

Risk Factors Comparison 2025-03-10 to 2024-03-11 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

We are subject to various risks and uncertainties in the course of our business. Investing in the Company involves risk. In deciding whether to invest in the Company, you should carefully consider the risk factors below as well as those matters referenced in the foregoing pages under “ Disclosure Regarding Forward- Looking Statements ” and other information included and incorporated by reference into this Report and other reports and materials filed by us with the Securities and Exchange Commission. Any of these risk factors could have a significant or material adverse effect on our businesses, results of operations, financial condition or liquidity. They could also cause significant fluctuations and volatility in the trading price of our securities. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect the Company. Further, many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effects of others. Such a combination could materially increase the severity of the impact of these risks on our results of operations, liquidity and financial condition. We face a variety of risks that are substantial and inherent in our businesses. The following is a summary of some of the more important factors that could affect our businesses: Business and Operations • Demand for our products could decrease if manufacturers decide to sell them direct. • Changes in our customer or product mix, could cause our gross margins to fluctuate. • Material changes in the costs of our products from manufacturers without the ability to pass price increases onto our customers could cause our gross margins to decline. • **A variety of issues could affect the timing or profitability of our projects, and could result in, among other things, project termination or payment of liquidated damages. • Changes in estimates related to revenues and costs under customer contracts could result in a reduction or elimination of revenues or profits and the recognition of losses.** • Our manufacturers may cancel our oral or written distribution authorizations upon little or no notice, which could adversely impact our revenues and profits from distributing certain manufacturer’ s products. • We may experience unexpected supply shortages, which could adversely affect our product and service offerings and our business. • Price reductions by our manufacturers of products that we sell could cause the value of our inventory to decline. • We are subject to increased shipping costs as well as the potential inability of our third- party transportation providers to deliver products on a timely basis. • Our business has substantial competition that could adversely affect our results. • The loss of or the failure to attract and retain key personnel could adversely impact our results of operations. • The loss of any key supplier could adversely affect the Company’ s sales and profitability. • Our future results will be impacted by our ability to implement our internal growth strategy. • Our future results will be impacted by the effective execution of our acquisition strategy. • Goodwill and intangible assets recorded as a result of our acquisitions could become impaired. • Interruptions in the proper functioning of our information systems could disrupt operations and cause increases in costs and / or decreases in revenues. • Cybersecurity breaches and other disruptions or misuse of our network and information systems could affect our ability to conduct our business effectively. • Our backlog is subject to unexpected adjustments and potential cancellations. • Our actual results could differ from the assumptions and estimates used to prepare our financial statements ~~. • If we do not successfully remediate our internal controls weaknesses, our financial statements may not be accurate and the trading price of our stock could be negatively impacted.~~ Market and Economy • A general slowdown in the economy could negatively impact the Company’ s sales growth and profitability. • We could be adversely impacted by low oil prices, volatility in oil prices and downturns in the energy industry, including decreased capital expenditures, impacting our customers’ demand for our products and services. • Adverse weather events or natural disasters could negatively disrupt our operations. Credit and Access to Debt Capital • We may not be able to refinance on favorable terms, extend, or repay our debt, which could adversely affect our results of operations or may result in default of our debt. • Our failure to comply with financial covenants of our credit facilities may adversely affect our results of operations and our financial conditions. • We may not be able to access acquisition financing, including debt capital. • A deterioration in the oil and gas sector or other circumstances may negatively impact our business and results of operations and thus hinder our ability to comply with financial covenants under our credit facilities, including the Secured Leverage Ratio and Fixed Charge Coverage Ratio financial covenants. • Changes in our credit profile may affect our relationship with our suppliers, which could have a material adverse effect on our liquidity. Legal and Regulatory • Risks associated with substantial or material claim or lawsuits that are not covered by insurance. • The nature of our manufactured products carries the possibility of significant product liability and warranty claims, which could harm our business and future results. • We are subject to potential shareholder litigation associated with potential volatile trading of our common stock. • We are subject to personal injury, product liability and environmental claims involving allegedly defective products. • We are subject to risks associated with conducting business in foreign countries. • We are subject to environmental, health and safety laws and regulations that may lead to liabilities and negatively impact our business. • We are subject to various government regulations, the cost of compliance of such regulations could increase our cost of conducting business and any violations of such regulations could materially adversely affect our financial condition or results of operations. The following are more detailed discussions of our Risk Factors summarized above: Risk Related to the Company’ s Business and Operations Demand for our products could decrease if the manufacturers of those products sell them directly to end users. Typically, MRO products have been purchased through distributors and not directly from the manufacturers of those products. If customers were to purchase our products directly from manufacturers, or if manufacturers sought to increase their efforts to sell directly to end users, we could experience a significant decrease in sales and earnings. Changes in our customer and product mix, or adverse changes to the cost of goods we sell, could cause our gross margin percentage to fluctuate or decrease, and we may not be able to maintain historical margins. Changes in

our customer mix have resulted from geographic expansion, daily selling activities within current geographic markets, and targeted selling activities to new customers. Changes in our product mix have resulted from marketing activities to existing customers and needs communicated to us from existing and prospective customers. There can be no assurance that we will be able to maintain our historical gross margins. In addition, we may also be subject to price increases from vendors that we may not be able to pass along to our customers. We are authorized to distribute certain manufacturers' products in specific geographic areas and all of our oral or written distribution authorizations are subject to cancellation by the manufacturer, some upon little or no notice. If certain manufacturers cancel the distribution authorizations they granted to us, our distribution of their products could be disrupted and such occurrence could have a material adverse effect on our results of operations and financial conditions.

A variety of issues could affect the timing or profitability of our projects, which may result in additional costs to us, reductions or delays in revenues, the payment of liquidated damages or project termination. A meaningful part of our business is dependent in part upon projects that can be cyclical in nature and are subject to risks of delay or cancellation. The timing of or failure to obtain contracts, delays in awards of, start dates for or completion of projects and the cancellations of projects can result in significant periodic fluctuations in our business, financial condition, results of operations and cash flows. Many of our projects may directly and / or indirectly involve challenging design, engineering, financing, permitting, procurement and construction phases that occur over extended time periods, sometimes several years, and we have encountered and may in the future encounter project delays, additional costs or project performance issues as a result of, among other things:

- inability to meet project schedule requirements or achieve guaranteed performance or quality standards for a project, which can result in increased costs, through rework, replacement or otherwise, or the payment of liquidated damages to the customer or contract termination;
- failure to accurately estimate project costs or accurately establish the scope of our services;
- failure to make judgments in accordance with applicable professional standards (e. g., engineering standards);
- unforeseen circumstances or project modifications not included in our cost estimates or covered by our contract for which we cannot obtain adequate compensation, including concealed or unknown environmental, geological or geographical site conditions or technical problems such as design or engineering issues;
- changes in laws or permitting and regulatory requirements during the course of our work;
- delays in the delivery or management of design or engineering information, equipment or materials;
- our or a customer's failure to manage a project, including the inability to timely obtain land, permits or rights of way or meet other permitting, regulatory or environmental requirements or conditions;
- changes to project or customer schedules;
- natural disasters or emergencies, including wildfires and earthquakes, as well as significant weather events (e. g., hurricanes, tropical storms, tornadoes, floods, droughts, blizzards and extreme temperatures) and adverse or unseasonable weather conditions (e. g., prolonged rainfall or snowfall, early thaw in Canada and the northern United States);

Many of these difficulties and delays are beyond our control and can negatively impact our ability to complete the project in accordance with the required delivery schedule or achieve our anticipated margin on the project. Delays and additional costs associated with delays may be substantial and not recoverable from third parties, and in some cases, we may be required to compensate the customer for such delays, including in circumstances where we have guaranteed project completion or performance by a scheduled date and incur liquidated damages if we do not meet such schedule. Changes in estimates related to revenues and costs associated with our contracts with customers could result in a reduction or elimination of revenues, a reduction of profits or the recognition of losses. For fixed price contracts and certain unit-price contracts, we recognize revenue as performance obligations are satisfied over time and earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Changes in contract estimates are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made, and contract losses are recognized in full when losses are determined to be probable and can be reasonably estimated. Variable consideration amounts, including performance incentives, early pay discounts and penalties, may also cause changes in contract estimates. In addition, we recognize amounts associated with change orders and / or claims as revenue when it is probable that the contract price will be adjusted and the amount of any such adjustment can be reasonably estimated. Actual amounts collected in connection with change orders and claims can differ from estimated amounts. Consequently, the timing for recognition of revenues and profit or loss and any subsequent changes in estimates is uncertain and could result in a reduction or an elimination of previously reported revenues or profits or the recognition of losses on the associated contract. Any such adjustments could be significant and could have a material adverse impact on our financial condition, results of operations and cash flows.

We distribute products from certain manufacturers and suppliers. Nevertheless, in the future we may have difficulty obtaining the products we need from suppliers and manufacturers as a result of unexpected demand, production difficulties that might extend lead times or a supplier's decision to sell its products through other distributors. Our inability to obtain products from suppliers and manufacturers in sufficient quantities to meet customer demand, or at all, could adversely affect our product and service offerings and our business. Price reductions by our manufacturers of products that we sell could cause the value of our inventory to decline. Also, these price reductions could cause our customers to demand lower sales prices for these products, possibly decreasing our margins and profitability on sales. The value of our inventory could decline as a result of manufacturer price reductions with respect to products that we sell. Such a decline could have an adverse effect on our revenues. Also, decreases in the market prices of products that we sell could cause customers to demand lower sales prices from us. These price reductions could reduce our margins and profitability on sales with respect to the lower-priced products to the extent that we purchased our inventory of these products at the higher prices prior to the manufacturers price reductions. Reductions in our margins and profitability on sales could have a material adverse effect on our business. We rely upon third-party transportation providers for our merchandise shipments and are subject to increased shipping costs as well as the potential inability of our third-party transportation providers to deliver products on a timely basis. We rely upon independent third-party transportation providers for

our merchandise shipments, including shipments to and from all of our service centers. Our utilization of these delivery services for shipments is subject to risks, including increases in fuel prices, labor availability, labor strikes and inclement weather, which may impact a shipping company's ability to provide delivery services that adequately meet our shipping needs. If we change the shipping companies we use, we could face logistical difficulties that could adversely affect deliveries and we would incur costs and expend resources in connection with such change. In addition, we may not be able to obtain favorable terms as we have with our current third- party transportation providers. Our business is highly competitive. We compete with a variety of industrial supply distributors, some of which may have greater financial and other resources than us. Although many of our traditional distribution competitors are small enterprises selling to customers in a limited geographic area, we also compete with larger distributors that provide integrated supply programs such as those offered through outsourcing services similar to those that are offered by our SCS segment. Some of these large distributors may be able to supply their products in a more timely and cost-efficient manner than us. Our competitors include catalog suppliers, large warehouse stores and, to a lesser extent, certain manufacturers. Competitive pressures could adversely affect the Company's sales and profitability. The loss of the services of any of the executive officers of the Company could have a material adverse effect on our financial condition and results of operations. In addition, our ability to grow successfully will be dependent upon our ability to attract and retain qualified management and technical and operational personnel. The failure to attract and retain such persons could materially adversely affect our financial condition and results of operations. We have distribution rights for certain product lines and depend on these distribution rights for a substantial portion of our business. Many of these distribution rights are pursuant to contracts that are subject to cancellation upon little or no prior notice. The termination or limitation by any key supplier of its relationship with the Company could result in a temporary disruption of our business and, in turn, could adversely affect our results of operations and financial condition. Our future results will depend in part on our success in implementing our internal growth strategy, which includes expanding our existing geographic areas, selling additional products to existing customers and adding new customers. Our ability to implement this strategy will depend on our success in selling more products and services to existing customers, acquiring new customers, hiring qualified **salespersons sales persons**, and marketing integrated forms of supply management such as those being pursued by us through our SmartSourceSM program. We may not be successful in efforts to increase sales and product offerings to existing customers. Consolidation in our industry could heighten the impacts of competition on our business and results of operations discussed above. The fact that we do not traditionally enter into long- term contracts with our suppliers or customers may provide opportunities for our competitors. Risks associated with executing our acquisition strategy. Our future results will depend in part on our ability to successfully implement our acquisition strategy. We may not be able to consummate acquisitions at rates similar to the past, which could adversely impact our growth rate and stock price. This strategy includes taking advantage of a consolidation trend in the industry and effecting acquisitions of businesses with complementary or desirable product lines, strategic distribution locations, attractive customer bases or manufacturer relationships. Promising acquisitions are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, the need for regulatory (including antitrust) approvals and the availability of affordable funding in the capital markets. In addition, competition for acquisitions in our business areas is significant and may result in higher purchase prices. Changes in accounting or regulatory requirements or instability in the credit markets could also adversely impact our ability to consummate acquisitions. In addition, acquisitions involve a number of special risks, including possible adverse effects on our operating results, diversion of management's attention, failure to retain key personnel of the acquired business, difficulties in integrating operations, technologies, services and personnel of acquired companies, potential loss of customers of acquired companies, preserving business relationships of the acquired companies, risks associated with unanticipated events or liabilities, and expenses associated with obsolete inventory of an acquired business, some or all of which could have a material adverse effect on our business, financial condition and results of operations. Our ability to grow at or above our historic rates depends in part upon our ability to identify and successfully acquire and integrate companies and businesses at appropriate prices and realize anticipated cost savings. Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Goodwill and intangibles represent a significant amount of our total assets. At December 31, ~~2023~~ **2024**, our combined goodwill and intangible assets amounted to \$ ~~407,538.90~~ million, net of accumulated amortization. To the extent we do not generate sufficient cash flows to recover the net amount of any investments in goodwill and other intangible assets recorded, the investment could be considered impaired and subject to write- off which would directly impact earnings. We expect to record additional goodwill and other intangible assets as a result of future business acquisitions. Future amortization of such other intangible assets or impairments, if any, of goodwill or intangible assets would adversely affect our results of operations in any given period. The ~~proper~~ **operation of our business depends critically on the functioning of our the Company's information systems is critical. We continue to the successful invest in software, hardware and network infrastructures to effectively manage our information systems. However, we may not be able to maintain or update our information systems to capture and use data in ways that result in operation operational efficiency, including as a result of our business ineffective software, difficulties obtaining the right talent and ability to manage the increasing volume of data available to, and managed by us. Our** Furthermore, although backup and security systems, including physical and software safeguards and remote processing capabilities, protect our information systems, information systems are still vulnerable to **damage or interruption from natural or human induced disasters , extreme weather , power losses, telecommunication failures , user error, third- party actions such as malicious computer programs, denial- of- service attacks and cybersecurity breaches,** and other problems despite. In addition, we rely on the ~~protection of our information technology (" IT ") systems through physical~~ **of third parties to assist in conducting our business. The implementation of new systems and upgrades to existing systems could impact our operations by imposing substantial capital expenditures, demands on management's time and risks of delays or difficulties in transitioning to**

new systems. In addition, DXP's systems implementations may not result in productivity improvements at the levels anticipated. Systems implementation disruption and any other IT disruption could have and an software safeguards adverse effect on the Company. If disruptions damage, breach or cause our systems or those of third parties on which we depend to cease to function properly or are otherwise disrupted, we may require a significant investment to repair or replace them and remote processing capabilities may suffer interim interruptions in its business operations. If critical information systems fail or are otherwise become unavailable, our The Company's ability to procure products to sell operate our digital platforms, process and ship customer orders, identify business opportunities, maintain proper levels of inventories, collect accounts receivable, disburse funds, manage our supply chain, monitor results of operations, and process pay accounts payable and expenses store team member or customer data, among other functions, could be adversely affected. **Any such interruption of our information systems could have a material adverse effect on our business or results of operations. We have experienced these incidents in the past, which we deemed immaterial to our business and operations individually and in the aggregate, and may be subject to other incidents in the future. We cannot assure you that any future incidents will not be material to our business, operations or financial condition.** Through our sales channels and electronic communications with customers generally, we collect and maintain confidential information that customers provide to us in order to purchase products or services. We also acquire and retain information about suppliers and employees in the normal course of business. Computer hackers may attempt to penetrate our information systems or our vendors' information systems and, if successful, misappropriate confidential customer, supplier, employee or other business information. In addition, one of our employees, contractors or other third party may attempt to circumvent security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of information could expose us to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and other persons, any of which could have an adverse effect on our financial condition and results of operations. We may not be able to adequately insure against cyber risks. Despite our security measures and those of our third-party service providers, our systems may be vulnerable to interruption or damage from computer hacks, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination of the foregoing. Our computer systems have been, and will likely continue to be, subject to cyber incidents. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. Our three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation and image and private data exposure. ~~For example, in August 2020, the Company's computer network was the target of a cyber-attack that we believe was orchestrated by a foreign actor. The systems housing confidential vendor, customer and employee data were not breached in this attack. The costs incurred to remedy the breach were not material to the results of the Company, and the increased cost of future mitigating measures are not expected to be material to our results. However, in the future, if we suffer a more significant cyber incident, we may be required to shut off our computer systems, reboot them and reestablish our information from back up sources. In other future incidents, we may be required under various laws to notify any third parties whose data has been compromised.~~ While we have implemented controls and taken other preventative actions to further strengthen our systems against future attacks, these controls and preventative actions may not be effective against future attacks. Any breach of network, information systems, or our data security could result in a disruption of our services or improper disclosure of personal data or confidential information, which could harm our reputation, require us to expend resources to remedy such a security breach or defend against further attacks or subject us to liability under laws that protect personal data, resulting in increased operating costs or loss of revenue. Our backlog generally consists of projects for which we have an executed contract or commitment with a client and reflects our expected revenue from the contract or commitment, which is often subject to revision over time. We cannot guarantee that the revenue projected in our backlog will be realized or profitable or will not be subject to delay or suspension. Project cancellations, scope adjustments or deferrals, may occur with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the revenue and profits that we actually earn; or may cause the rate at which we perform on our backlog to decrease. Our contracts typically provide for the payment of fees earned through the date of termination and the reimbursement of costs incurred including demobilization costs. In addition, projects may remain in our backlog for an extended period of time. During periods of economic slowdown, or decreases and / or instability in oil prices, the risk of projects being suspended, delayed or canceled generally increases. Finally, poor project or contract performance could also impact our backlog. Such developments could have a material adverse effect on our business and our profits. In preparing our financial statements, we make estimates and assumptions that affect the reported values of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Areas requiring significant estimates by our management include: • recognition of revenue, costs, profits or losses; • recognition of recoveries under contract change orders or claims; • estimated amounts for project losses, warranty costs, contract close-out or other costs; • income tax provisions and related valuation allowances; and • accruals for other estimated liabilities, including litigation and insurance reserves and receivables. Estimates are based on management's reasonable assumptions and experience, but are only estimates. Our actual business and financial results could differ from our estimates of such results due to changes in facts and circumstances, which could have a material negative impact on our financial condition and reported results of operations. Further, we recognize contract revenue as work on a contract progresses. The cumulative amount of revenue recorded on a contract at any point in time is the costs incurred to date versus the estimated total costs. Accordingly, contract revenue and total cost estimates are reviewed and revised as the work progresses. Adjustments are reflected in contract revenue in the period when such estimates are revised. Such adjustments could be material and could result in reduced profitability. ~~As a public company, DXP Enterprises, Inc. is subject to an annual integrated audit (an audit of its financial statements and system of~~

controls). The integrated audit expresses itself in two opinions covering the procedures and records used to produce the financial statements, i. e. the financial statement audit, and, also an opinion as to whether the company has the likelihood, possibility, or existence of a misstatement in its financial statements based upon the interplay between financial, operational and technology processes and systems, i. e. the Sarbanes-Oxley or “SOX” audit (see Item 8 and Item 9A for these opinions). Specifically, section 404 of the Sarbanes-Oxley Act requires us to annually evaluate our internal control systems over financial reporting, which is an assessment of financial and operational processes as well as a review of the technology processes and systems. This is not a static process as we may change our processes each year or acquire new companies that have different controls than our existing controls. Upon completion of this process each year, we may identify control deficiencies of varying degrees of severity under applicable U. S. Securities and Exchange Commission (“SEC”) and Public Company Accounting Oversight Board (“PCAOB”) rules and regulations that are neither new, and or remain unremediated from previous annual assessments due to ongoing curing efforts. We are required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that, or that are reasonably likely to, materially affect internal controls over financial reporting. A “material weakness” is a significant deficiency or combination of significant deficiencies in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected and corrected on a timely basis. The Company has engaged third party consultants in addition to having hired a total of seven (7) CPAs in various positions and functions since December 31, 2022. Specifically, the Company has hired a new Chief Accounting Officer, a Director of Technical Accounting, three assistant controllers, a Director of Tax, and established and expanded technical accounting and SEC financial reporting groups. As discussed in Item 9A, “Management’s Report on Internal Control Over Financial Reporting,” we concluded we have material weaknesses in our internal controls during 2023. However, the Company has continued to evolve and grow as business while addressing and remediating various deficiencies as a growth oriented company. If we fail to successfully remediate these weaknesses, our financial statements may not be accurate and we may face restricted access to the capital markets and our stock price may be adversely affected. If we do not develop and maintain effective controls and procedures or if we are otherwise unable to deliver timely and reliable financial information, we could suffer a loss of confidence in the reliability of our financial statements and the trading price of our stock could be negatively impacted.

Risks Related to the Market and Economy A general slowdown in the economy could negatively impact the Company’s sales growth and profitability. Economic and industry trends affect the Company’s business. Demand for our products is subject to economic trends affecting our customers and the industries in which they compete in particular. General economic factors beyond our control that affect our business and our customers include (among others) interest rates, recession, inflation, deflation, customer credit availability, consumer credit availability, consumer debt levels, performance of housing markets, energy costs, tax rates and policy, unemployment rates, and other economic matters that influence our customers’ spending. Many of our customers’ industries, such as the manufacturing, food & beverage and oil and gas industry, are subject to volatility while others, such as the petrochemical industry, are cyclical and are materially affected by changes in the economy. As a result, demand for our products could be adversely impacted by changes in the markets of our customers. We traditionally do not enter into long- term contracts with our customers which increases the likelihood that economic downturns would affect our business. A portion of our revenue depends upon the level of capital and operating expenditures in the oil and natural gas industry. Therefore, a significant decline in oil or natural gas prices could lead to a decrease in our customers’ capital and other expenditures and could adversely affect our revenues. Certain areas in which we operate are susceptible to adverse weather conditions or natural disasters, such as hurricanes, tornadoes, floods and earthquakes. These events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Additionally, we may experience communication disruptions with our customers, vendors and employees. We cannot predict whether or to what extent damage caused by these events will affect our operations or the economies in regions where we operate. These adverse events could result in disruption of our purchasing or distribution capabilities, interruption of our business that exceeds our insurance coverage, our inability to collect from customers and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of these events.

Risks Related to Credit or Access to Debt Capital We may not be able to refinance on favorable terms or may not refinance, extend or repay our debt, which could adversely affect our results of operations or may result in default of our debt. We may not be able to refinance existing debt or the terms of any refinancing may not be as favorable as the terms of our existing debt. If principal payments due upon default or at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be sufficient to repay all maturing debt in years when significant payments come due. If such circumstance happens, our business, reputation, results of operations or financial condition could be adversely affected and our existing debt could be in default. Our credit facilities require the Company to comply with certain specified covenants, restrictions, financial ratios and other financial and operating tests. The Company’s ability to comply with any of the foregoing restrictions will depend on its future performance, which will be subject to prevailing economic conditions and other factors, including factors beyond the Company’s control. A failure to comply with any of these obligations could result in an event of default under the credit facilities, which could permit acceleration of the Company’s indebtedness under the credit facilities. The Company from time to time has been unable to comply with some of the financial covenants contained in previous credit facilities (relating to, among other things, the maintenance of prescribed financial ratios) and has, when necessary, obtained waivers or amendments to the covenants from its lenders. In the future the Company may not be able to comply with the covenants or, if is not able to do so, that its lenders will be willing to waive such non- compliance or amend such covenants. We may need to finance acquisitions by using shares of common stock for a portion or all of the consideration to be paid. In the event that the common stock does not maintain a sufficient market value, or potential acquisition candidates are otherwise unwilling to accept common stock as part of the consideration for the sale of their businesses, we may be required to use more of our cash resources, if available, to maintain our acquisition program. These cash resources may

include borrowings under our existing credit agreements or equity or debt financings. Our current credit agreements with lenders contain certain restrictions that could adversely affect our ability to implement and finance potential acquisitions. Such restrictions include provisions which limit our ability to merge or consolidate with, or acquire all or a substantial part of the properties or capital stock of, other entities without the prior written consent of the lenders. There can be no assurance that we will be able to obtain the lenders' consent to any of our proposed acquisitions. If we do not have sufficient cash resources, our growth could be limited unless we are able to obtain additional capital through debt or equity financings. A deterioration of the oil and gas sector or other circumstances that reduce our earnings may hinder our ability to comply with certain financial covenants under our credit facilities. Specifically, compliance with the Secured Leverage Ratio and Fixed Charge Coverage Ratio covenants depend on our ability to maintain net income and prevent losses. In the future we may not be able to comply with the covenants and, if we are not able to do so, our lenders may not be willing to waive such non-compliance or amend such covenants. If we are unable to comply with our financial covenants or obtain a waiver or amendment of those covenants or obtain alternative financing, our business and financial condition would be adversely affected. Changes in our credit profile may affect the way our suppliers view our ability to make payments and may induce them to shorten the payment terms of their invoices if they perceive our indebtedness to be high. Given the large dollar amounts and volume of our purchases from suppliers, a change in payment terms may have a material adverse effect on our liquidity and our ability to make payments to our suppliers and, consequently, may have a material adverse effect on us.

Risks Related to Legal and Regulatory Matters In the ordinary course of business we at times may become the subject of various claims, lawsuits or administrative proceedings seeking damages or other remedies concerning our commercial operations, the products we distribute, employees and other matters, including potential claims by individuals alleging exposure to hazardous materials as a result of the products we distribute or our operations. Some of these claims may relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to acquisition. The products we distribute, and / or manufacture, are subject to inherent risks that could result in personal injury, property damage, pollution, death or loss of production. We maintain insurance to cover potential losses, and we are subject to various deductibles and caps under our insurance. It is possible, however, that judgments could be rendered against us in cases in which we would be uninsured and beyond the amounts that we currently have reserved or anticipate incurring for such matters. Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on our business, results of operations and financial condition. Furthermore, we may not be able to continue to obtain insurance on commercially reasonable terms in the future, and we may incur losses from interruption of our business that exceed our insurance coverage. In cases where we maintain insurance coverage, our insurers may raise various objections and exceptions to coverage which could make uncertain the timing and amount of any possible insurance recovery. Customers use some of our products, in particular manufactured pumps and pump packages, in potentially harmful and high-risk applications that may in some instances cause personal injury or loss of life and / or damage to property, equipment or the environment. In addition, our products are integral to the production process for some end-users, and a failure of our products could result in a business interruption of their operations. Although we maintain quality controls and procedures, our products may not be completely free from defects and / or malfunction or failure. We maintain various levels and types of insurance coverage that we believe are adequate and commensurate with normal industry practice for a company of our risk profile, relative size, and we further limit our liability by contract wherever possible. However, as described earlier, insurance may not be available or adequate to cover all potential liability. We could be named as a defendant in product liability or other lawsuits asserting potentially large claims if an accident occurs at a location where our equipment is installed or services have been or are being used. We are subject to potential shareholder litigation associated with the potential volatile trading price of our common stock. The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this and other periodic reports, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us. Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock. In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could adversely affect our business. A variety of products we distribute are used in potentially hazardous applications that can result in personal injury, product liability and environmental claims. A catastrophic occurrence at a location where the products we distribute are used may result in us being named as a defendant in lawsuits asserting potentially large claims even though we did not manufacture the products and applicable law may render us liable for damages without regard to negligence or fault. In particular, certain environmental laws provide for joint and several and strict liability for remediation of spills and releases of hazardous substances. Certain of these risks are reduced by the fact that we are a distributor of products that third-party manufacturers produce, and, thus, in certain circumstances, we may have third-party warranty or other claims against the manufacturer of products alleged to have been defective. However, there is no assurance that these claims could fully protect us or that the manufacturer would be able financially to provide protection. There is no assurance that our insurance coverage will cover or be adequate to cover the underlying claims. We conduct a meaningful amount of business outside of the U. S. We could be adversely affected by economic, legal, political and regulatory developments in countries that we conduct business in. We have meaningful operations in Canada in which the functional currency is denominated in Canadian dollars. We also have operations in **Dubai the U. A. E.**, where the functional currency is dirham. As the value of currencies in foreign countries in which we have operations increases or decreases related to the U. S. dollar, the sales, expenses, profits, losses assets and liabilities of our foreign operations, as

reported in our consolidated financial statements, increase or decrease, accordingly. We are subject to environmental, health and safety laws and regulations that may lead to significant liabilities and negatively impact our business. We are subject to federal, state, local, foreign and provincial environmental, health and safety laws and regulations. Fines and penalties may be imposed for non-compliance with applicable environmental, health and safety requirements and the failure to have or to comply with the terms and conditions of required permits. The failure by us to comply with applicable environmental, health and safety requirements could result in significant liabilities including fines, penalties, enforcement actions, third party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup, or regulatory or judicial orders requiring corrective measures, which could negatively impact our business. We are subject to laws and regulations in every jurisdiction where we operate including the U. S. and certain foreign countries. Compliance with laws and regulations increases our cost of doing business. We are subject to a variety of U. S. and foreign laws and regulations, including without limitation import and export requirements, the Foreign Corrupt Practices Act (the "FCPA"), U. S. and foreign tax laws (including U. S. taxes on our foreign subsidiaries), data privacy requirements, labor laws and anti-competition regulations. We are also subject to audits and inquiries in the ordinary course of business. Changes to the legal and regulatory environments could increase the cost of doing business and could negatively affect our earnings, and such costs may increase in the future as a result of changes in these laws and regulations or in their interpretation. Our employees, contractors or agents may violate laws and regulations despite our attempts to implement policies and procedures to comply with such laws and regulations. Any such violations could individually or in the aggregate materially adversely affect our financial condition or results of operations.