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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 8, 2023

DISTRIBUTION SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in charter)

Delaware	0-10546	36-2229304
(State or other jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

8770 W. Bryn Mawr Ave., Suite 900, Chicago, Illinois	60631
(Address of Principal Executive Offices)	(Zip Code)

Registrants' Telephone Number, including Area Code: (773) 304-5050

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	DSGR	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Introductory Note

As previously disclosed, on March 31, 2023, Distribution Solutions Group, Inc., a Delaware corporation (the "**Company**"), entered into a Stock Purchase Agreement (the "**Purchase Agreement**") with HIS Company, Inc., a Texas corporation ("**Hisco**"), HIS Company, Inc. Employee Stock Ownership Trust, which is maintained pursuant to and in connection with the HIS Company, Inc. Employee Stock Ownership Plan, acting through GreatBanc Trust Company, not in its corporate capacity, but solely in its capacity as trustee of the Seller, and Ellis Moseley, solely in his capacity as the representative of the Seller, for the acquisition of all of the issued and outstanding capital stock of Hisco from the Seller.

The audited consolidated financial statements of Hisco and its subsidiaries contain certain private company accounting elections. These and the related pro forma financial information are being filed voluntarily in connection with the Company's previously announced offering of subscription rights. The Company intends to file the required Hisco audited and unaudited interim financial statements that comply with Rule 3-05 of Regulation S-X within the required timeframe following completion of the acquisition.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired*

The audited consolidated financial statements of Hisco and its subsidiaries as of and for the years ended October 31, 2022 and 2021, the notes related thereto and the independent auditor's report of Weaver and Tidwell, L.L.P., independent auditor to Hisco, related thereto are filed as Exhibit 99.1 hereto and are hereby incorporated herein by reference.

(b) *Pro Forma Financial Information*

The unaudited pro forma condensed combined financial information of the Company and Hisco as of and for the year ended December 31, 2022 and the notes related thereto are filed as Exhibit 99.2 hereto and are hereby incorporated herein by reference.

(d) Exhibits. The following documents have been filed as exhibits to this report and are incorporated by reference herein as described above.

Exhibit No.	Exhibit Description
23.1	Consent of Weaver and Tidwell, L.L.P.
99.1	Audited Consolidated Financial Statements of Hisco and its subsidiaries as of and for the fiscal years ended October 31, 2022 and 2021, the notes related thereto and the Independent Auditor's Report of Weaver and Tidwell, L.L.P. related thereto.
99.2	Unaudited Pro Forma Condensed Combined Financial Information of the Company and Hisco as of and for the year ended December 31, 2022 and the notes related thereto.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DISTRIBUTION SOLUTIONS GROUP, INC.

Date: May 8, 2023

By:	/s/ Ronald J. Knutson
Name:	Ronald J. Knutson
Title:	Executive Vice President and Chief Financial Officer

Exhibit 23.1

Consent of Independent Auditor

We consent to the incorporation by reference in Registration Statements on Form S-3 (Nos. 333-231671 and 333-270678) and on Form S-8 (Nos. 333-199243 and 333-231672) of Distribution Solutions Group, Inc. of our report dated March 1, 2023, relating to the consolidated financial statements of HIS Company, Inc. and Subsidiaries, incorporated by reference in this Current Report on Form 8-K dated May 8, 2023.

/s/ WEAVER AND TIDWELL, L.L.P.

Houston, Texas
May 8, 2023

Exhibit 99.1

His Company, Inc. and Subsidiaries
Consolidated Financial Report
October 31, 2022

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Independent Auditor's Report

To the Board of Directors of
His Company, Inc. and Subsidiaries
Houston, TX

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of His Company, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of October 31, 2022 and 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued (or when applicable, one year after the date that the consolidated financial statements are available to be issued).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

/s/ WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 1, 2023

His Company, Inc. and Subsidiaries
Consolidated Balance Sheets
October 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,634,872	$ 2,809,728
Accounts receivable, net	66,380,687	62,232,948
Inventories, net	53,606,959	58,631,658
Prepaid expenses and other current assets	4,288,501	2,930,492
Total current assets	128,911,019	126,604,826
PROPERTY AND EQUIPMENT, NET	19,484,220	16,154,374
INTANGIBLE ASSETS AND GOODWILL, NET	8,112,755	11,373,930
OTHER ASSETS	109,521	181,857
Total assets	$156,617,515	$154,314,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 18,067,830	$ 21,358,069
Accrued expenses	18,437,863	12,603,527
Revolving line of credit	12,000,000	28,347,567
Current maturities of notes payable	1,247,500	1,066,800
Total current liabilities	49,753,193	63,375,963
LONG TERM LIABILITIES		
Notes payable, net of current maturities	17,153,125	11,120,252
Total long term liabilities	17,153,125	11,120,252
Total liabilities	66,906,318	74,496,215
STOCKHOLDERS' EQUITY		
Common stock	38,720,922	36,156,247
Retained earnings	145,265,748	137,449,392
	183,986,670	173,605,639
Less treasury stock	94,275,473	93,786,867
Total stockholders' equity	89,711,197	79,818,772
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$156,617,515	$154,314,987

The Notes to Consolidated Financial Statements
are an integral part of these statements.

His Company, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended October 31, 2022 and 2021

	2022	2021
SALES, NET	$403,675,225	$352,926,406
COST OF SALES	299,526,874	268,021,173
Gross profit	104,148,351	84,905,233
GENERAL AND ADMINISTRATIVE EXPENSES	95,047,359	79,306,462
Income from operations	9,100,992	5,598,771
OTHER INCOME (EXPENSE)		
Interest expense	(1,196,129)	(511,335)
(Loss) gain on disposal of property and equipment	(158,832)	58,855
Loss on foreign exchange	(73,592)	(5,182)
Gain on forgiveness of debt, PPP loan	—	7,742,900
Other income (expense), net	730,661	(30,440)
Total other (expense) income, net	(697,892)	7,254,798
Income before tax	8,403,100	12,853,569
Foreign and state tax expense	(586,744)	(651,168)
CONSOLIDATED NET INCOME	$ 7,816,356	$ 12,202,401

The Notes to Consolidated Financial Statements
are an integral part of these statements.

His Company, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended October 31, 2022 and 2021

	Common Stock		Retained Earnings	Treasury Stock		
	Shares	Amount		Shares	Amount	Total
BALANCE, November 1, 2020	348,310	$34,127,362	$125,246,991	223,711	$(90,025,605)	$69,348,748
Repurchase of stock from ESOP participants	—	—	—	10,700	(7,001,805)	(7,001,805)
Contribution of stock to ESOP	—	2,028,885	—	(8,053)	3,240,543	5,269,428
Consolidated net income	—	—	12,202,401	—	—	12,202,401
BALANCE, October 31, 2021	348,310	36,156,247	137,449,392	226,358	(93,786,867)	79,818,772
Repurchase of stock from ESOP participants	—	—	—	5,021	(3,727,659)	(3,727,659)
Contribution of stock to ESOP	—	2,564,675	—	(7,817)	3,239,053	5,803,728
Consolidated net income	—	—	7,816,356	—	—	7,816,356
BALANCE, October 31, 2022	348,310	$38,720,922	$145,265,748	223,562	$(94,275,473)	$89,711,197

The Notes to Consolidated Financial Statements
are an integral part of these statements.

His Company, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended October 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 7,816,356	$ 12,202,401
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Bad debt provision	906,618	276,469
Inventory excess and obsolescence provision	6,265,884	5,386,274
Depreciation and amortization	6,809,030	6,587,237
Gain on forgiveness of debt, PPP loan	—	(7,742,900)
Loss (gain) on disposal of property and equipment	158,832	(58,555)
Contribution of stock to ESOP	5,803,728	5,269,428
Change in operating assets and liabilities		
Accounts receivable	(5,054,357)	(14,300,362)
Inventories	(1,241,185)	(21,099,712)
Prepaid expenses	(1,358,009)	3,201,051
Other assets	72,336	(50,463)
Accounts payable	(3,290,239)	4,100,901
Accrued expenses	5,834,336	2,043,176
Net cash provided by (used in) operating activities	22,723,330	(4,185,055)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Kimco and Shurmed	(600,000)	(5,260,288)
Purchases of property and equipment	(6,436,533)	(1,752,364)
Proceeds from sale of fixed assets	—	58,555
Net cash used in investing activities	(7,036,533)	(6,954,097)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock from ESOP participants	(3,727,659)	(7,001,805)
Proceeds from revolving line of credit	70,131,076	83,543,335
Repayments on revolving line of credit	(86,478,643)	(65,195,768)
Repayment of notes payable	(1,292,675)	(1,066,800)
Net cash (used in) provided by financing activities	(13,861,653)	10,278,962
Net change in cash and cash equivalents	1,825,144	(860,190)
CASH AND CASH EQUIVALENTS, beginning of year	2,809,728	3,669,918
CASH AND CASH EQUIVALENTS, end of year	$ 4,634,872	$ 2,809,728
CASH PAID DURING THE YEAR FOR		
Taxes	$ 297,143	$ 669,918
Interest	$ 1,196,129	$ 461,154

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Background and Nature of Operations

His Company, Inc. and Subsidiaries (the Company) is a value-added full line distributor of electrical, electronic, industrial and aerospace supplies. The Company also provides vendor managed inventory and logistics services. Fabrication solutions, adhesive repackaging and custom converting are also provided through its Precision Converting and Adhesive Materials divisions. His Company, Inc. was incorporated in the state of Texas in 1971 and operates under the name of Hisco. HiscoCan, Inc. (HiscoCan) was incorporated in the Province of Ontario, Canada in 2010 and distributes products to customers in Canada. Hisco International, Inc. (International) was incorporated in the state of Delaware in 1997 and is a holding company for the stock of HiscoMex, S.A. de C.V (HiscoMex). HiscoMex was incorporated in Mexico in 1998 as a service company for the distribution of products to the Maquiladora industries in Mexico. HiscoMex makes domestic sales to customers in Mexico in addition to the service operations. Hisco Acquisition Subsidiary I, Inc. was established in 2013 for the asset purchase of All-Spec Static Control, Inc., and the integration into Hisco was complete in April 2016. Hisco Acquisition Subsidiary I Inc. remains open as a shell company. Convertidora HiscoMex was incorporated in Mexico in 2019 to provide fabrication services and had no activity during 2021 and 2022.

Principles of Consolidation

The consolidated financial statements include the accounts of His Company, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant items subject to such estimates and assumptions include valuation allowances for inventory and share price valuation for the Company. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amount that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance based on its assessment of the current status of individual accounts, historical experience, and other pertinent factors. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the respective receivable account. As of October 31, 2020, the Company has an outstanding accounts receivable balance of $46,765,200, net of the valuation allowance. The Company recorded the following as of October 31, 2022 and 2021:

	2022	2021
Accounts receivable, gross	$67,051,763	$62,842,705
Allowance	671,076	609,757
Accounts receivable, net	$66,380,687	$62,232,948

For the years ended October 31, 2022 and 2021, the Company recorded bad debt expense of $906,618 and $276,469, respectively.

Principles of Revenue Recognition

Revenue consists primarily of sales of the Company's products to customers, net of returns and allowances. The Company recognizes revenue upon the satisfaction of its performance obligations under its contracts. In general, the timing of the recognition of revenue occurs at a point in time, for delivery of products.

Point-in-time

The Company's contracts have a single performance obligation to deliver products to the end consumer, with title passing to the customer based on the shipping terms of each agreement, which is usually FOB shipping point. The customer is normally responsible for freight and delivery costs. Pricing is explicitly stated within each order, with normal payment terms being net 30 to 90 days. Upon completion of a performance obligation and title transfer to the customer, revenue is recognized through the issuance of an invoice.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the first-in, first-out method. Management has charged the cost of all estimated inventory obsolescence or excess quantities on hand to current operations, totaling $6,265,884 and $5,386,274 for the years ended October 31, 2022 and 2021, respectively. Management has established a reserve for inventory obsolescence of $2,753,283 and $1,661,605 based on current inventory turns as of October 31, 2022 and 2021, respectively. As of October 31, 2022 and 2021, the Company has deposits on inventory purchases recorded as prepaid expenses and other current assets of $1,663,909 and $1,367,885. Inventory consists of the following as of October 31:

	2022	2021
Work-in-process	$ 437,524	$ 383,553
Raw materials	4,025,602	3,346,920
Finished goods	49,143,833	54,901,185
Total inventory	$53,606,959	$58,631,658

Shipping and Handling Costs

The Company capitalizes shipping and handling costs incurred in the procurement of inventory, and such costs are included in inventories on the accompanying consolidated balance sheets. When inventory is sold, the related shipping and handling costs are included in cost of sales on the accompanying consolidated statements of operations. Shipping and handling costs incurred to deliver inventory sold to customers are included in general and administrative expenses on the accompanying consolidated statements of operations, and totaled $1,563,098 and $1,886,699 for the years ended October 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the respective asset or the remaining lease term. Estimated useful lives are as follows:

Buildings and improvements	5 - 39 years
Furniture and fixtures	3 - 10 years
Demonstration equipment	2 - 5 years

Property and equipment consists of the following as of October 31:

	2022	2021
Land	$ 3,056,556	$ 3,056,556
Buildings and improvements	19,444,509	17,374,189
Furniture and fixtures	27,909,629	24,285,052
Demonstration equipment	898,671	712,891
	51,309,365	45,428,688
Less accumulated depreciation	31,825,145	29,274,314
Property and equipment, net	$19,484,220	$16,154,374

Depreciation expense totaled $2,947,855 and $2,809,412 for the years ended October 31, 2022 and 2021, respectively.

Expenditures that increase the value or productive capacity of assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Repairs and maintenance expense totaled $3,370,610 and $2,524,633 for the years ended October 31, 2022 and 2021, respectively. When property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

Long-Lived Assets

In accordance with FASB ASC 360, *Property, Plant, and Equipment*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including undiscounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There were no impairments recorded during the years ended October 31, 2022 and 2021.

Goodwill and Intangible Assets

In accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*, management elected the accounting alternative to simplify their accounting for goodwill created in a business combination which allows the Company to recognize customer related intangibles as goodwill (unless they are capable of being sold or licensed independently from other assets) or non-compete agreements.

Adoption of this alternative also requires management to amortize goodwill over a period of 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Goodwill is tested for impairment when a triggering event occurs that indicates that the fair value of Company may be below its carrying amount. When a triggering event occurs, the Company has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company must perform the quantitative test to compare the Company's fair value with its carrying amount, including goodwill. The Company determined no triggering event occurred and therefore, recorded no impairment for the years ended October 31, 2022 and 2021.

Accrued Expenses

Accrued expenses consists of the following as of October 31:

	2022	2021
Accrued salaries and commissions	$ 8,448,007	$ 4,677,508
Accrued benefit plan contributions	2,526,081	2,187,946
Accrued expenses	7,463,775	5,724,184
	$18,437,863	$12,589,638

Income Taxes

Effective November 1, 1998, Hisco, with the consent of its stockholder, elected to be a Subchapter S corporation under section 1362 of the Internal Revenue Code. In lieu of corporate income taxes, the beneficial stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the consolidated financial statements.

HiscoCan was incorporated in Canada and is subject to Canadian income taxes at current rates. HiscoMex was incorporated in Mexico and is subject to Mexican income taxes at current rates. The Company is also subject to various state taxes. Both of these items are included in general and administrative expenses on the accompanying consolidated statements of operations.

Management has reviewed the tax positions taken by the Company, and is of the opinion that material positions taken by the Company would more likely than not be sustained upon examination. Accordingly, the Company has not recognized a liability related to uncertain tax positions. Federal and state tax years open to examination include the periods 2016 through 2021.

The Company recognizes interest and penalties on income taxes in the consolidated statements of operations as general and administrative expenses. For the years ended October 31, 2022 and 2021, the Company had no interest penalties on income taxes.

Advertising Costs

Advertising costs are included in general and administrative expenses and are expensed as incurred. Advertising expenses totaled $1,468,235 and $1,023,458 for the years ended October 31, 2022 and 2021, respectively.

Foreign Currency

The functional currency for HiscoCan and HiscoMex has been determined to be the U.S. Dollar. Transaction gains and losses are recorded for the changes in the exchange rate between the functional currency and currency in which transactions are denominated, if different. Foreign currency gains and losses are de minimus for the years ended October 31, 2022 and 2021, respectively.

Concentrations

The Company places its cash and cash equivalents with highly rated financial institutions located in the United States and international locations. At times during the year, and at October 31, 2022 and 2021, the Company maintained cash balances in excess of insured limits. The Company has not experienced any previous losses on cash and does not believe it has significant risk exposure on its cash balances.

Major suppliers are defined as those comprising more than 10% of the Company's annual purchases. For the years ended October 31, 2022 and 2021, the Company had two major suppliers representing 24% and 25% of the Company's annual purchases, respectively. As of October 31, 2022 and 2021, these two suppliers represented 6% and 17% of the Company's accounts payable.

The Company extends credit to its customers throughout North America. A substantial portion of its customers' ability to honor their debts to the Company is dependent upon the industrial and electronics economic sectors. For the years ended October 31, 2022 and 2021 there were no customers that exceeded 10% of sales.

The Company and its subsidiaries conduct operations in Mexico and Canada. Net assets located in foreign countries amounted to $19,627,678 and $17,357,492 at October 31, 2022 and 2021, respectively. An adverse change in either economic conditions abroad or the Company's relationship with significant foreign customers could negatively affect the volume of the Company's international sales and the Company's results of operations.

Business Combinations

The Company accounts for the acquisition of businesses under the requirements of FASB ASC Topic 805, *Business Combinations*, which requires an acquiring entity to recognize the assets acquired and liabilities assumed at fair value under the acquisition method of accounting, provided they qualify for acquisition accounting under the standard.

The Company records the identifiable assets acquired at fair value at the date of acquisition. Fair value may be estimated using comparable market data, a discounted cash flow method, or a combination of the two. In the comparable market data method, invoices from third parties for the purchase of similar assets at or near the fair value recognition date are utilized in assessing the fair value of assets acquired. Significant Level 3 assumptions associated with the calculation of comparable market data include product specification and quality variances, timing differences requiring management's judgment and other relevant data. Level 3 assumptions are discussed in Note 7, *Fair Value Measurements*.

Reclassifications

Certain items in the 2021 consolidated financial statements have been reclassified to conform to the 2022 consolidated financial statements. These items had no impact on net income for the year ended October 31, 2021.

Review of Subsequent Events

The Company has evaluated subsequent events through March 1, 2023, which is the date the consolidated financial statements were available to be issued, and noted the following:

- On December 28, 2022, the Company purchased Alliance Printing, L.P. for a total consideration of $8,600,000.

Note 2. Long-Term Debt

Revolving Loan

On September 27, 2018, the Company replaced their existing line of credit with a revolving line of credit in the amount $50,000,000, subject to a borrowing base calculation, secured by substantially all of the Company's assets. The note principal and accrued interest matures on June 1, 2026, and the Company had an outstanding balance of $12,000,000 and $28,347,567 at October 31, 2022 and 2021, respectively. Despite the new maturity date, the terms and conditions of the agreement require classification as a current liability on the consolidated balance sheet. The revolving loan calls for monthly interest payments of LIBOR plus an applicable margin as set forth in the credit agreement. The loan is subject to restrictions that, among other things, restrict dividend payments, capital expenditures and indebtedness as well as the maintenance of a minimum fixed charge coverage ratio.

Effective, June 1, 2022, the Company amended their revolving line of credit agreement to increase their available borrowing amount to $65,000,000. The revolving loan calls for monthly interest payments of SOFR plus an applicable margin as set forth in the credit agreement. The loan is subject to restrictions that, among other things, restrict dividend payments, capital expenditures and indebtedness as well as the maintenance of a minimum fixed charge coverage ratio.

Term Loan

On September 27, 2018, the Company's term loan was replaced with a $23,325,548 term loan secured by substantially all of the Company's assets. The note principal and accrued interest matures on September 27, 2023, and the Company had an outstanding balance of $18,400,625 and $12,187,052 at October 31, 2022 and 2021, respectively. Interest accrues monthly, based on LIBOR plus an applicable margin as set forth in the credit agreement. The term loan requires equal quarterly installments in the amount of $266,700 commencing on February 1, 2019 and continuing on the first day of each quarter thereafter followed by a final payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses on the last day of the term. The Company is subject to certain non-financial and financial covenants under the term loan.

Effective, June 1, 2022, the Company amended their term loan agreement. The note principal and accrued interest matures on June 1, 2027. Interest accrues monthly, based on SOFR plus an applicable margin as set forth in the credit agreement. The term loan requires equal quarterly installments in the amount of $311,875 commencing August 1, 2022 and continuing on the first day of each quarter thereafter followed by a final payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses on the last day of the term. The Company is subject to certain non-financial and financial covenants under the term loan.

Paycheck Protection Program Loan

In 2020, the Company applied for a Paycheck Protection Program loan (the Loan) designed to provide a direct incentive for small businesses to keep their workers on the payroll. On April 15, 2020, the Company received the initial deposit of $7,742,900. Borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8 or 24 week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. During 2020, the Company submitted its application for the forgiveness of the full amount of the PPP loan. On June 15, 2021, the Company was granted full forgiveness on the outstanding balance, resulting in other income of $7,742,900.

Long-term debt excluding the line of credit consists of the following at October 31, 2022:

Term loan from a bank	$18,400,625
Less current maturities	1,247,500
Long-term debt, net of current maturities	$17,153,125

Future maturities of debt excluding the line of credit are as follows at October 31, 2022:

Year Ending October 31,	
2023	$ 1,247,500
2024	1,247,500
2025	1,247,500
2026	1,247,500
2027	13,410,625
	$18,400,625

Note 3. Employee Benefit Plans

The Company has a 401(k) plan and an employee stock ownership plan, both of which are qualified, defined contribution plans.

Employees are eligible to participate in the 401(k) plan on the date of their employment. Under the plan, employees can elect to defer a portion of their compensation as an elective contribution. Employees' deferral accounts are 100% vested. The Company makes discretionary contributions to the plan at year end. Discretionary contributions can be made subject to a maximum compensation limitation of $120,000. Employees' accounts vest 10% per year until 20% vested, then 20% per year thereafter until 100% vested after 6 years of service. Participants will become fully vested in the Plan upon normal retirement age, death, total disability or termination of the plan. For the years ended October 31, 2022 and 2021, contributions in the amount of $1,390,395 and $1,266,768, respectively, were accrued to the plan and recorded as contribution expense.

The Employee Stock Ownership Plan (ESOP) is comprised of a Stock Bonus Plan and a Money Purchase Pension Plan. Employees who have completed 1,000 hours of service in a plan year are eligible to participate in the plan. Contributions to the stock bonus plan portion are discretionary up to 20%. Effective November 1, 2007, contributions to the Money Purchase Pension Plan were suspended. Prior to this date, mandatory contributions of 10% of eligible employees' wages were required. Contributions are allocated based upon the ratio that the covered compensation of each participant bears to the aggregate covered compensation of all participants. Employees' accounts are 20% vested after two years with vesting increasing 20% per year thereafter until 100% vested after 6 years of service. Participants will become fully vested in the Plan upon normal retirement age, death, total disability or termination of the plan.

Upon termination of service, a participant will receive their vested account balance as follows: a) if a participant's vested balance is less than $250,000, the participant will receive one lump sum payment b) if a participant's vested balances is at least $250,000 but does not exceed $500,000, a distribution of $250,000 will be made in the first year in which distributions are to begin, and the remaining balance will be distributed in the second year c) if a participant's vested balance exceeds $500,000 but does not exceed $750,000, a distribution of $250,000 will be made for the first year in which distributions are to begin and for the second year, and the remaining balance will be distributed in the third year and d) if a participant's vested balance exceeds $750,000, distributions will be made in annual installments over three years. When distributions are made in installments, the first installment distribution is calculated by dividing the participant's vested account balance by the number of installment distributions to be made. The remaining account balance is revalued as of each subsequent valuation date. Subsequent installment distributions are calculated by dividing the value of the remaining vested balance by the number of installments remaining.

Effective November 1, 2021, the Plan was amended such that upon termination of service, a participant will receive their vested account balance as follows: a) if the vested balance does not exceed $1,000, the balance will be distributed in a single sum, b) above $1,000 distributions shall be made in either a lump sum, or annual installments over a period not to extend beyond ten years, c) Notwithstanding the foregoing, for a distribution on account of a participant's termination of employment on his or her retirement date, death, or total and permanent disability, unless a longer distribution period is elected by the participant (limited to annual installments over ten years), the participants vested account balance shall be distributed as follows: i) if a participant's vested balance is less than $25,000, the participant will receive one lump sum payment, ii) if a participant's vested balances is at least $25,000 but does not exceed $50,000, a distribution of $25,000 will be made in the first year in which distributions are to begin, and the remaining balance will be distributed in the second year, iii) if a participant's vested balance exceeds $50,000 but does not exceed $75,000, a distribution of $25,000 will be made for the first and second year of distributions, and the remaining balance will be distributed in the third year and, iv) if a participant's vested balance exceeds $75,000, distributions will be made in annual installments over three years (subject to a $25,000 minimum installment requirement), and d) Notwithstanding the foregoing, for a distribution for reasons other than on account of a participant's termination of employment on his or her retirement date, death, or total and permanent disability, unless a longer distribution period is elected by the participant (limited to annual installments over ten years), the participants vested account balance shall be distributed as follows: i) if a participant's vested balance is less than $25,000, the participant will receive one lump sum payment, ii) if a participant's vested balances is at least $25,000 but does not exceed $50,000, a distribution of $25,000 will be made in the first year in which distributions are to begin, and the remaining balance will be distributed in the second year, iii) if a participant's vested balance exceeds $50,000 but does not exceed $75,000, a distribution of $25,000 will be made for the first and second year of distributions, and the remaining balance will be distributed in the third year and, iv) if a participant's vested balance exceeds $75,000 but does not exceed $100,000, a distribution of $25,000 will be made for the first, second, and third year of distributions, and the remaining balance will be distributed in the fourth year, v) if a participant's vested balance exceeds $100,000, distributions will be made in annual installments over five years (subject to a $25,000 minimum installment requirement). When distributions are elected to be received in installments by the participant, the first installment distribution is calculated by dividing the participant's vested account balance by the number of installment distributions to be made. The remaining account balance is revalued as of each subsequent valuation date. Subsequent installment distributions are calculated by dividing the value of the remaining vested balance by the number of installments remaining.

For financial statement presentation purposes, compensation expense to the ESOP includes the fair market value of shares released for allocation on ESOP notes from the Company and the fair value of shares contributed to the ESOP. For the years ended October 31, 2022 and 2021, contributions of $5,803,448 and $5,269,428 respectively, were recorded as compensation expense. The Company did not pay any dividends on its stock during the years ended October 31, 2022 and 2021.

When the Company repurchases treasury stock from ESOP participants, the treasury stock is recorded at cost based on the Company's latest fair value appraisal. When the Company reissues treasury stock as contributions to the ESOP, the difference between the current fair value using the Company's latest appraisal and the average cost basis, which represents additional paid in capital, is recorded to common stock.

Outstanding ESOP shares as of October 31, 2022 and 2021 totaled 124,748 and 121,952, respectively. The fair value of shares subject to repurchase obligation at October 31, 2022 and 2021 was $92,614,622 and $79,801,730, respectively. Fair value of shares subject to repurchase obligation are based upon independent valuations of the Company's common stock.

Note 4. Income Taxes and Accounting for Uncertain Tax Positions

Net income includes income subject to foreign taxes of $1,923,243 and $1,378,049 in 2022 and 2021, respectively, attributable to foreign subsidiaries. The foreign subsidiaries are not included in the United States federal income tax return.

Income tax expense for the years ended October 31 includes the following:

	2022	2021
State tax expense	$ —	$ 6,855
Foreign income tax	586,744	644,313
	$586,744	$651,168

Note 5. Intangible Assets

Intangible assets and goodwill consist of the following:

	Useful lives	2022	2021
Customer relationships	10 years	$ 1,985,549	$ 1,985,549
Other intangibles	7 years	41,990	41,990
		2,027,539	2,027,539
Accumulated amortization - intangible assets		(2,027,539)	(1,911,692)
Intangible assets		$ —	$ 115,847

	Useful lives	2022	2021
Goodwill	10 years	$ 36,994,018	$ 36,394,018
Accumulated amortization - goodwill		(28,881,263)	(25,135,935)
Goodwill		$ 8,112,755	$ 11,258,083
Total intangible assets and goodwill, net		$ 8,112,755	$ 11,373,930

During the years ended October 31, 2022 and 2021, amortization expense for all intangible assets and goodwill totaled $3,861,175 and $3,777,340, respectively. The weighted average amortization period remaining on goodwill as of October 31, 2022 and 2021 was approximately 4 and 3 years, respectively. There were no impairments during the year ended October 31, 2022 or 2021. Amortization expense for the next five years is as follows:

Year Ending October 31,	
2021	$3,701,885
2022	1,525,983
2023	862,614
2024	487,067
2025	407,433
Thereafter	1,127,773
	$8,112,755

Note 6. Commitments and Contingencies

The Company operates in leased premises at various locations with lease terms from one to six years as well as month-to-month terms. Certain leases contain escalating rent payments and as such the Company recognizes rent expense on a straight line basis over the term of each lease agreement. Rent expense charged to operations amounted to $3,967,159 and $3,630,131 for the years ended October 31, 2022 and 2021, respectively.

The following is a schedule by years of rental payments due under operating leases as of October 31, 2022:

Year Ending October 31,	
2023	$ 3,017,909
2024	3,251,000
2025	2,912,732
2026	2,645,041
2027	2,656,081
Thereafter	6,704,696
	$21,187,459

Note 7. Fair Value Measurements

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC Topic 820, *Fair Value Measurement* (ASC Topic 820).

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

<u>Level 1 inputs:</u> Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

<u>Level 2 inputs:</u> Inputs, other than quoted prices in active markets, which are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

<u>Level 3 inputs:</u> Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the asset or liability existed.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Topic 820 defines "fair value" as 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. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including the type of instrument, whether the instrument is new and not yet established in the marketplace, the maturity of market modeling and the nature of the transaction.

The Company utilized nonrecurring fair value measurements in assigning value to assets described in Note 3 – Employee Benefit Plans. The value of the Company's common stock held by the ESOP Trust is valued at estimated fair value based upon an independent appraisal. The appraisal was based upon a combination of the market and income valuation techniques consistent with prior years and considered Level 3 fair values. The appraiser took into account historical and projected cash flow and net income, market comparable and estimated fair value of Company assets and liabilities. There have been no changes in the methodologies used at October 31, 2022 and 2021.

Exhibit 99.2

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Overview

Distribution Solutions Group, Inc. ("DSG" or the "Company"), formerly Lawson Products, Inc., was incorporated in Illinois in 1952, and reincorporated in Delaware in 1982. DSG changed its corporate name from "Lawson Products, Inc." to "Distribution Solutions Group, Inc." on May 5, 2022.

DSG is a global specialty distribution company providing value added distribution solutions to the maintenance, repair and operations ("MRO"), the original equipment manufacturer ("OEM") and the industrial technologies markets. DSG has three principal operating companies: Lawson Products, Inc. ("Lawson"), TestEquity Acquisition, LLC ("TestEquity") and 301 HW Opus Holdings, Inc., conducting business as Gexpro Services ("Gexpro Services"). The complementary distribution operations of Lawson, TestEquity and Gexpro Services were combined on April 1, 2022 to create a specialty distribution company.

Through its collective businesses, DSG is dedicated to helping customers lower their total cost of operation by increasing productivity and efficiency with the right products, expert technical support, and fast, reliable delivery to be a one-stop solution provider. DSG serves approximately 110,000 distinct customers in several diverse end markets supported by approximately 3,100 dedicated employees and strong vendor partnerships. DSG ships from strategically located distribution and service centers to customers in North America, Europe, Asia, South America and the Middle East.

Combination with Lawson Products, Inc.

Business Combination Background

On December 29, 2021, DSG entered into an:

Agreement and Plan of Merger (the "TestEquity Merger Agreement") by and among (i) LKCM TE Investors, LLC, a Delaware limited liability company (the "TestEquity Equityholder"), (ii) TestEquity Acquisition, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the TestEquity Equityholder, (iii) DSG and (iv) Tide Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of DSG ("Merger Sub 1"), pursuant to the terms and subject to the conditions of which the parties agreed, among other things, that Merger Sub 1 would merge with and into TestEquity, with TestEquity surviving the merger as a wholly-owned subsidiary of DSG (the "TestEquity Merger"); and

Agreement and Plan of Merger (the "Gexpro Services Merger Agreement" and, together with the TestEquity Merger Agreement, the "Merger Agreements") by and among (i) 301 HW Opus Investors, LLC, a Delaware limited liability company (the "Gexpro Services Stockholder"), (ii) 301 HW Opus Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of the Gexpro Services Stockholder, (iii) DSG and (iv) Gulf Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of DSG ("Merger Sub 2"), pursuant to the terms and subject to the conditions of which the parties agreed, among other things, that Merger Sub 2 would merge with and into Gexpro Services, with Gexpro Services surviving the merger as a wholly-owned subsidiary of DSG (the "Gexpro Services Merger" and, together with the TestEquity Merger, the "Lawson Mergers").

Completion of the TestEquity Merger and Gexpro Services Merger

On April 1, 2022, the TestEquity Merger was consummated pursuant to the TestEquity Merger Agreement.

In accordance with and under the terms of the TestEquity Merger Agreement, at the closing of the TestEquity Merger, DSG: (i) issued to the TestEquity Equityholder 3,300,000 shares of DSG common stock, (ii) on behalf of TestEquity, paid certain indebtedness of TestEquity and (iii) on behalf of TestEquity, paid certain transaction expenses of TestEquity.

On March 20, 2023, all of the 700,000 shares of DSG common stock available to be issued under the earnout provisions within the TestEquity Merger Agreement were issued in accordance with the earnout provisions within the TestEquity Merger Agreement.

On April 1, 2022, the Gexpro Services Merger was consummated pursuant to the Gexpro Services Merger Agreement.

In accordance with and under the terms of the Gexpro Services Merger Agreement, at the closing of the Gexpro Services Merger, DSG: (i) issued to the Gexpro Services Stockholder 7,000,000 shares of DSG common stock, (ii) on behalf of Gexpro Services, paid certain indebtedness of Gexpro Services and (iii) on behalf of Gexpro Services, paid certain specified transaction expenses of Gexpro Services.

On March 20, 2023, all of the 1,000,000 shares of DSG common stock available to be issued under the earnout provisions within the Gexpro Services Merger Agreement were issued in accordance with the earnout provisions within the Gexpro Services Merger Agreement.

HIS Company, Inc. – Purchase Agreement and Financing

On March 30, 2023, DSG entered into a Stock Purchase Agreement (the "Purchase Agreement") with HIS Company, Inc., a Texas corporation ("Hisco"), HIS Company, Inc. Employee Stock Ownership Trust (the "Seller"), which is maintained pursuant to and in connection with the HIS Company, Inc. Employee Stock Ownership Plan, acting through GreatBanc Trust Company, not in its corporate capacity, but solely in its capacity as trustee (the "Trustee") of the Seller, and Ellis Moseley, solely in his capacity as the representative of the Seller (the "Seller Representative"), for the acquisition of all of the issued and outstanding capital stock of Hisco from the Seller (the "Hisco Transaction").

Hisco is a distributor of specialty products serving industrial technology applications. Hisco operates in 38 locations across North America, including its Precision Converting facilities that provide value-added fabrication and its Adhesive Materials Group that provides an array of custom repackaging solutions. DSG intends to combine the operations of TestEquity and Hisco to further expand the product and service offerings at TestEquity and all of DSG's operating businesses.

DSG has agreed to pay $269.1 million at closing, with a potential additional earn-out payment of up to $12.6 million, subject to Hisco achieving certain performance targets. DSG also agreed to pay $37.5 million in cash or DSG common stock in retention bonuses to certain Hisco employees that remain employed with Hisco or its affiliates for twelve or more months after the closing of the Hisco Transaction. The completion of the Hisco Transaction is subject to regulatory and customary closing conditions.

DSG intends to finance a portion of the purchase price through a combination of (i) the incurrence of additional indebtedness pursuant to DSG's Amended and Restated Credit Agreement dated April 1, 2022 by and among DSG, certain subsidiaries of DSG as borrowers or guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (the "Amended and Restated Credit Agreement"); and (ii) the issuance of additional shares of DSG common stock, par value $1.00 per share ("Common Stock") pursuant to a rights offering (the "Rights Offering") to existing holders of Common Stock as of the record date.

The Rights Offering is expected to raise an aggregate amount of approximately $100 million and will be conducted pursuant to DSG's effective registration statement on Form S-3. The subscription rights will be transferable but will not be listed for trading on any stock exchange or market. Luther King Capital Management and its affiliates currently own approximately 77% of DSG's outstanding stock and have indicated an intention to fully subscribe for their pro rata portion in the Rights Offering, as well as for their pro rata portion of any rights remaining unsubscribed at the completion of the subscription period.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
(in thousands)
As of December 31, 2022

	Historical				
	Distribution Solutions Group, Inc.	HIS Company, Inc.	Transaction Accounting Adjustments (Note 4)		Pro forma Combined
	As of December 31, 2022	As of October 31, 2022			As of December 31, 2022
Assets					
Current Assets:					
Cash and cash equivalents	$ 24,554	$ 4,635	$ 3,300	(a)	$ 32,489
Restricted cash	186	—	—		186
Accounts receivable, less allowances	166,301	66,381	—		232,682
Inventories, net	264,374	53,607	—		317,981
Prepaid expenses and other current assets	22,773	4,288	—		27,061
Total current assets	$ 478,188	$ 128,911	$ 3,300		$ 610,399
Property, plant and equipment, net	$ 64,395	$ 19,484	$ 16,023	(b)	$ 99,902
Rental equipment, net	27,139	—	—		27,139
Deferred tax asset	189	—	—		189
Goodwill	348,048	—	97,201	(c)	445,249
Intangible assets and goodwill, net	—	8,113	(8,113)	(c)	—
Cash value of life insurance	17,166	—	—		17,166
Intangible assets, net	227,994	—	75,302	(c)	303,296
Right of use operating lease assets	46,755	—	18,174	(d)	64,929
Other assets	5,736	110	—		5,846
Total assets	$ 1,215,610	$ 156,618	$ 201,886		$ 1,574,114
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable	$ 80,486	$ 18,068	$ —		$ 98,554
Current portion of long-term debt	16,352	1,248	7,502	(e)	25,102
Revolving loan facility	—	12,000	(12,000)	(e)	—
Current portion of lease obligation	9,964	—	2,899	(d)	12,863
Accrued expenses and other current liabilities	62,677	18,437	6,000	(f)	87,114
Total current liabilities	$ 169,479	$ 49,753	$ 4,401		$ 223,633
Long-term debt, less current portion, net	$ 395,825	$ 17,153	$ 146,497	(e)	$ 559,475
Security bonus plan	9,651	—	—		9,651
Lease obligation	39,828	—	15,275	(d)	55,103
Deferred compensation	9,962	—	—		9,962
Deferred tax liability	23,834	—	18,825	(i)	42,659
Other liabilities	4,036	—	50,100	(g), (h)	54,136
Total liabilities	$ 652,615	$ 66,906	$ 235,098		$ 954,619
Stockholders' Equity					
Common stock	$ 19,417	$ 38,721	$ (36,537)	(j)	$ 21,601
Capital in excess of par value	591,796	—	97,816	(j)	689,612
Retained earnings (deficit)	(25,736)	145,266	(188,766)	(j)	(69,236)
Treasury stock	(12,526)	(94,275)	94,275		(12,526)
Accumulated other comprehensive income (loss)	(9,956)	—	—	(j)	(9,956)
Total stockholders' equity	$ 562,995	$ 89,712	$ (33,212)		$ 619,495
Total liabilities and stockholders' equity	$ 1,215,610	$ 156,618	$ 201,887		$ 1,574,115

See accompanying notes to the unaudited pro forma condensed combined financial statements

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(in thousands, except share and per share amounts)
For the Year Ended December 31, 2022

	Historical							
	Distribution Solutions Group, Inc.	**Lawson Products, Inc.**	**HIS Company, Inc.**	**Transaction Accounting Adjustments (Note 5)**		**Transaction Accounting Adjustments (Note 6)**		**Pro Forma Combined**
	Year ended December 31, 2022	**Three months ended March 31, 2022**	**Year ended October 31, 2022**					**Year ended December 31, 2022**
Revenue	$ 1,151,422	$ 117,877	$ 403,675	$ —		$ —		$ 1,672,974
Cost of goods sold	760,524	57,379	299,527	—		6,864	(a)	1,124,294
Gross profit	$ 390,898	$ 60,498	$ 104,148	$ —		$ (6,864)		$ 548,680
Operating expenses:								
Selling, general and administrative expenses	349,112	48,422	95,047	4,086	(a), (b), (c), (d)	37,821	(a), (b), (c), (d), (e)	534,488
Operating income (loss)	$ 41,786	$ 12,076	$ 9,101	$ (4,086)		$ (44,685)		$ 14,192
Interest expense	(24,301)	(95)	(1,196)	—	(e)	(12,304)	(f)	(37,896)
Loss on extinguishment of debt	(3,395)	—	—	—		—		(3,395)
Change in fair value of earnout liabilities	(483)	—	—	—		—		(483)
Other income (expense), net	(670)	204	498	—		—		32
Income (loss) before income taxes	$ 12,937	$ 12,185	$ 8,403	$ (4,086)		$ (56,989)		$ (27,550)
Income tax expense (benefit)	5,531	3,199	587	(1,022)	(f)	(14,247)	(g)	(5,952)
Net income (loss)	$ 7,406	$ 8,986	$ 7,816	$ (3,064)		$ (42,742)		$ (21,598)
Basic income per share of common stock	0.43							(0.97)
Diluted income per share of common stock	0.42							(0.95)
Weighted average shares outstanding:								
Basic weighted average shares outstanding	17,145,935			3,006,648	(g)	2,200,000	(h)	22,352,583
Effect of dilutive securities outstanding	397,361			—		—		397,361
Diluted weighted average shares outstanding	17,543,296			3,006,648	(g)	2,200,000	(h)	22,749,944

See accompanying notes to the unaudited pro forma condensed combined financial statements

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1. Basis of Pro Forma Presentation

This unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial information. In addition, the unaudited pro forma condensed combined financial information was based on, and should be read in conjunction with, the following historical consolidated financial statements and accompanying notes:

- DSG's audited consolidated financial statements and the related notes thereto as of and for the years ended December 31, 2022 and December 31, 2021 included in its Annual Report on Form 10-K filed for the year ended December 31, 2022;
- Lawson's unaudited condensed consolidated financial statements and the related notes thereto as of and for the three months ended March 31, 2022 included in its Quarterly Report on Form 10-Q filed for the three months ended March 31, 2022; and
- HIS Company, Inc. and Subsidiaries audited consolidated financial statements and the related notes thereto as of and for the years ended October 31, 2022 and 2021 included as an exhibit in this Form 8-K/A.

The unaudited pro forma condensed combined financial information was prepared pursuant to Securities and Exchange Commission's (the "SEC") Regulation S-X Article 11. The adjustments in the unaudited pro forma condensed combined financial information have been identified and presented to provide relevant information necessary for an illustrative understanding of DSG and Hisco (together the "Combined Company") upon consummation of the Hisco transactions. Assumptions and estimates underlying the unaudited pro forma adjustments set forth in the unaudited pro forma condensed combined financial information are described in the accompanying notes. As set forth in Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses," Regulation S-X Article 11 was amended to replace the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transactions ("Transaction Accounting Adjustments") and present the reasonably estimable synergies, dis-synergies and other transaction effects that have occurred or reasonably expected to occur ("Management's Adjustments"). The Company is presenting Transaction Accounting Adjustments within the unaudited pro forma condensed combined financial statements and accompanying notes. The Company is not including Management's Adjustments within the statements and notes.

Because the difference between the Company's and Hisco's fiscal year end dates is less than 93 days, the unaudited pro forma condensed combined balance sheet as of as of December 31, 2022 combines the historical audited condensed consolidated balance sheet of the Company as of December 31, 2022, and the audited consolidated balance sheet of Hisco as of October 31, 2022, giving effect to (i) the Hisco Transaction as if it had been completed on December 31, 2022 and (ii) the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2022 gives effect to (i) the Hisco Transaction as if it had been completed on January 1, 2022, the beginning of the Company's most recently completed fiscal year and (ii) the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information. Because the difference between the Company's and Hisco's fiscal year end dates is less than 93 days, the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2022 was prepared using the Company's audited consolidated statement of operations for the year ended December 31, 2022, Lawson's unaudited condensed combines statement of operations for the three months ended March 31, 2022, and Hisco's audited consolidated statement of operations for the year ended October 31, 2022, as permitted under Rule 11-02 of Regulation S-X.

For the Lawson Mergers, the unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting in accordance with the business combination accounting guidance for reverse acquisitions as provided in ASC 805, Business Combinations, with TestEquity and Gexpro Services treated as a combined entity as the accounting acquirer for financial reporting purposes and the Company as the accounting acquiree. This determination was made as TestEquity and Gexpro Services were, at the time of the Lawson Mergers, under the common control of an entity that would beneficially own a majority of the voting rights of the surviving entity after the Lawson Mergers and therefore, only the Company would have experienced a change in control. Accordingly, under the acquisition method of accounting, the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of the Company, based on their estimated acquisition-date fair values. These were determined through established and generally accepted valuation techniques.

The unaudited pro forma condensed combined financial information may differ from the final purchase accounting of the Hisco acquisition for a number of reasons, including the fact that the estimates of fair values of assets and liabilities acquired are preliminary and subject to change when the formal valuation and other studies are finalized. The differences that may occur between the preliminary estimates and the final purchase accounting could have a material impact on the accompanying unaudited pro forma condensed combined financial information.

Note 2. Calculation of Accounting Consideration and Purchase Price Allocation - Lawson Products, Inc. Merger

The fair value of the accounting consideration transferred upon completion of the Mergers included the fair value of the Company's common stock ("DSGR") valued at the merger date and provided to Gexpro Services and TestEquity stockholders pursuant to the Merger Agreements and in connection with the consummation of the Mergers. The consideration is as follows:

(in thousands, except share data)	Total
Number of DSGR common shares	9,120,167
Price per share of DSGR common stock at March 31, 2022	$ 38.54
Fair value exchanged	**$ 351,491**
Fair value adjustment of stock-based compensation award	1,910
Fair value of total purchase consideration transferred	**$ 353,401**

The table below represents the allocation of the total consideration to the Company's assets and liabilities in the Mergers based on the Company's fair value (in thousands):

(in thousands)	Total
Current assets	$148,308
Property, plant, and equipment	57,414
Right of use operating lease assets	18,258
Other intangible assets	119,060
Other assets	18,373
Total Assets	$361,413
Current Liabilities	71,165
Long-term obligations	25,746
Lease and financing obligations	28,827
Deferred tax liability, net of deferred tax asset	19,394
Derivative earnout liability	43,900
Total Liabilities	$189,032
Net assets acquired	172,381
Purchase consideration transferred	353,401
Goodwill	$181,020

Intangible Assets

Identifiable intangible assets in the unaudited pro forma condensed combined financial information consist of the following:

(dollars in thousands)		Useful Life (in years)
Customer relationships	$ 76,050	19
Tradenames	43,010	8
Total Assets	$119,060	

Note 3. Calculation of Purchase Price Allocation - HIS Company, Inc.

The consideration is as follows:

(in thousands)	Total
Cash paid at closing	$269,100
Estimated deferred contingent consideration - earnout	12,600
Total consideration	$281,700

The table below represents the allocation of the $281,700 of cash consideration, including the additional earn-out payment as contingent consideration, to Hisco's assets and liabilities (in thousands):

(in thousands)	Total
Current assets	$128,911
Property, plant, and equipment, net	35,507
Other intangible assets	75,302
Right of use operating lease assets	18,174
Other assets	110
Total Assets	$258,004
Current Liabilities	39,404
Long-term lease obligations	15,275
Deferred tax liability, net of deferred tax asset	18,825
Total Liabilities	$ 73,504
Net assets acquired	184,499
Purchase consideration transferred	281,700
Goodwill	$ 97,201

The preliminary unaudited pro forma purchase price allocation has been made solely for the purpose of preparing these unaudited pro forma condensed combined financial statements. The Company estimated the fair value of the assets and liabilities based on discussions with Hisco's management. The analysis was performed at an aggregate level and was based on estimates that are reflective of market participant assumptions.

Upon completion of the purchase, additional valuation work will be performed. Increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments to the balance sheet and/or statement of operations until the purchase price allocation is finalized. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after completion of the purchase. The Company anticipates that the valuations of Hisco's assets and liabilities will include, but not be limited to, inventory; property, plant and equipment; customer relationships; trade names and trademarks; and other potential intangible assets. The valuations will consist of physical appraisals, discounted cash flow analyses, or other appropriate valuation techniques to determine the fair value of Hisco's assets and liabilities.

The amounts allocated to Hisco's assets and liabilities could differ materially from the preliminary amounts presented in these unaudited pro forma condensed combined financial statements. A decrease in the fair value of Hisco's assets or an increase in the fair value of Hisco's liabilities from the preliminary valuations presented would result in a dollar-for-dollar corresponding increase in the amount of goodwill that will result from the purchase. In addition, if the value of the property, plant and equipment and identifiable intangible assets is higher than the amounts included in these unaudited pro forma condensed combined financial statements, it may result in higher depreciation and amortization expense than is presented in the unaudited pro forma condensed combined statement of operations. Any such increases could be material, and could result in the Company's actual future financial condition and results of operations differing materially from those presented in the unaudited pro forma condensed combined financial statements.

Intangible Assets

Identifiable intangible assets in the unaudited pro forma condensed combined financial information consist of the following:

(dollars in thousands)		Useful Life (in years)
Customer relationships	$48,099	19
Tradenames	27,202	8
Total Intangible Assets	$75,302	

Note 4. Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

(a) Represents adjustments to the Combined Company cash balance, including (i) net proceeds from the additional borrowings under the Amended and Restated Credit Agreement, and (ii) repayment of debt under DSG's senior secured revolving credit facility under the Amended and Restated Credit Agreement, (iii) repayment of the Hisco's debt instruments repaid in connection with the closing of the Hisco Transaction, (iv) net proceeds form the equity offering in connection with the closing of the Hisco Transaction, and (v) the cash payment in relation to the purchase agreement.

	(in thousands)
To record the issuance of new debt facility	$ 175,000
To record the payment of new debt issuance fees	(2,600)
To record the equity offering issuance	100,000
Cash consideration for Hisco purchase	(269,100)
Total	$ 3,300

(b) To reflect the adjustment to record the Company's property, plant and equipment at its estimated fair value.

(c) Reflects the reversal of the historical Goodwill and Intangibles on Hisco and the addition of intangible assets utilizing the acquisition method of accounting based on the estimated fair value, largely based on benchmarking analysis of other similar transactions. Goodwill represents the difference between the fair value of the estimated merger consideration and the fair value of the assets acquired and liabilities assumed in the purchase.

(d) To reflect the adjustment for the adoption of ASC 842 - Leases not included in the audited statements of Hisco.

(e) To record issuance of new long-term debt and related debt issuance costs of the Company and eliminate of Hisco's historical debt not assumed in the purchase.

	(in thousands)
Establish current portion of long-term debt	$ 8,750
Elimination of Hisco debt not assumed in the purchase	(1,248)
Total current portion of long-term debt pro forma adjustment	$ 7,502

	(in thousands)
Elimination of Hisco debt not assumed in the purchase	(12,000)
Total revolving loan facility forma adjustment	$ (12,000)

	(in thousands)
Establish additional long-term debt - term loan	$ 166,250
Estimated deferred financing costs - term loan	(2,600)
Elimination of Hisco debt not assumed in the purchase	(17,153)
Total long-term debt pro forma adjustment	$ 146,497

(f) To reflect the accrual for $6.0 million in transaction costs.

(g) To record $12.6 million for the earnout under the purchase agreement. The Company is in the process of valuing the earnout, but for pro forma purposes has assumed that the full earnout value will be paid.

(h) To record $37.5 million in retention bonuses to certain Hisco employees. This is the maximum to be paid in relation to the retention agreements.

(i) To record deferred tax liabilities in the fair value changes of intangibles. The estimate of deferred taxes was determined based on the changes in the book basis of the intangible assets to be acquired compared to the historical basis reflected in the Company's historical financial statements. An estimated weighted average statutory rate of 25.0% was applied. The estimated weighted average statutory rate of 25% was determined by using the federal statutory rate of 21% and the combined estimated state effective rate of 4%, net of federal benefit. This estimate of deferred income taxes is preliminary and is subject to change based on the Combined Company's final determination of the assets acquired and liabilities assumed and their respective fair values.

(j) Reflects (i) the elimination of Hisco's historical common stock, retained earnings, and treasury stock, (ii) the issuance of 2.184 million shares of DSGR common stock at $45.80 per share for the rights offering, and (iii) the estimated transaction advisory costs.

	Common stock	Capital in excess of par value	Retained earnings	Treasury Stock
Elimination of the Company's historical balances	$ (38,721)	$ —	$ (145,266)	$ 94,275
Equity Offering issuance	2,184	97,816	—	—
Estimated compensation and transaction costs	—	—	(43,500)	—
Total	$ (36,537)	$ 97,816	$ (188,766)	$ 94,275

Note 5. Notes to Unaudited Pro Forma Condensed Combined Statement of Operations - Lawson Products, Inc. Merger

(a) Reflects the adjustments to eliminate historical depreciation expense on the Company and recognize new depreciation expense related to property, plant, and equipment.

(in thousands)	Pro forma year ended December 31, 2022
Reversal of Lawson’s historical depreciation	$ (1,430)
Depreciation of fair value of property, plant, and equipment	2,046
Total depreciation pro forma adjustment	$ 616

(b) Reflects the adjustments to eliminate historical amortization expense on the Company and recognize new amortization expense related to identifiable intangible assets.

(in thousands)	Pro forma year ended December 31, 2022
Reversal of Lawson’s historical amortization	$ (600)
Amortization of identifiable intangible assets	2,160
Total intangible asset amortization pro forma adjustment	$ 1,560

(c) Reflects the incremental expense related to the adjustment to the fair value of share-based compensation awards of $1,910 (in thousands) for the year ended December 31, 2022.

(d) The Company incurred transaction costs related to the Mergers of $12.7 million for the year ended December 31, 2022 which are included in selling, general and administrative expenses.

(e) The Company did not reflect an adjustment to interest expense as there would have been no incremental borrowings to reflect the merger as of January 1, 2022.

(f) Income taxes—The adjustments described in the footnote represent the income tax effect of the pro forma adjustments related to the Mergers. These adjustments are calculated using historical statutory tax rates by jurisdiction, resulting in blended statutory tax rates (inclusive of state taxes) of 25% for the year ended December 31, 2022.

(in thousands)	Pro forma year ended December 31, 2022
Income tax expense pro forma adjustment	$ (1,022)

(g) Represents an additional 3,006,648 in pro forma weighted average shares outstanding calculated using the historical weighted average shares of the Company’s common stock outstanding assuming those shares were outstanding as of the beginning of the period for the year ended December 31, 2022.

Note 6. Notes to Unaudited Pro Forma Condensed Combined Statement of Operations

(a) Reflects $6,864 thousand to reclassify cost of goods sold from selling, general and administrative expenses in order to conform to the Company's presentation.

(b) Reflects the adjustments to eliminate historical depreciation expense for Hisco and recognize new depreciation expense related to property, plant, and equipment.

(in thousands)	Pro forma year ended December 31, 2022	
Reversal of Hisco's historical depreciation	$	(2,948)
Depreciation of fair value of property, plant, and equipment		2,062
Total depreciation pro forma adjustment	$	(886)

(c) Reflects the adjustments to eliminate historical amortization expense for Hisco and recognize new amortization expense related to identifiable intangible assets.

(in thousands)	Pro forma year ended December 31, 2022	
Reversal of Hisco's historical amortization	$	(3,861)
Amortization of identifiable intangible assets		5,932
Total intangible asset amortization pro forma adjustment	$	2,071

(d) Estimated unrecognized transaction costs of $6,000 thousand are included in the historical statement of operations for the year ended December 31, 2022.

(e) To reflect compensation costs related to the retention bonuses DSG agreed to pay in conjunction with the Hisco Transaction.

(f) Reflects the adjustments to (i) reverse interest expense associated with the anticipated repayment of the Company's and Hisco's existing debt and (ii) recognize new interest expense associated with the new debt financing.

	Pro forma year ended December 31, 2022	
Reversal of Hisco's interest expense related to the repayment of Hisco's debt		1,196
Interest expense on new debt financing		(13,500)
Total interest pro forma adjustment	$	(12,304)

(g) Income taxes—The adjustments described in the footnote represent the income tax effect of the pro forma adjustments related to the Mergers. These adjustments are calculated using historical statutory tax rates by jurisdiction, resulting in blended statutory tax rates (inclusive of state taxes) of 25% for the year ended December 31, 2022.

(in thousands)		Pro forma year ended December 31, 2022
Income tax expense pro forma adjustment	$	(14,247)

(h) Represents an additional 2,200,000 in pro forma weighted average shares outstanding calculated using the additional shares issued with the purchase as if they were outstanding as of the beginning of the period for the year ended December 31, 2022.