,805
Write-off of debt issuance costs	654	-
Compensation expense for restricted stock	1,491	928
Tax benefit related to vesting of restricted stock	(512)	(194)
Deferred income taxes	1,974	2,259
Changes in operating assets and liabilities, net of assets and liabilities acquired in business acquisitions:		
Trade accounts receivable	(16,539)	(21,466)
Inventories	(2,789)	(3,225)

Prepaid expenses and other assets	(1,788)	(1,314)
Accounts payable and accrued expenses	(11,251)	11,659
Net cash provided by operating activities	21,263	18,394
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(13,076)	(3,476)
Acquisitions of businesses, net of cash acquired	(137,847)	-
Net cash used in investing activities	(150,923)	(3,476)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	343,031	147,695
Principal payments on revolving line of credit and other long-term debt	(202,464)	(160,650)
Dividends paid	(68)	(68)
Purchase of treasury stock	(1,046)	(1,174)
Tax benefit related to vesting of restricted stock	512	194
Net cash provided by (used in) financing activities	139,965	(14,003)

EFFECT OF FOREIGN CURRENCY ON CASH		368		-
INCREASE IN CASH AND CASH		10,673		915
CASH AT BEGINNING OF PERIOD		1,507		770
CASH AT END OF PERIOD	$	12,180	$	1,685

Acquisitions of businesses in 2012 include $36.7 million which represented outstanding checks at December 31, 2011, related to an acquisition that occurred in 2011.

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

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

NOTE 1 - THE COMPANY

DXP Enterprises, Inc. together with its subsidiaries (collectively “DXP,” “Company,” “us,” “we,” or “our”) was incorporated Texas on July 26, 1996, to be the successor to SEPCO Industries, Inc. DXP Enterprises, Inc. and its subsidiaries are engaged in the business of distributing maintenance, repair and operating products (MROP), equipment and service to industrial customers. The Company is organized into three segments: Service Centers, Supply Chain Services (SCS) and Innovative Pumping Solutions (IPS). See Note 10 for discussion of the business segments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. DXP Enterprises, Inc. (together with its subsidiaries, the “Company” or “DXP”) believes that the presentations and disclosures herein are adequate to make the information not misleading. The condensed consolidated financial statements reflect all elimination entries and adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods.

The financial information of the Company for the three and nine months ended September 30, 2012 and 2011 has not been audited. However, in the opinion of management, all adjustments necessary to present fairly the results of operations for the interim periods presented have been included therein. The results of operations for the interim periods presented are not necessarily indicative of the results of operations that might be expected for the full year.

These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the 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.

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. Generally accepted accounting principles in the U.S. (“USGAAP”) 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. USGAAP 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.

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.

Trade Accounts Receivable

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

Inventories

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

Property and Equipment

Property and equipment are carried on the basis of cost. Expenditures for major additions and betterments are capitalized. Depreciation of property and equipment is computed using the straight-line method. Maintenance and repairs of depreciable assets are charged against earnings as incurred. Additions and improvements are capitalized. When properties are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and gains or losses are credited or charged to earnings.

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

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

Goodwill and Other Intangible Assets

Assets acquired and liabilities assumed in a business acquisition are recorded at fair value on the date of the acquisition. Purchase consideration in excess of the aggregate fair value of acquired net assets is allocated to identifiable intangible assets, to the extent of their fair value, and any remaining excess purchase consideration is allocated to goodwill. The total amount of goodwill arising from an acquisition may be assigned to one or more reporting units when other reporting units are expected to benefit from synergies of the combination. The method of assigning goodwill to reporting units shall be reasonable and supportable and applied in a consistent manner and may involve estimates and assumptions.

Impairment of Goodwill and Other Intangible Assets

The Company tests goodwill and other indefinite lived intangible assets for impairment on an annual basis 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.

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.

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.

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. Revenues are recorded net of sales taxes.

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

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. DXP's gross margins may not be comparable to those of other entities, since some entities include all of the costs related to their distribution network in cost of sales and others like DXP exclude a portion of these costs from gross margin, including the costs in a line item, such as selling, general and administrative expense.

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.

Stock-Based Compensation

The Company uses restricted stock for share-based compensation programs. The Company measures compensation cost with respect to equity instruments granted as share-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.

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.

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance which requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The 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 2007. 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.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the fair value measurement guidance and disclosure requirements. The new requirements were effective for the first interim or annual period beginning after December 15, 2011 and were to be applied prospectively. DXP adopted the new requirements in the first quarter of 2012; however, the adoption of this guidance did not have a material effect on its consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued an amendment to the requirements for presenting comprehensive income. The new requirements were effective for the first interim or annual period beginning after December 15, 2011 and were to be applied retrospectively. The standard requires other comprehensive income to be presented in a continuous statement of comprehensive income that would combine the components of net income and other comprehensive income, or in a separate, but consecutive, statement following the statement of income. DXP elected to early adopt these new requirements effective December 31, 2011.

In September 2010, the FASB issued an accounting standards update with new guidance on annual goodwill impairment testing. The standards update allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than it's carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. DXP elected to early adopt these new requirements effective December 31, 2011.

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. The authoritative guidance affects the fair value measurement of an investment with quoted market prices in an active market for identical instruments, which must be classified in one of the following categories:

Level 1 Inputs

Level 1 inputs come from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs

Level 2 inputs are other than quoted prices that are observable for an asset or liability. These inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability which require the Company’s own assumptions.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment

and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents the changes in Level 1 assets for the period indicated (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Fair value at beginning of period	$ 1,679	$ -
Investment during period	105	-
Realized and unrealized gains (losses) included in other comprehensive income	(477)	-
Fair value at end of period	$ 1,307	$ -

During the fourth quarter of 2011, the Company paid $1.6 million for an investment with quoted market prices in an active market. At December 31, 2011, the market value of this investment was $1.7 million. During 2012, the Company paid $0.1 million for additional shares of this investment. At September 30, 2012, the market value of the investment was $1.3 million. The $0.5 million decline in the market value during the nine months ended September 30, 2012 was included in other comprehensive income.

NOTE 5 - INVENTORY

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

	September 30, 2012	December 31, 2011
Finished goods	$ 105,058	$ 102,645
Work in process	7,410	5,246
Inventory reserve	(13,499)	(13,990)
Inventories, net	$ 98,969	$ 93,901

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill and other intangible assets during the nine months ended September 30, 2012 are as follows (in thousands):

	Goodwill	Other Intangible Assets	Total
Balance as of December 31, 2011	$ 101,764	$ 43,194	$ 144,958
Acquired during the year	40,213	41,204	81,417
Adjustments to prior year estimates	(50)	50	-
Amortization	-	(8,264)	(8,264)
Balance as of September 30, 2012	$ 141,927	$ 76,184	$ 218,111

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

	As of September 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Carrying Amount, net	Gross Carrying Amount	Accumulated Amortization	Carrying Amount, net
Vendor agreements	$ 2,496	$ (1,050)	$ 1,446	$ 2,496	$ (956)	$1,540
Customer relationships	104,076	(31,382)	72,694	64,262	(23,508)	40,754
Non-compete agreements	4,050	(2,007)	2,043	2,611	(1,711)	900
Total	$ 110,622	$ (34,439)	$ 76,184	$ 69,369	$ (26,175)	$ 43,194

Other intangible assets are generally amortized on a straight-line basis over their estimated useful lives.

NOTE 7 – LONG-TERM DEBT

On July 11, 2012 DXP entered into a credit facility with Wells Fargo Bank, National Association, as Issuing Lender, Swingline Lender and Administrative Agent for the lenders (the “Facility”). The new facility consists of a $100 million term loan and a revolving credit facility that provides a $225 million line of credit to the Company. This new facility replaced the Company's prior credit facility, which was last amended on December 30, 2011 and consisted of a $200 million revolving credit facility.

The line of credit portion of the Facility provides the option of interest at LIBOR plus an applicable margin ranging from 1.25% to 2.25% or prime plus an applicable margin from 0.25% to 1.25% where the applicable margin is determined by the Company’s leverage ratio as defined by the Facility at the date of borrowing. Rates for the $100 million term loan component are 25 basis points higher than the line of credit borrowings. Commitment fees of 0.20% to 0.40% per annum are payable on the portion of the Facility capacity not in use at any given time on the line of credit. Commitment fees are charged as interest in the consolidated statements of operations.

Primarily because the leverage ratio is higher after the acquisition of HSE that occurred on July 11, 2012, interest rates in effect at September 30, 2012 are approximately 70 points higher than they were prior to the acquisition. Approximately $0.7 million of debt issuance costs associated with the prior credit facility were expensed in the third quarter of 2012.

On September 30, 2012, the LIBOR based rate on the line of credit portion of the Facility was LIBOR plus 1.75%, the prime based rate of the Facility was prime plus 0.75% and the commitment fee was 0.30%. At September 30, 2012, $240.4 million was borrowed under the Facility at a weighted average interest rate of approximately 2.09% under the LIBOR options and $12.8 million was borrowed at 3.75% under the prime option. At September 30, 2012, the Company had $67.4 million available for borrowing under the Facility.

The new facility expires on July 11, 2017. The Facility contains financial covenants defining various financial measures and levels of these measures with which the Company must comply. Covenant compliance is assessed each quarter end.

The Facility's principal financial covenants include:

Consolidated Leverage Ratio – The Facility requires that the Company's Consolidated Leverage Ratio, determined at the end of each fiscal quarter, not exceed 3.5 to 1.0 as of the last day of each quarter from the closing date through March 31, 2015 and not to exceed 3.25 to 1.00 from June 30, 2015 and thereafter. The Consolidated Leverage Ratio is defined as the outstanding indebtedness divided by Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or immediately prior to such date. Indebtedness is defined under the Facility for financial covenant purposes as: (a) all obligations of DXP for borrowed money including but not limited to obligations evidenced by bonds, debentures, notes or other similar instruments; (b) obligations to pay deferred purchase price of property or services; (c) capital lease obligations; (d) obligations under conditional sale or other title retention agreements relating to property purchased; (e) issued and outstanding letters of credit; and (f) contingent obligations for funded indebtedness. At September 30, 2012, the Company's Leverage Ratio was 2.12 to 1.00.

Consolidated Fixed Charge Coverage Ratio –The Facility requires that the Consolidated Fixed Charge Coverage Ratio on the last day of each quarter be less than 1.25 to 1.0 with "Consolidated Fixed Charge Coverage Ratio" defined as the ratio of (a) Consolidated EBITDA for the period of 4 consecutive fiscal quarters ending on such date minus capital expenditures during such period (excluding acquisitions) minus income tax expense paid minus the aggregate amount of restricted payments defined in the agreement to (b) the interest expense paid in cash, scheduled principal payments in respect of long-term debt and the current portion of capital lease obligations for such 12-month period, determined in each case on a consolidated basis for DXP and its subsidiaries. At September 30, 2012, the Company's Consolidated Fixed Charge Coverage Ratio was 3.65 to 1.00.

Asset Coverage Ratio –The credit facility requires that the Asset Coverage at any time be less than 1.0 to 1.0 with "Asset Coverage Ratio" defined as the ratio of (a) the sum of 85% of net accounts receivable plus 65% of net inventory to (b) the aggregate outstanding amount of the revolving credit outstandings on such date. At September 30, 2012, the Company's Asset Coverage Ratio was 1.43 to 1.00.

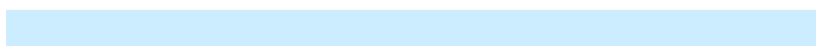
Consolidated EBITDA as defined under the Facility for financial covenant purposes means, without duplication, for any period the consolidated net income of DXP plus, to the extent deducted in calculating consolidated net income, depreciation, amortization (except to the extent that such non-cash charges are reserved for cash charges to be taken in the future), non-cash compensation including stock option or restricted stock expense, interest expense and income tax expense for taxes based on income, certain one-time costs associated with our acquisitions, integration costs, facility consolidation and closing costs, severance costs and expenses and one-time compensation costs in connection with the acquisition of HSE and any permitted acquisition, write-down of cash expenses incurred in connection with the existing credit agreement and extraordinary losses less interest income and extraordinary gains. Consolidated EBITDA shall be adjusted to give pro forma effect to disposals or business acquisitions assuming that such

transaction(s) had occurred on the first day of the period excluding all income statement items attributable to the assets or equity interests that is subject to such disposition made during the period and including all income statement items attributable to property or equity interests of such acquisitions permitted under the Facility.

The following table sets forth the computation of the Leverage Ratio as of September 30, 2012 (in thousands, except for ratios):

For the Twelve Months ended September 30, 2012	Leverage Ratio
Income before taxes	$ 76,572
Interest expense	4,591
Depreciation and amortization	15,670
Stock compensation expense	1,818
Pro forma acquisition EBITDA	23,869
Other adjustments	(218)
(A) Defined EBITDA	$ 122,302
As of September 30, 2012	
Total long-term debt	$ 259,031
Letters of credit outstanding	460
(B) Defined indebtedness	$ 259,491
Leverage Ratio (B)/(A)	2.12

Borrowings (in thousands):



	September 30, 2012	December 31, 2011(4)	Increase (Decrease)
Current portion of long-term debt	$ 18,098	$ 694	$ 17,404
Long-term debt, less current portion	240,933	114,205	126,728
Total long-term debt	$ 259,031	$ 114,899	$ 144,132(2)
Amount available	$ 67,376(1)	$ 78,201(1)	$ (10,825)(3)

(1) Represents amount available to be borrowed at the indicated date under the Facility.
(2) The funds obtained from the increase in debt were primarily used to fund acquisitions.
(3) The $10.8 million decrease in the amount available is primarily a result of borrowing to fund acquisitions and working capital, partially offset by cash flow from operations.
(4) Borrowings as of December 31, 2011 were primarily under the Company's previous credit facility which was terminated and replaced with the current credit facility on July 11, 2012.

NOTETE 8 - STOCK-BASED COMPENSATION

Restricted Stock

Under the restricted stock plan approved by our stockholders (the "Restricted Stock Plan"), directors, consultants and employees may be awarded shares of DXP's common stock. The shares of restricted stock granted to employees and that are outstanding as of September 30, 2012 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 the grant date; or 10% each year for ten years after the grant date. The Restricted Stock Plan provides that on each July 1 during the term of the plan each non-employee director of DXP will be granted the number of whole shares calculated by dividing $75 thousand by the closing price of the common stock on such July 1. The shares of restricted stock granted to non-employee directors of DXP vest one year after the grant date. The fair value of restricted stock awards is measured based upon the closing prices of DXP's common stock on the grant dates and is recognized as compensation expense over the vesting period of the awards.

The following table provides certain information regarding the shares authorized and outstanding under the Restricted Stock Plan at September 30, 2012:

Number of shares authorized for grants	800,000

Number of shares granted	(688,371)
Number of shares forfeited	67,598
Number of shares available for future grants	179,227
Weighted-average grant price of granted shares	$ 19.61

Changes in restricted stock for the nine months ended September 30, 2012 were as follows:

	Number of Shares	Weighted Average Grant Price
Non-vested at December 31, 2011	228,592	$ 21.10
Granted	76,416	$ 38.99
Forfeited	(6,860)	$ 19.67
Vested	(57,067)	$ 18.21
Non-vested at September 30, 2012	241,081	$ 27.52

Compensation expense, associated with restricted stock, recognized in the three months ended September 30, 2012 and 2011 was $0.5 million and $0.3 million, respectively. Compensation expense, associated with restricted stock, recognized in the nine months ended September 30, 2012 and 2011 was $1.5 million and $0.9 million, respectively. Unrecognized compensation expense under the Restricted Stock Plan at September 30, 2012 and December 31, 2011 was $5.5 million and $4.1 million, respectively. As of September 30, 2012, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 32 months.

NOTE 9 - EARNINGS PER SHARE DATA

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic:				
Weighted average shares outstanding	14,411	14,315	14,375	14,307
Net income	$ 13,092	$ 8,274	$ 36,915	$ 22,227
Convertible preferred stock dividend	23	23	68	68

Net income attributable to common shareholders	$	13,069	$	8,251