UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A
(Amendment No. 1)

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

Date of Report (Date of earliest event reported): April 1, 2022

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

(773) 304-5050
(Registrant's telephone number, including area code)

Not Applicable
(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:

☐ 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	Name of each exchange on which registered
Common stock, $1.00 par value	**DSGR**	**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 December 29, 2021, Distribution Solutions Group, Inc., a Delaware corporation formerly known as Lawson Products, Inc. (the "**Company**"), 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 ("**TestEquity**"), (iii) the Company and (iv) Tide Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company ("**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 the Company (the "**TestEquity Merger**"); and
- an 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 ("**Gexpro Services**"), (iii) the Company and (iv) Gulf Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("**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 the Company (the "**Gexpro Services Merger**" and, together with the TestEquity Merger, the "**Mergers**").

On April 4, 2022, the Company filed with the U.S. Securities and Exchange Commission (the "**SEC**") a Current Report on Form 8-K (the "**Initial Form 8-K**") to disclose, among other matters, that the Company had consummated the Mergers. This Form 8-K/A amends the Initial Form 8-K to provide the financial statements of TestEquity, the financial statements of Gexpro Services and the pro forma financial information required by Items 9.01(a) and 9.01(b) of Form 8-K and should be read in conjunction with the Initial Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired*

TestEquity

The audited consolidated financial statements of TestEquity and its subsidiaries as of and for the years ended December 31, 2021 and December 31, 2020, the notes related thereto and the independent auditor's report of Grant Thornton LLP related thereto are filed as Exhibit 99.1 hereto and are hereby incorporated herein by reference.

Gexpro Services

The audited consolidated financial statements of Gexpro Services and its subsidiaries as of and for the year ended December 31, 2021, and as of December 31, 2020, and for the periods from February 23, 2020 through December 31, 2020, the notes related thereto and the independent auditor's report of RSM US LLP related thereto are filed as Exhibit 99.2 hereto and are hereby incorporated herein by reference.

The audited combined abbreviated financial statements of the Gexpro Services business of Rexel USA, Inc. (predecessor of 301 HW Opus Holdings, Inc.) for the period from January 1, 2020 through February 23, 2020, the notes related thereto and the independent auditor's report of RSM US LLP related thereto are filed as Exhibit 99.3 hereto and are hereby incorporated herein by reference.

(b) *Pro Forma Financial Information*

The unaudited pro forma condensed combined financial information of the Company, TestEquity and Gexpro Services as of and for the year ended December 31, 2021 and the notes related thereto are filed as Exhibit 99.4 hereto and are hereby incorporated herein by reference.

(d) *Exhibits*

Exhibit No.	Exhibit Description
23.1	Consent of Grant Thornton LLP.
23.2	Consent of RSM US LLP.
23.3	Consent of RSM US LLP.
99.1	Audited Consolidated Financial Statements of TestEquity and its subsidiaries as of and for the year ended December 31, 2021 and December 31, 2020, the Notes related thereto and the Independent Auditor's Report of Grant Thornton LLP related thereto.
99.2	Audited Consolidated Financial Statements of Gexpro Services and its subsidiaries as of and for the year ended December 31, 2021 and as of December 31, 2020, and for the periods from February 23, 2020 through December 31, 2020, the Notes related thereto and the Independent Auditor's Report of RSM US LLP related thereto.
99.3	Audited Combined Abbreviated Financial Statements of the Gexpro Services business of Rexel USA, Inc. (predecessor of 301 HW Opus Holdings, Inc.) for the period from January 1, 2020 through February 23, 2020, the Notes related thereto and the Independent Auditor's Report of RSM US LLP related thereto.
99.4	Unaudited Pro Forma Condensed Combined Financial Information of the Company, TestEquity and Gexpro Services as of and for the year ended December 31, 2021 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, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DISTRIBUTION SOLUTIONS GROUP, INC.
(Registrant)

Date: June 15, 2022

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

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated June 13, 2022, with respect to the consolidated financial statements of TestEquity Acquisition, LLC in the Current Report on Form 8-K/A of Distribution Solutions Group, Inc., dated June 15, 2022. We consent to the incorporation by reference of said report in the Registration Statements of Distribution Solutions Group, Inc. on Form S-3 File No. 333-231671 and on Forms S-8 File No. 333-199243 and File No. 333-231672.

Grant Thornton LLP

Los Angeles, California
June 13, 2022

Exhibit 23.2

Consent of Independent Auditor

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-231671) and Form S-8 (No. 333-199243 and 333-231672) of Distribution Solutions Group, Inc. of our report dated May 13, 2022, relating to the consolidated financial statements of 301 HW Opus Holdings, Inc. and its subsidiaries, included in this Current Report on Form 8-K/A.

RSM US LLP

Dallas, Texas
June 15, 2022

Exhibit 23.3

Consent of Independent Auditor

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-231671) and Form S-8 (No. 333-199243 and 333-231672) of Distribution Solutions Group, Inc. of our report dated June 9, 2022, relating to the combined abbreviated financial statement of Gexpro Services (Predecessor of 301 HW Opus Holdings, Inc.), included in this Current Report on Form 8-K/A.

RSM US LLP

Dallas, Texas
June 15, 2022

Consolidated Financial Statements and Report of Independent Certified Public Accountants

TESTEQUITY ACQUISITION, LLC

As of and for the year ended December 31, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
TestEquity Acquisition, LLC

Opinion

We have audited the consolidated financial statements of TestEquity Acquisition, LLC (a Delaware limited liability company) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its 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 of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 the financial statements are available to be issued.

Grant Thornton

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 US 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 US 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 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.

Grant Thornton LLP

Los Angeles, California
June 13, 2022

TestEquity Acquisition, LLC

CONSOLIDATED BALANCE SHEET

December 31, 2021

(In Thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
ASSETS		
Current assets		
Cash	$ 5,543	$ 1,172
Accounts receivable, net of allowance for doubtful accounts of $2,523 and $3,943, respectively	40,908	42,121
Inventories	39,178	41,143
Prepaid expenses and other current assets	3,265	3,785
Income tax receivable	66	26
Total current assets	88,960	88,246
Rental equipment, net	24,726	20,543
Property and equipment, net	1,582	1,951
Deposits and other assets	167	232
Deferred tax asset	—	82
Goodwill	70,112	62,867
Intangible assets, net	52,977	55,773
Total assets	$ 238,523	$ 229,694
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 34,668	$ 29,615
Income tax payable	40	82
Term loan, current portion - related party	119,361	119,180
Notes payable, current portion - related parties	4,317	2,917
Revolving loan facility - related party	1,000	3,000
Total current liabilities	159,386	154,794
Deferred tax liability	3,733	5,005
Total liabilities	163,119	159,799
Commitment and contingencies		
Members' equity	75,404	69,894
Total liabilities and members' equity	$ 238,523	$ 229,694

See accompanying notes to the consolidated financial statements.

TestEquity Acquisition, LLC

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS

For the Year Ended December 31, 2021

(In Thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenues		
Equipment sales	$ 260,250	$ 242,756
Rental	10,253	13,536
Total net revenues	270,503	256,292
Cost of sales		
Cost of sales of equipment	197,759	194,537
Depreciation of rental equipment	5,940	6,659
Total cost of sales	203,699	201,196
Gross profit	66,804	55,096
Selling, general and administrative expenses	59,482	58,613
Depreciation and amortization	6,228	6,472
Gain (loss) from operations	1,093	(9,991)
Interest expense - related party	(10,850)	(10,531)
Loss on sale of fixed assets	(179)	(54)
Loss before benefit for income taxes	(9,937)	(20,576)
Benefit for income taxes	1,272	4,647
NET LOSS	(8,665)	(15,929)
Other comprehensive loss:		
Foreign currency translation, net	(30)	(85)
Comprehensive loss	$ (8,694)	$ (16,014)

See accompanying notes to the consolidated financial statements.

TestEquity Acquisition, LLC

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

For the Year Ended December 31, 2021

(In Thousands)

	Members' Equity	Retained Deficit	Accumulated Other Comprehensive Income (loss)	Total Members' Equity
Balance, January 1, 2020	$ 86,566	$ (7,072)	$ 13	$ 79,507
Member contributions	6,184	—	—	6,184
Unit-based compensation	217	—	—	217
Foreign exchange loss	—	—	(85)	(85)
Net loss	—	(15,929)	—	(15,929)
Balance, December 31, 2020	$ 92,967	$(23,001)	$ (72)	$ 69,894
Members' Contributions	9,233	—	—	9,233
Member units issued for business combination	4,119	—	—	4,119
Unit-based compensation	853	—	—	853
Foreign exchange loss	—	—	(30)	(30)
Net loss	—	(8,665)	—	(8,665)
Balance, December 31, 2021	$107,172	$(31,666)	$ (102)	$ 75,404

See accompanying notes to the consolidated financial statements.

TestEquity Acquisition, LLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2021

(In Thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash flows from operating activities:		
Net loss	$ (8,665)	$ (15,929)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on sale of rental equipment	(2,054)	(2,012)
Depreciation and amortization	12,168	13,105
Change in allowance for doubtful accounts	1,420	—
Unit-based compensation	853	227
Deferred income taxes	(1,523)	(4,580)
Profit interest unit expense	—	(380)
Amortization of debt issuance costs	714	715
Gain on sale of property and equipment	—	(9)
Changes in assets and liabilities:		
Accounts receivable	(1,047)	13,385
Inventories	7,114	2,935
Prepaid expenses and other current assets	520	(1,473)
Income tax payable	(82)	183
Accounts payable and accrued expenses	(1,562)	(3,201)
Net cash provided by operating activities	7,855	2,967
Cash flows from investing activities:		
Payments for acquisition of property and equipment	(132)	(501)
MCS Acquisition, net of cash acquired	(7,626)	—
Payments for acquisition of rental equipment	(8,737)	(9,189)
Proceeds from sale of rental equipment	6,341	6,643
Net cash used in investing activities	(10,154)	(3,047)
Cash flows from financing activities:		
Equity contributions	9,233	6,184
Payments on debt (related parties)	(533)	(250)
Payments on line of credit (related parties)	(2,000)	(6,000)
Net cash provided by (used in) financing activities	6,700	(66)
Effect of foreign currency rates on cash	(30)	(85)
Net change in cash	4,371	(232)
Cash at beginning of period	1,172	1,404
Cash at end of period	$ 5,543	$ 1,172
Supplemental cash flow information		
Interest paid (related parties)	$ (10,850)	$ (10,531)
Issuance of sellers note during business combination	$ 1,400	$ —
Equity issue during business combination	$ 4,119	$ —

See accompanying notes to the consolidated financial statements.

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization and Business Activities

TestEquity Acquisition, LLC ("TEA LLC"), collectively with its subsidiaries (the "Company") is engaged in the sale and rental of new and used electronic test and measurement equipment, specialty tools, tool-kits, soldering supplies and chemicals. The Company sells and rents to customers in many major industries, including electronic manufacturing, telecommunications, education, automotive, medical, aerospace and defense.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of TestEquity Acquisition, LLC, a Delaware limited liability company, which is an intermediary holding company, and its subsidiaries TestEquity, LLC ("TE LLC"), a Delaware limited liability company, MCS Test Group Limited (TE UK"), a United Kingdom company, TestEquity de Mexico S. de R.L. de C.V., a Mexican limited liability company ("TE Mexico") and TestEquity, Inc. ("TE Canada"), a Canadian Corporation. TE LLC, MCS Test Group, TE Mexico and TE Canada are operating entities engaged in the sale and rental of new and used electronic test and measurement equipment and specialty tools. All intercompany balances and transactions have been eliminated. TE Mexico is 99% and 1% owned by TE LLC and TEA LLC, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company generates revenue through the sale of new and used electronic test and measurement equipment, specialty tools, tool-kits, soldering supplies and chemicals. The Company generally invoices customers as goods are shipped. Fees are typically due and payable 30 days after date of shipment. Generally, customers gain control of the goods upon providing the product to the carrier, or when services are completed.

The Company determines revenue recognition through the following steps:

- Identification of the contract(s) with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract(s)
- Recognition of revenue when the Company satisfies a performance obligation

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition – Continued

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Typically, the Company has a purchase order or master service agreement with the customer that specifies the goods and/or services to be provided.

The Company's revenue contracts generally represent a single performance obligation to sell its products to trade customers. Net sales reflect the transaction prices for contracts reduced by variable consideration. The Company provides a rebate to select customers if pre-determined purchase thresholds are met. The rebate consideration is not in exchange for a distinct good or service. Variable consideration is estimated using the expected valued method considering all reasonably available information, including the Company's historical experience and its current expectations, and is reflected in the transaction price when sales are recorded. Sales returns are generally accepted by the Company, however, are not material to the Company's operations. The Company's contracts with trade customers do not have significant financing components or non-cash consideration. The Company records net sales excluding taxes collected on its sales to its trade customers.

The Company has elected to account for shipping and handling costs incurred to deliver products to customers as fulfillment activities, rather than a promised service. As such, fulfillment costs are included in cost of goods sold in the consolidated statement of operations and comprehensive loss. The Company provides an assurance type warranty which is not sold separately and does not represent a separate performance obligation.

For the majority of transactions, the Company recognizes revenue at the time of shipment, when control is passed to the customer. For consigned vendor managed inventory, revenue is recognized when inventory is removed from the Company's stock location and controlled by the customer.

Rental revenues are recognized in the month they are due on the accrual basis of accounting. The Company provides an accrual for the unearned portion of rental payments received based upon the amount of rental revenue for the month with the unearned portion recorded as deferred revenue. Included in accounts payable and accrued expenses is $0.5 and $0.5 million of unearned rent revenue at December 31, 2021 and December 31, 2020 respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Disaggregation of Revenues

The following table represents a disaggregation of the Company's total revenues separated by major category for the year ended December 31, 2021, and December 31,2020 (in thousands):

Revenues	2021	2020
Equipment Sales	$260,250	$242,756
Rental	10,253	13,536
Total revenues	$270,503	$256,292

Contract balances

Accounts receivable represents the Company's unconditional right to receive consideration from its customers. ASC 606 also requires an entity to present a contract liability in instances where the customer is entitled to a volume rebate based on purchases made during the period.

There were no impairment losses recognized on the Company's accounts receivable during the fiscal year ended December 31, 2021, nor December 31, 2020. There were no significant changes in the contract assets or the contract liabilities for the fiscal year ended December 31, 2021, nor December 31,2020.

Assets recognized from the costs to obtain a contract with a customer

Typically, the Company incurs commission cost on product sales as the sale occurs. However, purchase orders are fulfilled in a short time frame and the Company's contracts qualify for the practical expedient since contract acquisition costs would have been amortized in one year or less. Therefore, the Company elected to apply the practical expedient and immediately expense contract acquisition costs.

Cash

The Company considers all highly liquid financial instruments purchased with an original maturity date of three months or less to be cash equivalents. The Company maintains cash balances in qualified financial institutions, and at various times such amounts are in excess of federally insured limits.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at net realizable value. Receivables are considered past-due based upon the contractual terms. The Company maintains an allowance for doubtful accounts to reflect its estimate of uncollectible trade accounts receivable based upon past collection history and the identification of specific customer risks. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records these allowances based on estimates related to the following factors: (i) customer-specific allowances and (ii) formula-based general allowances based upon an aging schedule.

Inventories

Inventories consist of new, used and manufactured electronic equipment and are stated at the lower of cost (first-in, first-out) or net realizable value.

Comprehensive Income

The Company's comprehensive income includes foreign currency translation adjustments. Asset and liability accounts of international operations are translated into the Company's functional currency, U.S. dollars, at current rates. Revenues and expenses are translated at the weighted-average currency rate for the fiscal year.

Rental Equipment and Property and Equipment

Rental equipment and property and equipment are typically carried at cost, except for assets acquired as part of a business combinations, which requires the acquisition method of accounting and accounts for the acquired assets at their estimated fair values at the acquisition date. Depreciation of rental pool equipment and property and equipment is provided by a straight-line method over three to seven years. Upon sale or retirement of such assets, the related cost and accumulated depreciation are eliminated from the accounts, and gains or losses are reflected in income. Repair and maintenance expenditures not anticipated to extend asset lives are expensed as incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Depreciation of rental pool equipment and property and equipment is provided for on a straight-line method over the remaining useful lives, which are generally as follows:

	Life (years)	
	From	To
Office furniture and equipment	2	5
Computer hardware	3	5
Computer software	3	5
Leasehold improvements	0	7
Rental Equipment	3	7

Long-Lived Assets

The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. As of and for the year ended December 31, 2021, and December 31, 2020, management concluded that no impairment of long-lived assets occurred.

Goodwill

The Company accounts for goodwill in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles, Goodwill and Other:* ASC 350 requires that goodwill and other unamortizable intangible assets be tested for impairment at least annually or earlier if indicators of impairment exist.

In January 2017, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Intangibles — Goodwill and Other* (Topic 350), Simplifying the Test for Goodwill Impairment (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, goodwill impairment is measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax-deductible goodwill when measuring goodwill impairment loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Company conducted a quantitative analysis as of December 31, 2021 and December 31,2020 (the Company's annual assessment date), noting there were no changes or impairments in the carrying amount of goodwill and noted no further impairment testing was required. The Company is a single reporting unit and performed the test as such, by comparing Company's carrying value, including goodwill, to its fair value. The fair value was assessed using a discounted cash flow model. The realization of these forecasts is dependent on a number of variables and conditions, many of which are due to the uncertainties associated with COVID-19 and current global supply chain restraints; and as a result, actual results may materially differ from management's estimates.

Intangible Assets

The Company accounts for intangible assets in accordance with ASC 350, *Intangibles, Goodwill and Other:* This guidance allows the Company to make judgments about the recoverability of intangible assets with finite lives whenever events or changes in circumstances indicate that impairment may exist. Recoverability of intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. For the year ended December 31, 2021, and December 31,2020, management concluded that no impairment of assets occurred.

Debt Issuance Costs

The Company amortizes costs incurred in connection with obtaining financing over the terms of the related debt using the effective-interest-rate method. Debt issuance costs are recorded as a contra liability within the term loan, current portion line item on the consolidated balance sheets. All balances included in the term loan are classified as current portion due to the forbearance with the lender (See Note 9). Amortization of debt issuance costs, which is included in interest expense in the accompanying consolidated statement of operations and comprehensive loss for the year ended December 31, 2021, amounted to approximately $0.7 million. December 31, 2020, amounted to approximately $0.7 million.

Advertising

The Company incurs advertising costs that primarily consist of the costs associated with digital and print advertising expense, trade show participation, customer seminars and joint marketing programs with company suppliers. Such amounts are expensed as incurred. Advertising expense for the year ended December 31, 2021, and December 31,2020, amounted to approximately $2.2 million and $1.4 million, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

The Company accounted for income taxes under the asset and liability method. Accordingly, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred taxes to the amount expected to be realized.

The Company has adopted the provisions of ASC 740, *Income Taxes*, which addresses the accounting for uncertainty in income tax positions. The guidance requires that the impact of an income tax position be recognized in the consolidated financial statements if that position is more-likely-than-not of being sustained on audit, based on the technical merits of the position. The Company's policy is to include any interest and penalties associated with unrecognized tax benefits within the provision for income taxes.

Unit-Based Compensation

The Company accounts for unit-based compensation for equity-classified awards using the fair value method. The fair value of equity-classified awards granted is estimated at the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period. Unit-based compensation expense for the year ended December 31, 2021, and December 31, 2020 amounted to approximately $0.9 million and nil, respectively.

Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

The fair values of the Company's cash, accounts receivable, accounts payable, and all other current liabilities approximate their carrying values because of the short-term nature of these instruments. The fair value of the Company's long-term debt, which approximates carrying value, was estimated using available market information and discounted cash flow analyses based on borrowing rates it believes it could obtain with similar terms and maturities and approximates the historical cost.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value Measurements

Under the ASC 820, *Fair Value Measurements and Disclosures*, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The Company did not have any Level 2 or Level 3 assets or liabilities during the year ended December 31, 2021, nor December 31, 2020.

Evaluation of Ability to Maintain Current Level of Operations - Going Concern

The accompanying consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern and in accordance with U.S. GAAP. The going concern basis of presentation assumes that the Company will continue in operation one year after the date these financial statements are available to be issued and will be able to realize the Company's assets and discharge the Company's liabilities and commitments in the normal course of business.

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2021, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to meet its obligations as they became due over the next twelve months from the date of issuance of these consolidated financial statements. Management assessed that there were no such conditions and events as a result of all debt being paid off on April 1, 2022. All term loans, notes payable, and revolving credit facilities have been satisfied.

As of December 31, 2021 the Company has entered into a Plan of Merger dated December 29, 2021 (the "TestEquity Merger Agreement"), by and among LKCM TE Investors, LLC (the "TestEquity Equityholder"), TestEquity Acquisition, LLC ("TestEquity"), Lawson and Tide Sub, LLC, a wholly-owned subsidiary of Lawson ("Merger Sub 1"), pursuant to the terms and subject to the conditions of which Merger Sub 1 will merge with and into TestEquity, with TestEquity surviving the merger as a wholly-owned subsidiary of Lawson (the "TestEquity Merger").

As further discussed in Note 15 Subsequent Events, the merger was completed on April 1, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Recently Issued Accounting Standards

In June 2020, the FASB issued ASU No. 2020-05, Revenue from Contracts with Customers (Topic 606), and Leases (Topic 842): Effective Dates for Certain Entities (ASU No. 2020-05), to defer the effective dates of certain major accounting standards for which implementation challenges were amplified by disruptions caused by the COVID-19 pandemic. Private companies now have a one-year deferral option to apply Topic 606 and Topic 842 to fiscal years beginning after December 15, 2021. Early adoption is still permitted. The Company adopted the provisions of Topic 606 as of January 1, 2020. The Company has adopted the one-year deferral provision contained within ASU 2020-05 and has elected to defer the adoption of Topic 842 as permitted.

Recently Issued Accounting Standards Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes” (Topic 740). ASU 2019-12 is intended to simplify accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and amending existing guidance to improve consistent application of ASC 740. The guidance is effective for annual periods beginning after December 15, 2021. The guidance in this update has various elements, some of which are applied on a prospective basis and others on a retrospective basis with earlier application permitted. Management is currently evaluating the potential impact that adopting ASU 2019-12 will have on its consolidated financial statements and footnote disclosures.

NOTE 3 – ACQUISITION OF MCS TEST GROUP

On July 31, 2021, the Company acquired certain assets and assumed certain operating liabilities from MCS Test Group Ltd (MCS). MCS is a UK based company, engaged in the distribution of electronic test and measurement equipment, with complementary value-added capabilities. Transaction related costs have been expensed as a component of selling, general and administrative expenses during the year ended December 31, 2021.

NOTE 3 – ACQUISITION OF MCS TEST GROUP – Continued

A summary of the acquired assets and assumed liabilities for the MCS is as follows:

Base purchase price	
Cash consideration	8,656
Issue of the consideration of units to the sellers	4,194
Sellers Notes	1,400
Total Net Asset Consideration	$14,250
Less fair value of acquired net assets	
Cash	1,030
Accounts receivable, net	2,300
Inventory	519
Rental equipment	3,702
Deferred tax asset and liabilities	(193)
Accounts payable	(2,523)
Accrued expenses	(493)
Excess purchase price over fair value of net tangible assets acquired	$ 4,342
The allocation of excess purchase price over the fair value of net tangible assets acquired was recorded as follows:	
Customer relationships	2,621
Trade names/trademarks	41
Goodwill	7,245
Excess purchase price over fair value of net tangible assets acquired	$14,250

As of the issuance of these consolidated financial statements, the Company's management is still in the process of completing the purchase price allocation for this business combination and the estimated fair value of the acquired rental equipment and customer relationships is provisional pending the completion of the valuations for those assets. Adjustments to these balances may be necessary during the measurement period as permitted under ASC 805.

NOTE 4 - INVENTORIES

Inventories consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Parts	$ 2,875	$ 3,156
Work in process	—	316
Finished goods	37,652	39,457
	40,527	42,929
Less: reserve for obsolescence	(1,349)	(1,786)
	$39,178	$41,143

NOTE 5 - RENTAL EQUIPMENT, NET

Rental equipment consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Rental equipment	$ 49,476	$ 44,481
Less: accumulated depreciation	(24,750)	(23,938)
	$ 24,726	$ 20,543

Depreciation expense included in cost of sales for rental equipment for the year ended December 31, 2021 and December 31,2020, amounted to $5.9 million and $6.7 million, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Office furniture and equipment	$ 2,665	$ 2,573
Computer hardware	872	902
Computer software	437	437
Leasehold improvements	1,840	1,840
	5,814	5,752
Less: accumulated depreciation and amortization	(4,232)	(3,801)
	$ 1,582	$ 1,951

NOTE 6 - PROPERTY AND EQUIPMENT, NET – Continued

Depreciation and amortization expense for property and equipment for the year ended December 31, 2021, and December 31, 2020, amounted to $0.9 million and $0.6 million, respectively.

NOTE 7 - GOODWILL AND INTANGIBLES ASSETS

Amounts related to goodwill consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Goodwill		
Balance, beginning of period	$62,867	$62,867
Goodwill acquired	7,245	—
Balance, end of period	$70,112	$62,867

Amounts related to finite-lived intangible assets at December 31, 2021, and December 31, 2020 are as follows (in thousands):

	Estimated life	2021 Gross carrying value	2020 Gross carrying value
Customer relationships	5 - 15 years	$ 55,211	$ 52,590
Trade name	3 - 15 years	19,591	19,550
Internal Use Software	3 - 10 years	2,970	2,970
Acquired leases	1 - 3 years	789	789
		78,562	75,899
Less: accumulated amortization		(25,585)	(20,126)
		52,977	55,773

Amortization expense related to finite -lived intangible assets for the year ended December 31, 2021, and December 31, 2020, amounted to $5.4 million and $5.6 million, respectively.

NOTE 7 - GOODWILL AND INTANGIBLES ASSETS – Continued

Annual amortization expense related to finite-lived intangible assets for each of the five succeeding fiscal years and thereafter as of December 31, 2021 is as follows (in thousands):

Year ending December 31,	2021
2022	5,992
2023	5,992
2024	5,992
2025	5,992
2026	5,992
Thereafter	23,019
	$52,977

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Trade accounts payable and accrued accounts payable	$21,355	$20,160
Accrued interest	1,221	619
Management fee payable (related party)	4,667	2,724
Other accrued expenses	7,425	6,112
	$34,668	$29,615

NOTE 9 - TERM LOAN AND SUBORDINATED LOAN (RELATED PARTIES)

Debt consisted of the following as of December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Revolving loan facility, due April 2022	$ 1,000	$ 3,000
Sellers notes	1,400	—
Term loan, due April 2022	119,599	120,132
Other note payable	2,917	2,917
	124,916	126,049
Less: deferred financing	(238)	(952)
	$124,678	$125,097

NOTE 9 - TERM LOAN AND SUBORDINATED LOAN (RELATED PARTIES) – Continued

Each of the debt facilities listed above are held with related party financial institutions. The Term loan debt includes an original issue discount incurred in connection with the financing agreement. The discount is being amortized using the effective-interest-method over the term of the related debt.

The Company's Term loan required quarterly principal payments in the amount of $0.1 million through September 30, 2021, and $0.3 million on December 31, 2021, and March 31, 2022, and a balloon principal payment of $120.0 million on April 28, 2022. Interest on the first $101.0 million was based on LIBOR plus 5.25% and interest on the remaining balance was based on the LIBOR plus 5.50% and is payable quarterly.

The Company had $1.0 million and $3.0 million outstanding on its revolving loan advance facility as of December 31, 2021, and December 31, 2020, respectively.

Borrowings under the above arrangements are collateralized by substantially all the assets of the Company. In addition, the facilities are governed by a loan and security agreement that requires compliance with certain financial and nonfinancial covenants, which include, but are not limited to, leverage and capital expenditure requirements. During the year ended December 31, 2020, the Company defaulted on certain covenants on its Term loan. To cure the default, the Company and the related party lender agreed to a forbearance on the loan and required certain members to make equity contributions of approximately $6.2 million in exchange for member units, in addition to maintaining certain leverage ratios, minimum liquidity, and EBITDA targets as the new covenants under the revised credit agreement during the forbearance period.

Due to the default being present as of December 31, 2021, coupled with the working capital being utilized to pay off the debt, the Company has classified the debt as current. As discussed further in Note 16, Subsequent Events, as a result of the merger effective on April 1, 2022, the company's debt was paid off in total.

NOTE 10 - INCOME TAXES

The benefit for income taxes consisted of the following for the year ended December 31, 2021, and December 31, 2020 (in thousands):

	2021	2020
Current	$ 251	$ (62)
Deferred	(1,523)	(4,585)
Total	$(1,272)	$(4,647)

NOTE 10 – INCOME TAXES – Continued

The Company's effective tax rate differs from the federal statutory rate of 21% primarily due to state income taxes, and non-deductible expenses such as meals and entertainment, parking, and transaction costs and change in valuation allowance.

The tax effect of temporary differences that give rise to a significant portion of the net deferred tax liability at December 31, 2021 and December 31, 2020 are summarized as follows (in thousands):

	2021	2020
Net operating loss carryforwards	$ 8,521	$ 7,484
Other temporary differences	(16)	367
Stock compensation	510	505
Variance allowance	(821)	(386)
Interest expense	5,225	3,685
Capitalized inventory	781	834
Accruals and reserves	2,105	2,431
Property and equipment	(5,560)	(5,261)
Intangible assets	(14,478)	(14,664)
Net deferred tax liability	$ (3,733)	$ (5,005)

At December 31, 2021 and December 31, 2020, the Company has federal net operating loss carryforwards of approximately $29.1 million and $26.0 million, respectively, and state net operating loss carryforwards of approximately $29.6 million and $27.6 million, respectively. $2.2 million of the federal net operating loss carryforwards will begin to expire in 2037 unless previously utilized and $26.9 million of the federal net operating loss generated on or after January 1, 2018, will not expire and will be limited to 80% usage starting in 2021. The state net operating loss carryforwards will begin to expire in 2026. Utilization of the net operating loss carryforward is subject to an annual limitation as a result of Internal Revenue Code Section 382.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act contains numerous income tax provisions, such as relaxing limitations on the deductibility of interest and the use of net operating losses arising in taxable years beginning after December 31, 2017. The CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company at present does not expect that the NOL carryback provision of the CARES Act would result in a cash benefit due to the existence of previously incurred losses.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its warehousing and office facilities and certain vehicles under non-cancelable operating lease arrangements, which expire on various dates through October 2029.

Annual future minimum lease payment requirements under non-cancelable long-term operating lease agreements at December 31, 2021, are as follows (in thousands):

Year ending December 31,	
2022	2,589
2023	2,228
2024	2,181
2025	2,046
Thereafter	5,517
	$14,561

Rent expense for the year ended December 31, 2021, and December 31, 2020, amounted to amounted to $2.6 million and $2.6 million, respectively.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management believes, as of December 31, 2021, and December 31, 2020, that any such matters will not have a material adverse effect on the consolidated financial statements.

NOTE 12 - MEMBERS' EQUITY AND UNIT BASED COMPENSATION

During the year ended December 31, 2021, and December 31, 2020, the Company awarded 2,105,000 and 2,505,524 Incentive Common Units (ICUs), respectively. The ICUs vest ratably at a rate of 20% annually and are fully vested and exercisable after five years. As of December 31, 2021, and December 31, 2020, the Company had 12,115,750 and 10,010,750 ICUs outstanding, respectively.

The fair value of these ICUs was estimated at the date of grant and is being recognized as compensation expense over the requisite vesting period. Unit-based compensation recognized for the current and prior year ICU awards was $0.9 million and $0.2 million and recorded as a component of Selling, general and administrative expense during the year ended December 31, 2021, and December 31, 2020, respectively. The remaining compensation expense expected to be recognized for these ICUs in future periods total $1.0 million.

NOTE 12 - MEMBERS' EQUITY AND UNIT BASED COMPENSATION – Continued

The expected term used in the valuation of the ICUs was five years. The average fair value of the units issued during the year ended December 31, 2021, and December 31, 2020, was $0.40 and nil.

The following is a summary of the Company's ICUs during the periods (in thousands):

	2021		2020	
	Unvested	Vested	Unvested	Vested
Common ICUs - January 1, 2021	2,375	7,636	5,735	4,624
Granted	1,684	421	2,506	—
Forfeited	—	—	(3,322)	—
Vested	(475)	475	(2,544)	3,012
Common ICUs - December 1, 2021	3,584	8,532	2,375	7,636

NOTE 13 - EMPLOYEE BENEFIT PLAN

401(k) Plan

The Company maintains a 401(k)-plan covering all employees, subject to certain participation and vesting requirements. The Company will match 50% of the aggregate salary reduction contribution to the extent the aggregate contribution does not exceed 5% of compensation. The Company's contribution is funded monthly in the amount required by employee salary reduction contributions.

The Company's matching contribution to the 401(k) plan for the year ended December 31, 2021, December 31, 2020, amounted to approximately $0.8 million and $0.4 million, respectively.

NOTE 14 - RELATED-PARTY TRANSACTIONS

The Company has entered into service agreements with entities that are Members of the Company. Under the agreement, the Company pays an annual fee plus expenses for executive and general management services. Fees incurred from related parties for the year ended December 31, 2021, and December 31, 2020, amounted to approximately $1.8 million and $1.9 million, respectively, and were included in selling, general, and administrative expenses.

As described in Note 9, borrowings under each of the Company's credit facilities are held with entities that are Members of the Company. Interest expense under these credit facilities for the year ended December 31, 2021, and December 31, 2020, amounted to approximately $10.9 million and $10.5 million, respectively.

NOTE 15 - SUBSEQUENT EVENTS

The Company evaluated subsequent events though June 13, 2022, the date the consolidated financial statements were available to be issued.

On April 1, 2022, the Company completed the merger agreement pursuant to the merger, as described in Note 9 above. In accordance with and under the terms of the merger agreement Lawson Products, Inc.: (i) issued to the Company 3,300,000 shares of Lawson common stock, (ii) on behalf of TestEquity, paid certain indebtedness of TestEquity and (iii) on behalf of TestEquity, paid certain transaction expenses of TestEquity.

The TestEquity Merger Agreement provides that an additional 700,000 shares of Distribution Solutions Group Inc common stock (the “TestEquity Holdback Shares”) (which were not issued at the closing of the TestEquity Merger) shall be held by Lawson Products, Inc. until released to the former equity holders of the Company or forfeited in accordance with two earnout provisions of the merger agreement. The amount of holdback shares issuable under the first earnout opportunity is based on, among other factors, the consummation of a certain additional acquisition by the Company during the period beginning after December 29, 2021 and ending 90 days after the closing of the merger. If any, the holdback shares remaining after the calculation of the first earnout opportunity, there is a second earnout opportunity based on, among other factors, the increase in TestEquity EBITDA (as defined in the TestEquity Merger Agreement) in calendar year 2022 over calendar year 2021 subject to the calculations within merger agreement.

On April 29, 2022, the Company acquired certain assets and operating liabilities from Interworld Highway, LLC and Richard Wagner, as representative of Sellers (Interworld Highway). Interworld Highway is a New Jersey limited liability company, engaged in the distribution of test and measurement equipment with complimentary value-added capabilities. This was completed pursuant to the Membership Interest Purchasing Agreement dated April 29, 2022, for $55.9 million. The Company is in the process of determining the purchase price allocation for this business combination.

301 HW Opus Holdings, Inc.
(dba Gexpro Services)

Consolidated Financial Report
December 31, 2021

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Independent Auditor's Report

RSM US LLP

Board of Directors
301 HW Opus Holdings, Inc.

Opinion

We have audited the consolidated financial statements of 301 HW Opus Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, shareholder's equity and cash flows for the year ended December 31, 2021, and for the period from February 23, 2020 through December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021, and for the period from February 23, 2020 through December 31, 2020, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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.

RSM US LLP

Dallas, Texas
May 13, 2022

301 HW Opus Holdings, Inc.
(dba Gexpro Services)

Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 9,128,055	$ 9,226,862
Trade accounts receivable, net of allowance for doubtful accounts of $210,366 and $385,015, respectively	39,665,465	34,870,277
Inventories	93,539,448	67,748,486
Prepaid expenses and other current assets	4,021,943	4,263,023
Total current assets	146,354,911	116,108,648
Property, plant and equipment, net	7,496,904	5,011,211
Deferred tax assets	3,565,340	1,589,916
Intangible assets, net	47,526,904	35,207,754
Goodwill	34,098,843	30,135,738
Total assets	$239,042,902	$188,053,267
Liabilities and Shareholder's Equity		
Current liabilities:		
Trade accounts payable	$ 27,005,910	$ 22,522,058
Accrued expenses and other current liabilities	11,931,165	9,171,848
Current portion of long-term debt	9,726,631	600,000
Total current liabilities	48,663,706	32,293,906
Deferred tax liabilities	2,237,998	305,513
Revolver and long-term debt, net of current portion and unamortized debt issuance costs	92,553,726	65,306,127
Total liabilities	143,455,430	97,905,546
Commitments and contingencies (Note 10)		
Shareholder's equity:		
Preferred stock, $0.01 par value, 1,000 shares authorized, no share issued and outstanding	—	—
Common stock, $0.01 par value, 1,000 shares authorized, issued and outstanding	10	10
Additional paid-in capital	91,875,760	88,858,729
Retained earnings (accumulated deficit)	2,669,916	(293,957)
Accumulated other comprehensive income	1,041,786	1,582,939
Total shareholder's equity	95,587,472	90,147,721
Total liabilities and shareholder's equity	$239,042,902	$188,053,267

See notes to consolidated financial statements.

301 HW Opus Holdings, Inc.
(dba Gexpro Services)

Consolidated Statements of Comprehensive Income
Year Ended December 31, 2021, and Period From February 23, 2020
Through December 31, 2020

	2021	Period From February 23, 2020 Through December 31, 2020
Net revenue	$255,317,199	$213,342,925
Cost of goods sold	174,034,779	150,379,032
Gross profit	81,282,420	62,963,893
Selling, general and administrative	71,658,465	54,396,366
Gain on bargain purchase	(1,363,016)	—
Income from operations	10,986,971	8,567,527
Interest expense, net	6,140,164	5,420,993
Income before income taxes	4,846,807	3,146,534
Income tax expense	1,882,924	921,119
Net income	2,963,883	2,225,415
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(541,153)	1,582,939
Comprehensive income	$ 2,422,730	$ 3,808,354

See notes to consolidated financial statements.

301 HW Opus Holdings, Inc.
(dba Gexpro Services)

Consolidated Statements of Shareholder's Equity
Year Ended December 31, 2021, and Period From February 23, 2020
Through December 31, 2020

	Common Stock		Additional	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Shareholder's
	Shares	Amount	Paid-in Capital	Deficit)	Income (Loss)	Equity
Balance, February 23, 2020	—	$ —	$ —	$(2,519,382)	$ —	$ (2,519,382)
Capital contribution	1,000	10	88,638,000	—	—	88,638,010
Equity-based compensation	—	—	220,739	—	—	220,739
Net income	—	—	—	2,225,415	—	2,225,415
Foreign currency translation gain	—	—	—	—	1,582,939	1,582,939
Shareholder's equity, December 31, 2020	1,000	10	88,858,739	(293,967)	1,582,939	90,147,721
Capital contribution	—	—	2,752,145	—	—	2,752,145
Equity-based compensation	—	—	264,876	—	—	264,876
Net income	—	—	—	2,963,883	—	2,963,883
Foreign currency translation loss	—	—	—	—	(541,153)	(541,153)
Shareholder's equity, December 31, 2021	1,000	$ 10	$91,875,760	$ 2,669,916	$ 1,041,786	$95,587,472

See notes to consolidated financial statements.

301 HW Opus Holdings, Inc.
(dba Gexpro Services)

Consolidated Statements of Cash Flows
Year Ended December 31, 2021, and Period From February 23, 2020
Through December 31, 2020

	2021	Period from February 23, 2020 through December 31, 2020
Cash flows from operating activities:		
Net income	$ 2,963,883	$ 2,225,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,816,349	4,349,529
Bad debt expense	6,213	182,550
Debt issuance cost amortization	582,649	501,024
Equity-based compensation	264,876	220,739
Deferred income tax	(2,033,023)	(439,374)
Gain on bargain purchase	(1,363,016)	—
Changes in assets and liabilities, net of acquisitions:		
Trade accounts receivable	2,678,342	2,417,881
Inventories	(10,941,086)	7,003,036
Prepaid expenses and other current assets	1,401,451	551,899
Trade accounts payable	3,957	(5,856,847)
Accrued expenses and other current liabilities	1,487,907	2,160,281
Net cash provided by operating activities	868,502	13,316,132
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,944,203)	(426,829)
Acquisitions, net of cash acquired	(26,221,015)	(157,956,866)
Net cash used in investing activities	(29,165,218)	(158,383,695)
Cash flows from financing activities:		
Capital contributions	—	88,638,000
Net proceeds on revolver	28,921,346	8,785,772
Proceeds from issuance of long-term debt	6,000,000	60,000,000
Payments on long-term debt	(7,486,396)	(450,000)
Payments of debt issuance costs	—	(2,930,669)
Net cash provided by financing activities	27,434,950	154,043,103
Net change in cash and cash equivalents	(861,766)	8,975,540
Effect of exchange rate changes on cash	762,959	251,322
Cash:		
Beginning of period	9,226,862	—
End of period	$ 9,128,055	$ 9,226,862
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 5,390,761	$ 4,826,088
Cash paid for income tax	$ 2,609,308	$ 1,779,963
Supplemental disclosures of noncash transactions:		
Parent’s membership units issued as acquisition consideration	$ 2,752,145	$ —
Seller’s note issued as acquisition consideration	$ 8,356,631	$ —

See notes to consolidated financial statements.

Note 1. Nature of Business and Organization

HW Opus Holdings, Inc. (Inc.), and its wholly owned subsidiary GS Operating, LLC (formerly known as 301 HW Opus Holdco, LLC), were formed on November 7 and 14, 2019, respectively. The sole purpose of their formation was to acquire certain assets and assume certain liabilities of Gexpro Services US, and to acquire the 100% membership interest of Rexel Magyarország Általános Kereskedelmi és Szolgáltató Kft (Gexpro Services Hungary, together with Gexpro Services US, Gexpro Services) from Rexel USA, Inc. and its affiliate. The transaction was consummated effective February 23, 2020 (LKCM Acquisition), upon the close of business. Inc., together with its consolidated subsidiaries, are collectively referred to as the Company. The operating results of the acquired business are included in the Company's consolidated financial statements beginning February 24, 2020.

Gexpro Services is a supply-chain solutions provider to original equipment manufacturers (OEM) for production line, field installation, repair and overhaul and aftermarket consumption of hardware, fasteners, nuts, bolts, catalogue parts, gaskets, seals, O-rings, valves and other electronic parts. The Company is headquartered in Irving, Texas, with inventory selling/holding facilities across the United States, Hungary and China. Through NEF Acquisition (Note 3), Gexpro Services was able to expand its footprint to Canada and Mexico in 2021.

GS Holdings RE, LLC (RE) was organized under the laws of Delaware on May 21, 2021. RE was formed and funded for the purposes of acquiring and holding a real estate property under the direction of the Company. The Parent of RE and the Company is the same.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Company's fiscal year end is December 31. The consolidated financial statements cover the period from January 1, 2021 through December 31, 2021 (the year ended December 31, 2021) and period from February 23, 2020 through December 31, 2020 (the period ended December 31, 2020).

Principles of consolidation: The consolidated financial statements include the financial position, results of operations and cash flows of Inc. and its wholly owned subsidiaries. The Company also analyzes potential interest in other entities to determine if a variable interest entity (VIE) relationship exists. When the Company determines it holds current or potential rights that allows it to direct the activities of another entity, which enables it to potentially receive significant benefits or obligations to absorb potentially significant losses, the Company is determined to have a controlling interest in that VIE. The financial statements of Inc. and RE are consolidated as RE was determined to be a VIE of GS Operating, LLC (a wholly owned subsidiary of the Company), as it has a note receivable of approximately $1,700,000 from RE, and RE's assets consist of a real estate property with a carrying value of approximately $1,700,000. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Note 2. Summary of Significant Accounting Policies (Continued)

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received.

During the year ended December 31, 2021, and the period ended December 31, 2020, the Company had entered several accounts receivable sale agreements with financial institutions for the sale of the Company's accounts receivable from certain customers, which is treated as sales of financial assets. As part of the arrangements, the Company receives upfront payment for the accounts receivable sold and pays interest to financial institutions over the financial institutions' estimated collection period. Total losses on the sale of accounts receivable during the year ended December 31, 2021, and the period ended December 31, 2020, was approximately $268,000 and $157,000, respectively, and is recorded in the selling, general and administrative expenses in the consolidated statements of comprehensive income.

Inventories: Inventories are stated at the lower of cost and net realizable value. Cost includes purchases of packing components and costs associated with outsourced production. Inventory is relieved based on the moving weighted average method. In circumstances where inventory is deemed obsolete or not saleable due to its condition, or where the inventory cost for an item exceeds its net realizable value, management records a charge to cost of goods sold and reduces the inventory to its net realizable value. As of December 31, 2021 and 2020, the Company recorded an inventory obsolescence reserve in the amount of approximately $2,700,000 and $1,600,000, respectively.

Property, plant and equipment: Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, 10 to 30 years for building and improvements, three to eight years for warehouse and office equipment, three years for computer software, three years for vehicles and over the shorter of the useful life of the assets or term of the underlying leases for leasehold improvements. The costs of repairs, maintenance and minor renewals are charged to expense as incurred.

When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in the income from operations.

Intangible assets: The Company classifies all of intangible assets as definite-lived intangible assets that were initially measured at fair value. Definite-lived intangibles include tradenames, customer contracts and non-compete agreements.

Impairment of long-lived assets: The Company periodically evaluates the carrying value of long-lived assets to be held and used at the asset group level including, but not limited to, intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value would be determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. There were no such impairment losses recognized for the year ended December 31, 2021, and the period ended December 31, 2020.

Note 2. Summary of Significant Accounting Policies (Continued)

Goodwill: Goodwill is not amortized, but instead, is tested for impairment annually at December 31 of each year or if certain circumstances indicate a possible impairment may exist. The Company makes an initial qualitative evaluation based on the entity's events and circumstances to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. No impairment was recognized during the year ended December 31, 2021, and the period ended December 31, 2020.

Debt issuance costs: The Company defers certain costs incurred in connection with obtaining financing in accordance with Accounting Standards Update (ASU) 2015-03, and amortizes those costs over the terms of the underlying debt. The amortization expense is included in interest expense in the accompanying consolidated statements of comprehensive income. Amortization of costs is measured based on the effective interest method for term loans and straight-line for the revolver. Unamortized debt issuance costs associated with the term loan and the revolving line of credit are classified as a reduction of long-term debt.

Comprehensive income: The Company reports comprehensive income in the consolidated statements of comprehensive income. Comprehensive income consists solely of net income and foreign currency translation adjustments for the period.

Foreign currency translation: The functional currency of the Company's foreign subsidiaries is the local currency. Asset and liability accounts are translated at exchange rates existing at the consolidated balance sheet date. Revenue and expense accounts are translated at average exchange rates prevailing during the period. Equity accounts are translated at historical exchange rates. Translation adjustments are recorded as comprehensive income in shareholder's equity. Gains and losses from foreign currency denominated transactions are recognized in earnings. Translation adjustments are accumulated and recorded as a separate component of shareholder's equity.

Revenue recognition: The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Company's products are marketed and sold primarily to OEM's globally. Sales of products are subject to economic conditions and may fluctuate based on changes in the industry, trade policies and financial markets.

The majority of the Company's revenue contracts represent a single performance obligation related to the fulfillment of customer orders for the purchase of the Company's products. Revenue from sales of the Company's products are recognized upon transfer of control to the customer, which is typically when the product has been shipped from its inventory holding facilities in U.S., Hungary, Canada and Mexico.

Note 2. Summary of Significant Accounting Policies (Continued)

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and an estimate of variable consideration such as, early payment/volume discounts and rebates.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the Company's products and not as a separate performance obligation. Amounts billed to customers for shipping are classified as revenue. All outbound shipping and handling costs are classified as selling, general and administrative expense, total costs incurred for the year ended December 31, 2021, and the period ended December 31, 2020, were $1,437,548 and $947,026, respectively.

Sales commissions paid to internal sales personnel, as well as associated payroll taxes and retirement plan contributions (together, incentive compensation and associated costs) that are incremental to the acquisition of customer contracts, are required to be capitalized as deferred contract cost on the consolidated balance sheets when the period of benefit is determined to be greater than one year. The Company has elected to apply the practical expedient to expense sales commissions and associated costs as incurred as the expected amortization period would be one year or less.

Payment terms on invoiced amounts range from 10 to 120 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, the Company has determined that a significant financing component does not exist. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products, and not to receive financing from or provide financing to the customer.

Equity-based payments: Accounting guidance for equity-based compensation requires all equity-based payments to employees, including grants of profit interests, to be valued at fair value on the grant date and expensed over the applicable vesting period. For time-based awards, the Company recognizes the estimated fair value of the awards granted, if material, as compensation expense in the consolidated statements of comprehensive income on a straight-line basis over the vesting period. For performance-based awards, if any, the Company recognizes the fair value of the awards granted, if material, as compensation expense when achievement of the performance condition becomes probable.

Business combinations: The Company accounts for business combinations under the acquisition method of accounting in accordance with the Financial Accounting Standard Board (FASB) ASC 805, Business Combinations which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Acquisition-related costs are not included as a component of the acquisition accounting, but are recognized as expenses in the periods in which the costs are incurred. Any changes within the measurement period resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recorded at the acquisition date.

Note 2. Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: The Company maintains cash at several financial institutions in the United States and other foreign countries. Balances for deposit accounts in the United States periodically are in excess of federally insured limits set by the United States Federal Deposit Insurance Corporation (FDIC). Balances deposited in financial institutions located in other foreign countries are not insured by the FDIC. The Company has not experienced any losses related to these accounts in the United States and other foreign countries.

During the year ended December 31, 2021, the Company had two customers that accounted for approximately 25% and 11% of the Company's revenues, and approximately 12% and 4% of accounts receivable, respectively.

During the period ended December 31, 2020, the Company had two customers that accounted for approximately 31% and 11% of the Company's revenues, and approximately 25% and 7% of accounts receivable, respectively.

The Company has foreign operations in Hungary, China, Canada and Mexico through its foreign subsidiaries. Total net assets and net income of the foreign operations as of and for the year ended December 31, 2021, were $25,181,826 and $469,047, respectively. Total net assets and net income of the foreign operations as of and for the period ended December 31, 2020, were $15,621,375 and $1,423,300, respectively. Total third-party revenue of the foreign operations for the year ended December 31, 2021, and the period ended December 31, 2020, were $24,051,224 and $17,245,681, respectively.

Advertising: The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expenses for the year ended December 31, 2021, and the period ended December 31, 2020, were $0 and $30,144, respectively.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets relate primarily to intangibles, accrued expenses and seniority premium, business interest expense limitations and deferred tax liabilities relate primarily to goodwill. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and in foreign countries on behalf of wholly owned foreign subsidiaries.

Note 2. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of comprehensive income. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In December 2019, FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740, and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2022. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform,* which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or any other reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. These reclassifications had no effect on the previously reported net income, comprehensive income or shareholder's equity.

Note 3. Acquisitions

On December 31, 2021, the Company acquired certain assets and assumed certain liabilities of State Industrial Supply, Inc. (SIS) for purposes of providing a growth investment to the Company (SIS Acquisition). The consideration paid is as follows:

Cash	$ 3,456,835
Seller's note	8,356,631
	$11,813,466

The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed in connection with this acquisition was based on estimated fair values supported by third-party valuations.

Note 3. Acquisitions (Continued)

The following table summarizes the allocation of the purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed:

Trade accounts receivable	$ 2,763,691
Inventories	777,005
Prepaid and other current assets	9,941
Property, plant and equipment	37,118
Identifiable intangible assets:	
Tradename	1,500,000
Customer contracts	4,800,000
Noncompete agreements	380,000
Goodwill	3,010,060
Fair value of total assets acquired	13,277,815
Less trade accounts payable	1,464,349
Net assets acquired	$11,813,466

The Company determined the estimated fair value of the intangible assets primarily by using the income approach. This approach required the Company to use significant estimates and assumptions for which there is limited observable market information with respect to forecasted sales, operating profits, royalty rates and the selection of an appropriate discount rate.

At December 31, 2021, the final working capital adjustments related to the acquisition are still being finalized and, as such, the transaction consideration and recorded goodwill are considered provisional.

At the date of the SIS Acquisition, total gross contractual receivables approximates fair value. The Company incurred transaction costs of $104,651, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income. Goodwill arising from the acquisition consists primarily of assembled workforce and other intangible assets that do not qualify for separate recognition. Goodwill is deductible for U.S. income tax purpose.

On November 1, 2021, the Company, through its wholly owned subsidiaries in Canada and Mexico, acquired all outstanding shares of NEF Group Inc., as well as certain assets and assumed certain liabilities of NEF Fasteners de Mexico S.A. de C.V. acquired for purposes of providing a growth investment to the Company (NEF Acquisition). The consideration paid is as follows:

Cash	$16,551,985
Parent’s membership units issued to sellers	2,752,145
	$19,304,130

Note 3. Acquisitions (Continued)

The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed in connection with this acquisition was based on estimated fair values supported by third-party valuations. The following table summarizes the allocation of the purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed:

Cash and cash equivalents	$ 287,805
Trade accounts receivable	3,997,084
Inventories	13,885,013
Prepaid and other current assets	1,235,784
Property, plant and equipment	589,355
Identifiable intangible assets:	
Tradename	2,503,250
Customer contracts	5,006,500
Fair value of total assets acquired	27,504,791
Less trade accounts payable	3,506,458
Less accrued expenses and other current liabilities	1,341,103
Less deferred income tax liabilities	1,990,084
Net assets acquired	$20,667,146

The Company determined the estimated fair value of the intangible assets primarily by using the income approach. This approach required the Company to use significant estimates and assumptions for which there is limited observable market information with respect to forecasted sales, operating profits, royalty rates and the selection of an appropriate discount rate.

At December 31, 2021, the final working capital adjustments related to the acquisition are still being finalized and, as such, the transaction consideration and recorded goodwill are considered provisional.

At the date of the NEF Acquisition, total gross contractual receivables approximates fair value. The Company incurred transaction costs of $1,984,524, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income.

Gain on bargain purchase of $1,363,016 was recognized in the consolidated statements of comprehensive income and is calculated as the excess of net assets recognized over the consideration transferred. The bargain purchase was primarily attributed to the selling owners were highly motivated to sell.

On June 7, 2021, the Company acquired certain assets and assumed certain liabilities of Omni Fasteners Inc. (Omni) and Orion Industries Inc. (Orion) for $6,500,000 in cash consideration for purposes of providing a growth investment to the Company (Omni Acquisition). The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed in connection with this acquisition was based on estimated fair values supported by third-party valuations.

Note 3. Acquisitions (Continued)

The following table summarizes the allocation of the purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed:

Trade accounts receivable	$1,012,848
Inventories	1,245,900
Property, plant and equipment	600,000
Identifiable intangible assets:	
Tradename	200,000
Customer contracts	2,530,000
Noncompete agreements	8,000
Goodwill	953,043
Fair value of total assets acquired	6,549,791
Less trade accounts payable	49,791
Net assets acquired	$6,500,000

The Company determined the estimated fair value of the intangible assets primarily by using the income approach. This approach required the Company to use significant estimates and assumptions for which there is limited observable market information with respect to forecasted sales, operating profits, royalty rates and the selection of an appropriate discount rate.

At the date of the Omni Acquisition, total gross contractual receivables approximates fair value. The Company incurred transaction costs of $452,915, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income. Goodwill arising from the acquisition consists primarily of assembled workforce and other intangible assets that do not qualify for separate recognition. Goodwill is deductible for U.S. income tax purpose.

On February 23, 2020, the Company acquired certain assets and assumed certain liabilities of Gexpro Services US, as well as the 100% membership interests of Rexel Magyarország Általános Kereskedelmi és Szolgáltató Kft from Rexel USA, Inc. and its affiliate for $158,498,729 in cash for purposes of providing a growth investment to the Company (LKCM Acquisition). The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed in connection with the LKCM Acquisition was based on estimated fair values supported by third-party valuations.

Note 3. Acquisitions (Continued)

The following table summarizes the allocation of the purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed:

Cash	$ 541,863
Trade accounts receivable	37,149,343
Inventories	74,278,631
Property, plant and equipment	5,609,662
Prepaid expenses and other current assets	4,644,730
Identifiable intangible assets:	
Tradename	16,040,000
Customer contracts	21,560,000
Noncompete agreements	510,000
Goodwill	29,904,624
Fair value of total assets acquired	190,238,853
Less trade accounts payable	24,797,177
Less accrued expenses and other current liabilities	6,942,947
Net assets acquired	$158,498,729

The Company determined the estimated fair value of the intangible assets primarily by using the income approach. This approach required the Company to use significant estimates and assumptions for which there is limited observable market information with respect to forecasted sales, operating profits, royalty rates and the selection of an appropriate discount rate.

At the date of the LKCM Acquisition, total gross contractual receivables approximates fair value. Transaction costs of $3,364,411 incurred by the Company in 2020, which are included in the beginning balance of accumulative deficit. Goodwill arising from the acquisition consists primarily of assembled workforce and other intangible assets that do not qualify for separate recognition. Goodwill is deductible for U.S. income tax purpose.

Note 4. Property, Plant and Equipment

The following table presents the components of property, plant and equipment as of December 31, 2021 and 2020:

	2021	2020
Land	$ 212,323	$ —
Building and improvements	1,487,677	—
Warehouse and office equipment	3,613,668	2,727,276
Computer software	2,970,320	2,576,268
Leasehold improvements	1,090,439	411,867
Vehicles	750,106	339,932
	10,124,533	6,055,343
Accumulated depreciation	(2,627,629)	(1,044,132)
	$ 7,496,904	$ 5,011,211

Note 4. Property, Plant and Equipment (Continued)

During the year ended December 31, 2021, and the period ended December 31, 2020, depreciation expense totaled $1,627,721 and $1,048,313, respectively, and are included in selling, general and administrative expenses of the accompanying consolidated statements of comprehensive income.

Note 5. Intangible Assets and Goodwill

Intangible assets as of December 31, 2021 and 2020, are as follows:

	Cost	Accumulated Amortization	Net
December 31, 2021:			
Tradename	$20,254,416	$(3,071,795)	$17,182,621
Customer contracts	33,850,216	(4,215,137)	29,635,079
Noncompete agreements	900,619	(191,415)	709,204
	$55,005,251	$(7,478,347)	$47,526,904
December 31, 2020:			
Tradename	$16,228,872	$(1,378,689)	$14,850,183
Customer contracts	21,779,952	(1,851,786)	19,928,166
Noncompete agreements	517,172	(87,767)	429,405
	$38,525,996	$(3,318,242)	$35,207,754

During the year ended December 31, 2021, and the period ended December 31, 2020, amortization expense totaled $4,188,628 and $3,301,216, respectively, and are included in the selling, general and administrative expense of accompanying consolidated statements of comprehensive income.

As of December 31, 2021, future amortization related to intangible assets are estimated to be as follows:

2022	$ 5,590,587
2023	5,590,587
2024	5,590,587
2025	5,502,195
2026	5,487,113
Thereafter	19,765,835
	$47,526,904

Note 5. Intangible Assets and Goodwill (Continued)

Changes in the carrying amount of goodwill, from February 23, 2020 through December 31, 2021, are as follows:

	U.S.	Hungary	Consolidated
Goodwill, balance at February 23, 2020	$ —	$ —	$ —
Acquisition	27,647,245	2,257,379	29,904,624
Foreign exchange rate effect	—	231,114	231,114
Goodwill, balance at December 31, 2020	27,647,245	2,488,493	30,135,738
Acquisition	3,963,103	—	3,963,103
Foreign exchange rate effect	—	2	2
Goodwill, balance at December 31, 2021	$31,610,348	$2,488,495	$34,098,843

Note 6. Revolver and Long-Term Debt

In connection with the LKCM Acquisition (Note 3), on February 23, 2020, the Company entered into a credit agreement with a financial institution under which the Company obtained a $60,000,000 term loan and a $15,000,000 revolving line of credit. The revolving line of credit and the term loan are set to expire on February 24, 2025. Availability of the revolving line of credit is reduced by issued and outstanding letters of credit, which are limited to $38,500,000. There were $700,000 outstanding letters of credit as of December 31, 2021.

At December 31, 2021, there was $37,707,118 outstanding on the revolving line of credit. Available borrowings under the revolving line of credit was $92,882 at December 31, 2021.

Borrowings under the credit facility bear interest at a rate equal to the base rate plus an applicable margin or the LIBOR adjusted rate plus an applicable margin. At December 31, 2021, the term loan and revolving line of credit bear interest at 8% and 3.5%, respectively. In addition to paying interest on outstanding principal balances under the credit facility, the Company is required to pay an unused commitment fee equal to 0.25% per annum based on the aggregate amount, for each day during such period, of the available revolving loan commitment. The commitment fee is payable monthly.

Borrowings under the credit facility are secured by the Company’s tangible and intangible assets. The credit facility contains various covenants limiting the Company’s ability to incur indebtedness, grant certain liens, make certain loans, acquisitions and investments, make any material change to the nature of its business, or enter into a merger or sale of assets, including the sale or transfer of interests in the Company. The credit agreement requires the Company to maintain a certain total net leverage ratio and fixed charge ratio, as defined in the agreement, to be reported quarterly. The credit agreement also requires the Company to maintain a certain fixed charge coverage ratio.

In connection with the SIS Acquisition (Note 3), on December 31, 2021, the Company entered into a promissory note with SIS in amount of $8,356,631. The note bears interest at 0.33% per annum and is set to expire on January 5, 2022. This promissory note was paid-off on January 3, 2022.

Notes 6. Revolver and Long-Term Debt (Continued)

At December 31, 2021 and 2020, principal balances and unamortized debt issuance costs and discounts consist of the following:

	2021	2020
Term note	$ 58,063,606	$59,550,000
Revolver	37,707,118	8,785,772
Seller’s note	8,356,631	—
	104,127,355	68,335,772
Less unamortized debt issuance costs	(1,846,998)	(2,429,645)
Less current portion	(9,726,631)	(600,000)
Revolver and long-term debt, net of current portion and unamortized debt issuance costs	$ 92,553,726	$65,306,127

The term loan accrues interest monthly on the unpaid principal balance. The principal balance of the loan is repaid using the term reduction installment table, as defined in the credit agreement.

Subsequent events: In connection with Resolux Acquisition (Note 12), on January 3, 2022, the Company entered a new credit agreement (2022 Credit Agreement) with a financial institution under which the Company obtained an initial $137,000,000 term loan, a $25,000,000 revolving line of credit and a delayed $83,000,000 term loan (together with initial term loan, Term Loan). The revolving line of credit and the Term Loan are set to expire on January 3, 2027 and January 3, 2028, respectively. The proceeds of the initial term loan and $10,000,000 delayed term loan is to fund the Resolux Acquisition, pay-off the previous credit agreement and seller’s promissory note from SIS Acquisition.

At December 31, 2021, maturities of the term loan, which are reflected with the terms of the 2022 Credit Agreement are as follows:

2022	$ 9,726,631
2023	1,370,000
2024	1,370,000
2025	1,370,000
2026	1,370,000
Thereafter	88,920,724
	$104,127,355

Unamortized debt issuance costs and discount relating to the term loan and the line of credit as of December 31, 2021 and 2020, were $1,846,998 and $2,429,645, respectively. Amortization expense related to debt issuance costs and discount were $582,649 and $501,024, respectively, for the year ended December 31, 2021, and the period ended December 31, 2020, and are included with interest expense in the accompanying consolidated statements of comprehensive income.

Note 7. Equity-Based Compensation

Effective December 19, 2019, 301 HW Opus Investor, LLC. (the Parent) entered into a Limited Liability Company Agreement (LLC Agreement) which allows the Parent to issue up to 10,000,000 Common Units (Profit Interests). During the period ended December 31, 2020, the Parent granted certain executive members and employees of the Company 11,820 incentive units (Executive Units) and 2,849 bonus units (Employee Units), respectively. There was not any incentive units granted for the year ended December 31, 2021.

A summary of the activity related to the Profit Interests during the year ended December 31, 2021, and the period ended December 31, 2020, are as follows:

	Executive Units	Employee Units
Unvested, February 23, 2020	—	—
Granted	11,820	2,849
Vested	—	—
Forfeited	—	—
Unvested, December 31, 2020	11,820	2,849
Granted	—	—
Vested	(1,182)	—
Forfeited	—	—
Unvested, December 31, 2021	10,638	2,849

For Executive Units, based on the Management Equity Agreement (Equity Agreement), 50% of units will vest over a five-year service period, and 50% will vest upon a change in control of the Company. For Bonus Units, based on the Equity Equivalent Incentive Plan (Incentive Agreement), 100% of units will vest upon a change in control of the Company. ASC 718 states that an employee's share-based payment becomes vested at the date that the employee's right to receive or retain equity instruments is no longer contingent on satisfaction of either a performance condition or a service condition, and compensation cost is only recognized for an award of share-based compensation if the requisite service is expected to be rendered (i.e., the awards are expected to vest). Accordingly, for awards for which the forfeiture provisions are so substantial that it is not deemed probable that true vesting will occur (i.e., the awards will become non-forfeitable) no compensation expense would be recognized until such time as it becomes probable the awards will vest and no longer be subject to forfeiture. Therefore, the Company did not record any compensation expenses for units vesting upon a change in control of the Company for the year ended December 31, 2021, and the period ended December 31, 2020. The estimated fair value of these units granted to executive members and employees range from $170 to $212 per share.

The estimated fair value of Executive Units subject to time vesting was approximately $224 per share. Grant-date fair value was determined using the following assumptions in a Monte Carlo simulation similar to the Option-Pricing Method:

Expected holding period	5.00
Risk-free rate	1.30%
Volatility	50.00%

Note 7. Equity-Based Compensation (Continued)

The expected holding period (in years) is based on management's estimate for a major liquidation event. Volatility is based on the annualized standard deviation using historical values of Gexpro Services' independently appraised common units. The risk-free interest rate is estimated using the zero coupon U.S. Treasury rates with maturity dates approximating the expected holding period of the common unit on the grant dates. Forfeitures are recognized when they occur.

The Company recognized $264,876 and $220,739 of equity-based compensation expense during the year ended December 31, 2021 and the period ended December 31, 2020, respectively. As of December 31, 2021, $838,806 of unrecognized equity-based compensation expense relates to granted, time-vesting based Executive Units with a weighted-average remaining vesting period of approximately three years.

Note 8. Income Taxes

The components of the income tax provision for the year ended December 31, 2021 and the period ended December 31, 2020 is as follows:

	2021	2020
Current:		
Federal	$ 2,962,424	$ 705,586
State	746,359	496,637
Foreign	207,164	158,270
	3,915,947	1,360,493
Deferred:		
Federal	(1,647,541)	(135,114)
State	(275,324)	(285,773)
Foreign	(110,158)	(18,487)
	(2,033,023)	(439,374)
Income tax expense	$ 1,882,924	$ 921,119

Note 8. Income Taxes (Continued)

The provision for income taxes for the year ended December 31, 2021, and the period ended December 31, 2020, differs from the amount obtained by applying the U.S. federal income tax rate to pretax income due to the following:

	2021	2020
Tax benefit at the federal statutory rate	$1,017,829	$ 660,772
State taxes, net of federal benefit	333,463	164,761
Permanent differences	969,670	403,523
Foreign income tax credit	(282,444)	(139,784)
Foreign rate differential	(218,588)	(186,378)
Others	62,994	18,225
Income tax expense	$1,882,924	$ 921,119

Significant components of the Company's net deferred tax assets and liabilities consisted of the following at December 31, 2021 and 2020:

	2021	2020
Deferred tax assets:		
Accrued expenses	$ 645,477	$ 111,757
Depreciation and amortization	846,280	493,665
Transaction cost	1,133,957	928,251
Inventory	2,788,935	1,253,128
Foreign tax credit	280,612	305,517
Other	427,028	295,482
Total deferred tax assets	6,122,289	3,387,800
Deferred tax liabilities:		
Property, plant and equipment	1,283,318	1,273,578
Goodwill and intangible assets	3,168,072	743,412
Other	343,557	86,407
Total deferred tax liabilities	4,794,947	2,103,397
Net deferred tax assets	$1,327,342	$1,284,403

Tax legislation: On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to, increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income. The tax law changes in the Act did not have a material impact on the Company's income tax provision.

Note 9. Employee Benefit Plans

The Company sponsors a qualified defined contribution retirement plan that allows eligible employees to contribute a discretionary percentage of their compensation, subject to annual limits set by the Internal Revenue Service. Employees are eligible for participation in the plan on the first day of the plan year quarter coinciding with or next following date requirements are met. The Company will make matching safe harbor contributions and may make discretionary matching contributions based on the level of employee contribution. Company contributions during the year ended December 31, 2021, and the period ended December 31, 2020, were $ 972,905 and $714,302, respectively.

Note 10. Commitments and Contingencies

Lease commitments: The Company leases multiple properties under operating leases. Total rental expense for all operating leases was $4,141,526 and $3,005,242 for the year ended December 31, 2021, and the period ended December 31, 2020, respectively. Existing leases may have varying terms including but not limited to terms of renewal or purchase options and escalation clauses.

The following table presents the approximate aggregate future minimum lease payments for non-cancelable operating leases as of December 31, 2021:

2022	$ 3,152,204
2023	2,613,343
2024	1,903,125
2025	1,631,661
2026	800,624
Thereafter	475,781
	$10,576,738

Legal proceedings: In the ordinary course of business, the Company is involved in various legal proceedings. Management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial position or operating results of the Company.

Note 11. Related Party Transactions

The Company has entered into a Management Agreement with an affiliated entity of the Parent. For the year ended December 31, 2021, and the period ended December 31, 2020, the Company incurred $1,246,276 and $850,000, respectively in management fees pursuant to this agreement, which is reflected in selling, general and administrative expenses on the accompanying consolidated statements of comprehensive income. At December 31, 2021 and 2020, $300,360 and $230,123 are reflected in accrued expenses relating to this agreement on the accompanying consolidated balance sheets, respectively.

In connection with LKCM Acquisition, the Company also recorded an additional $413,273 in accrued expenses on the accompanying consolidated balance sheets related to transaction cost paid by an affiliated entity of the Parent on behalf of the Company as of December 31, 2021 and 2020.

Note 12. Subsequent Events

Management has assessed events occurring subsequent to December 31, 2021, through May 13, 2022, the date the consolidated financial statements were available to be issued, for potential recognition and disclosure in the consolidated financial statements.

On January 3, 2022, the Company, through its wholly owned subsidiaries in Denmark, entered a share purchase agreement with Resorb Holding ApS. The Company obtained all issued and outstanding shares of Resolux ApS for consideration of approximately $34,000,000 in cash, and the issuance of approximately $4,000,000 in membership units of the Parent. The Company incurred and accrued acquisition costs of $1,798,734 during the year ended December 31, 2021, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income.

On March 31, 2022, the Company purchased certain assets and assumed certain contracts and obligations from Frontier Technologies Brewton, LLC and Frontier Engineering and Manufacturing Technologies, Inc. for consideration of approximately $26,000,000 in cash, the issuance of approximately $1,500,000 in membership units of the Parent, as well as up to $3,000,000 earn-out payment in the future. The Company incurred and accrued acquisition costs of $38,527 during the year ended December 31, 2021, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income.

On April 1, 2022, The Parent of the Company merged with Lawson Products, Inc. (Lawson) and TestEquity Acquisition, LLC for 10,300,000 shares of common stock of Lawson, which were valued at approximately $400 million, with an additional 1,700,000 shares of Lawson common stock remain potentially issuable upon meeting the conditions of certain earnout provisions. Of the 10,300,000 shares of common stock, the Parent received 7,000,000 shares of common stock which were valued at approximately $270 million. The Parent could receive an additional 1,000,000 of the 1,700,000 shares available through the earnout provision. The Company incurred and accrued transaction costs of $893,346 during the year ended December 31, 2021, for preparation of this merger, which is included in the selling, general and administrative expenses of the consolidated statements of comprehensive income. The 2022 Credit Agreement was paid-off from the proceeds of new credit facilities borrowed by Lawson.

Gexpro Services
(Predecessor of 301 HW Opus Holdings, Inc.)

Combined Abbreviated Financial Report
February 23, 2020

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Independent Auditor's Report

Board of Directors
301 HW Opus Holdings, Inc.

RSM US LLP

Report on the Financial Statement

We have audited the accompanying combined abbreviated financial statement of Gexpro Services, a business of Rexel USA, Inc., which comprise the combined statement of net revenue and direct operating expenses for the period from January 1, 2020 through February 23, 2020 and the related notes to the combined abbreviated financial statement (collectively, the financial statement).

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the combined abbreviated financial statement of net revenue and direct operating expenses for the period from January 1, 2020 through February 23, 2020, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note *2,* the combined abbreviated financial statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of Gexpro Services's revenues and expenses. Our conclusion is not modified with respect to this matter.

RSM US LLP

Dallas, Texas
June 9, 2022

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Combined Statement of Net Revenue and Direct Operating Expenses
For the period from January 1, 2020 through February 23, 2020

Net revenue	$ 36,565,975
Direct operating expenses:	
Cost of goods sold	25,999,747
Selling, general and administrative	9,260,141
Total direct operating expenses	35,259,888
Net revenue in excess of direct operating expenses	$ 1,306,087

See notes to combined abbreviated financial statement.

Note 1. Nature of Business and Organization

Gexpro Services (GS), a business of Rexel USA, inc. (Rexel), is a supply-chain solutions provider to original equipment manufacturers (OEM) for production line, field installation, repair and overhaul and aftermarket consumption of hardware, fasteners, nuts, bolts, catalogue parts, gaskets, seals, O-rings, valves and other electronic parts. GS is headquartered in lrving, Texas, with inventory selling/holding facilities across the United States, Hungary and China.

On February 23, 2020, Rexel sold GS for $158,498,729 in cash to GS Operating, LLC, which is a wholly owned subsidiary of 301 HW Opus Holdings, Inc.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying combined abbreviated financial statement, the Combined Statement of Net Revenues and Direct Operating Expenses of GS was prepared in connection with a proposed transaction that contemplates the acquisition of all of the capital stock of 301 HW Opus Holdings, Inc. by Lawson Products, Inc. (the buyer) and were prepared in accordance with a Securities and Exchange Commission (SEC) waiver received by the buyer for the purpose of the buyer complying with Rule 3-13 of the SEC’s Regulation S-X. The accompanying combined abbreviated financial statement is not intended to be a complete presentation of the results of operations of GS. The Combined Statement of Net Revenues and Direct Operating Expenses of GS was derived from Rexel’s historical accounting records, which are maintained in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The Combined Statement of Net Revenues and Direct Operating Expenses are not intended to be a complete presentation of the results of operations as if the GS business had operated as a stand-alone entity during the period presented and are not necessarily indicative of the results of operations that would have been achieved if GS had operated as a separate, stand-alone entity as of or for the period presented nor are they necessarily indicative of the financial condition or results of operations to be expected in the future due to changes in the business and the omission of certain operating expenses as described below. Certain centrally provided services, corporate functions, and other areas which are shared by the GS business are not tracked or monitored in a manner that would enable the development of full financial statements required by Rule 3-13 of Regulation S-X. Such centrally provided service costs include, but are not limited to certain marketing, finance, legal, information technology and human resources services. As such, it is not possible to provide a meaningful allocation of corporate, interest or tax expenses and only costs directly related to the revenue-generating activities of GS are included in this combined abbreviated financial statement.

The Combined Statement of Net Revenues and Direct Operating Expenses includes the net revenues and direct operating expenses directly attributable to the generation of those revenues. The Combined Statement of Net Revenues and Direct Operating Expenses excludes the cost of general corporate activities, corporate level overhead, interest expense and income taxes. Selling, general and administrative expenses are comprised primarily of employee compensation and benefits, travel, advertising, and facilities costs. Had the GS business existed as a separate, stand-alone entity, its results of operations may have differed materially from those included in the combined abbreviated financial statement. In addition, future results of operations could differ materially from the historical results presented.

Pursuant to the SEC waiver noted previously, a combined balance sheet, combined statement of cash flows and a combined statement of equity are not presented. All of the cash flow requirements of GS were funded by Rexel, and cash management functions were not performed at the GS level. Therefore, it is impracticable to present a statement of cash flows, including cash flows from operating, investing and financing activities, as GS did not maintain cash balances of that nature.

Note 2. Summary of Significant Accounting Policies (Continued)

All material intercompany balances and transactions between the entities that comprised the GS business have been eliminated.

Use of estimates: The preparation of combined abbreviated financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined abbreviated financial statement and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property, plant and equipment: Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, three to eight years for warehouse and office equipment, three years for computer software, three years for vehicles, and over the shorter of the useful life of the assets or term of the underlying leases for leasehold improvements. The costs of repairs, maintenance and minor renewals are charged to expense as incurred.

Impairment of long-lived assets: GS records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If required, the impairment recognized is the difference between the fair value of the asset and its carrying amount. There was no such impairment losses recognized for the period from January 1, 2020 through February 23, 2020 (period ended February 23, 2020).

Foreign currency translation: The functional currency of GS's foreign subsidiaries is the local currency. Revenue and direct operating expenses accounts are translated at average exchange rates prevailing during the period. Gains and losses from foreign currency denominated transactions are recognized in earnings.

Revenue recognition: GS recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

GS's products are marketed and sold primarily to OEM globally. Sales of products are subject to economic conditions and may fluctuate based on changes in the industry, trade policies and financial markets.

The majority of GS's revenue contracts represent a single performance obligation related to the fulfillment of customer orders for the purchase of GS's products. Revenue from sales of GS's products are recognized upon transfer of control to the customer, which is typically when the product has been shipped from its inventory holding facilities in U.S. and Hungary.

Note 2. Summary of Significant Accounting Policies (Continued)

The transaction price is the amount of consideration to which GS expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimate of variable consideration such as early payment/volume discounts and rebates.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

GS has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer GS's products and not as a separate performance obligation. Amounts billed to customers for shipping are classified as revenue. All outbound shipping and handling costs are classified as selling, general and administrative expense, total costs incurred for the period ended February 23, 2020, were $176,262.

GS has elected to apply the practical expedient to expense sales commissions and associated costs as incurred as the expected amortization period would be one year or less.

Payment terms on invoiced amounts range from 10 to 120 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, GS has determined that a significant financing component does not exist. The primary purpose of GS's invoicing terms is to provide customers with simplified and predictable ways of purchasing GS's products and not to receive financing from or provide financing to the customer.

Concentration of credit risk: During the period ended February 23, 2020, GS had two customers that accounted for approximately 33% and 11% of GS's revenues, respectively.

GS has foreign operations in Hungary. Total net revenue in excess of direct operating expenses and third-party revenue of the Hungarian operation for the period ended February 23, 2020, were $2,932 and $2,428,889, respectively.

Advertising: GS follows the policy of charging the costs of advertising to expense as incurred, Advertising expenses for the period ended February 23, 2020, was $13,237.

Note 3. Employee Benefit Plans

GS sponsors a qualified defined contribution retirement plan that allows eligible employees to contribute a discretionary percentage of their compensation, subject to annual limits set by the Internal Revenue Service. Employees are eligible for participation in the plan on the first day of the plan year quarter coinciding with or next following date requirements are met. GS will make matching safe harbor contributions and may make discretionary matching contributions based on the level of employee contribution. GS contributions for the period ended February 23, 2020, was $117,423.

Note 4. Commitments and Contingencies

Lease commitments: GS leases multiple properties under operating leases. Total rental expense for all operating leases was $473,582 for the period ended February 23, 2020. Existing leases may have varying terms including, but not limited to, terms of renewal or purchase options and escalation clauses.

Note 4. Commitments and Contingencies (Continued)

The following table presents the approximate aggregate future minimum lease payments for non-cancelable operating leases as of February 23, 2020:

Remainder of 2020	$ 2,895,263
2021	2,700,403
2022	2,139,712
2023	1,575,495
2024	1,061,745
2025	815,586
Thereafter	68,192
	$11,256,396

Legal proceedings: In the ordinary course of business, GS is involved in various legal proceedings. Management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial position or operating results of GS.

Note 5. Subsequent Events

Management has assessed events occurring subsequent to February 23, 2020 through June 9, 2022, the date the combined abbreviated financial statement was available to be issued, for potential recognition and disclosure in the combined abbreviated financial statement.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Introduction

On December 29, 2021, Distribution Solutions Group, Inc., a Delaware corporation formerly known as Lawson Products, Inc. (the "Company"), 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 ("TestEquity"), (iii) the Company and (iv) Tide Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Lawson ("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 Lawson (the "TestEquity Merger"); and

an 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 ("Gexpro Services"), (iii) Lawson and (iv) Gulf Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Lawson ("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 Lawson (the "Gexpro Services Merger" and, together with the TestEquity Merger, the "Mergers").

On April 1, 2022, the Mergers were consummated pursuant to the Merger Agreements. As used herein, the "Combined Company" means the Company and its subsidiaries after giving effect to the consummation of the Mergers, assuming the Mergers were consummated as of the date specified herein.

The unaudited pro forma condensed combined statement of operations gives effect to the Mergers and related anticipated refinancing of certain indebtedness of the Company, Gexpro Services and TestEquity (together, "the "Transactions") as if the Transactions occurred on January 1, 2021 and the unaudited pro forma condensed combined balance sheet gives effect to the Transactions as if they had occurred on December 31, 2021. In addition, the pro forma statements include certain closed acquisitions that are insignificant individually and in the aggregate with an acquisition date through April 30, 2022. The combined pro forma totals on the statement of operations and balance sheet represent the combined company as per the Merger Agreements.

The unaudited pro forma condensed combined financial information has been 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 under the common control of an entity that beneficially owns a majority of the voting rights of the Combined Company. On a combined basis, the revenue, assets, and the fair value of equity of TestEquity and Gexpro Services are larger than the Company's. In addition, the Company's, TestEquity's and Gexpro Services' senior management teams remained substantially in place after the completion of the Mergers and serve under the direction of the CEO and Board of Directors of the holding company parent of the Combined Company. Based on these factors, only the Company experienced a change in control. Accordingly, under the acquisition method of accounting, the purchase price will be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of the Company, based on their estimated acquisition-date fair values. These estimates will be determined through established and generally accepted valuation techniques.

Description of the Financing

On April 1, 2022, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement"), by and among the Company, certain subsidiaries of the Company as borrowers or guarantors, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The Amended and Restated Credit Agreement amended and restated the existing credit agreement (the "Existing Credit Agreement") in its entirety.

The Amended and Restated Credit Agreement provides for (i) a $200 million senior secured revolving credit facility, with a $25 million letter of credit subfacility and a $10 million swingline loan subfacility, (ii) a $250 million senior secured initial term loan facility and (iii) a $50 million senior secured delayed draw term loan facility. In addition, the Amended and Restated Credit Agreement permits the Company to increase the commitments under the Amended and Restated Credit Agreement from time to time by up to $200 million in the aggregate, subject to, among other things, the receipt of additional commitments from existing and/or new lenders and pro forma compliance with the financial covenants in the Amended and Restated Credit Agreement. The revolving credit facility is available to be drawn in U.S. dollars, Canadian dollars and any other additional currencies that may be agreed.

Pursuant from borrowings under the Amended and Restated Credit Agreement were utilized to (1) repay all obligations under and refinance (a) the Company's Existing Credit Agreement and (b) certain existing indebtedness of TestEquity and Gexpro Services and their respective affiliates in connection with the closing of the Mergers, (2) finance the working capital needs and general corporate purposes of the Combined Company and (3) pay fees and expenses in connection with the Transactions.

The interest rate is comprised of the adjusted term SOFR Rate for a one month interest period plus an additional margin ranging from 1.0% to 2.75% per annum. The interest rates used for purposes of preparing this unaudited pro forma condensed combined financial information related to the new term loan facility was 4.0%, which was the appropriate interest rate under the Amended and Restated CRedit Agreement as of May 31, 2022.

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:

- The Company's audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2021 included in its Annual Report on Form 10-K filed for the year ended December 31, 2021;
- Gexpro Services' audited consolidated financial statements and the related notes thereto as of and for the period ended December 31, 2021 and as of December 31, 2020 and for the period from February 23, 2020 to December 31, 2020 included as an exhibit to the Current Report on Form 8-K/A to which this the unaudited pro forma combined financial information has also been filed as an exhibit (the "Form 8-K/A");
- Gexpro Services' audited abbreviated Combined Statement of Net Revenue and Direct Operating Expenses for the period from January 1, 2020 to February 23, 2020 included as an exhibit to the Form 8-K/A;
- TestEquity's audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2021 and December 31, 2020, included as an exhibit to the Form 8-K/A.

This unaudited pro forma condensed combined financial information has been prepared for illustrative purposes only and is based on assumptions and estimates considered appropriate by the Company's management; however, it is not necessarily indicative of what the Company's consolidated financial condition or results of operations actually would have been assuming the Transactions had been consummated as of the dates indicated, nor does it purport to represent the Company's consolidated financial position or results of operations for future periods. As the Mergers will be accounted for as a reverse acquisition with TestEquity and Gexpro Services as the combined accounting acquirer and the Company as the accounting acquiree, acquisition accounting in accordance with Accounting Standards Codification (ASC) 805, Business Combinations, is applied to the Company. Accordingly, the purchase price will be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of the Company, based on their estimated acquisition-date fair values. The pro forma adjustments are based on preliminary estimates of the fair values of assets acquired and liabilities assumed and information available as of the date to the Form 8-K/A. Certain valuations and assessments, including valuations of the intangible assets and liabilities, as well as the assessment of the tax positions and rates of the combined business, are in process and will not be completed until subsequent to the close of the proposed Mergers. For the preliminary estimate of fair values of assets acquired and liabilities assumed of the Company as the acquired company, the Company used publicly available benchmarking information as well as a variety of other assumptions, including market participant assumptions. The debt was incurred in connection with the closing of the Mergers is included in the unaudited pro forma condensed combined financial information reflecting recent rates of borrowings under the Amended and Restated Credit Agreement. Actual adjustments and transaction costs may differ from the amounts reflected in the unaudited pro forma condensed combined financial statements, and the differences may be material. All pro forma adjustments and their underlying assumptions are described more fully in the notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information was prepared pursuant to 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 the Combined Company upon consummation of the 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 while Management's Adjustments are only included within the accompanying notes.

The unaudited pro forma condensed combined financial information has been compiled in a manner consistent with the accounting policies adopted by Gexpro Services and TestEquity. The Company believes its accounting policies are similar in most material respects to those of Gexpro Services and TestEquity with the exception of leases. Gexpro Services and TestEquity have not yet adopted ASC 842 but will be required to adopt the standard following consummation of the Mergers. Pro formas adjustments are reflected within the financial information for the adoption of ASC 842 by Gexpro Services and TestEquity. Certain reclassifications have been made to conform the presentation of financial information to that of Gexpro Services and TestEquity. Upon completion of the Mergers, or as more information becomes available, the Company will perform a more detailed review of Gexpro Services' and TestEquity's accounting policies. As a result of that review, the combined company may identify differences among the accounting policies of the companies that, when conformed, could have a material impact on the unaudited pro forma condensed combined financial statements contained in this filing.

Other Closed Acquisitions

The unaudited pro forma condensed combined financial information also gives effect to other closed acquisitions. Although these closed acquisitions are not individually significant or significant in the aggregate and therefore separate financial statements are not included, pro forma financial information was considered meaningful as these closed acquisitions are specified in the Merger Agreements. Closed acquisitions are included in the unaudited pro forma condensed combined statement of operations as if such acquisitions occurred on January 1, 2021 and the unaudited pro forma condensed combined balance sheet gives effect to such acquisitions as if they had occurred on December 31, 2021. Additionally, Gexpro and TestEquity have had discussions with the owners/shareholders of additional potential acquisitions specified in the Merger Agreements. If the additional potential acquisitions were to be completed, the consideration for these possible but not yet probable acquisitions could potentially involve the Company issuing additional common shares pursuant to the terms of the Merger Agreements. The additional potential acquisitions are in various stages of negotiations and have not received the necessary approvals, including approval of a committee of the Company's board of directors comprised of independent directors. As a result, the additional potential acquisitions are deemed possible but not yet probable of occurring and are therefore not presented in the pro forma statements and related notes.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

(in thousands)

As of December 31, 2021

	Adjusted TestEquity As of December 31, 2021 (Note 2d)	Adjusted Gexpro Services As of December 31, 2021 (Note 2b)	Historical Distribution Solutions Group Inc. As of December 31, 2021	Pro forma adjustments (Note 4)		Pro forma Combined As of December 31, 2021
Assets						
Current Assets:						
Cash and cash equivalents	$ 8,754	$ 12,964	$ 4,181	$ 13,220	(a)	$ 39,119
Restricted cash	—	—	198	—		198
Accounts receivable, less allowance for doubtful accounts	44,713	45,514	47,031	—		137,258
Inventories, net	50,267	99,078	73,849	—		223,194
Miscellaneous receivables and prepaid expenses	4,199	5,473	7,517	(320)	(b)	16,869
Total current assets	$ 107,933	$ 163,029	$ 132,776	$ 12,900		$ 416,638
Property, plant and equipment, less accumulated depreciation and amortization	$ 1,937	$ 7,971	$ 18,828	$ 19,816	(c)	$ 48,552
Rental equipment, net	24,726	—	—	—		24,726
Deferred income taxes	—	3,565	20,111	—		23,676
Goodwill	70,112	34,099	35,313	214,802	(d)	354,326
Cash value of life insurance	—	—	18,573	—		18,573
Intangible assets, net	52,977	47,527	16,165	196,183	(d)	312,852
Right of use assets	—	—	14,045	17,499	(f)	31,544
Other assets	176	89	346	1,654	(e)	2,265
Total assets	$ 257,861	$ 256,280	$ 256,157	$ 462,854		$ 1,233,152
Liabilities and Stockholders' Equity						
Current Liabilities:						
Accounts payable	$ 28,570	$ 30,789	$ 21,089	$ —		$ 80,448
Current portion of long term debt	4,317	9,991	—	692	(g)	15,000
Revolving loan facility	1,000	—	—	(1,000)	(g)	—
Term loan related party	119,361	—	—	(119,361)	(g)	—
Lease obligation	—	—	4,467	3,445	(f)	7,912
Accrued expenses and other liabilities	14,729	12,959	46,688	(3,285)	(h), (i)	71,091
Total current liabilities	$ 167,977	$ 53,739	$ 72,244	$ (119,509)		$ 174,451
Long-term debt	$ —	$ 98,231	$ —	$ 273,906	(g)	$ 372,137
Revolving line of credit	—	—	11,900	(11,900)	(g)	—
Security bonus plan	—	—	10,578	—		10,578
Lease obligation	—	—	10,841	14,054	(f)	24,895
Deferred compensation	—	—	11,962	—		11,962
Deferred tax liability	3,733	2,238	1,671	45,704	(k)	53,346
Other liabilities	—	—	3,954	65,518	(j)	69,472
Total liabilities	$ 171,710	$ 154,208	$ 123,150	$ 267,773		$ 716,841
Stockholders' Equity						
Common stock	$ —	$ —	$ 9,363	$ 10,300	(l)	$ 19,663
Capital in excess of par value	—	91,876	22,118	321,970	(l)	435,964
Members equity	117,919	6,484	—	(17,231)	(l)	107,172
Retained earnings	(31,666)	2,670	111,015	(119,414)	(l)	(37,395)
Treasury stock	—	—	(10,033)	—		(10,033)
Accumulated other comprehensive income (loss)	(102)	1,042	544	(544)	(l)	940
Total stockholders' equity	$ 86,151	$ 102,072	$ 133,007	$ 195,081		$ 516,311
Total liabilities and stockholders' equity	$ 257,861	$ 256,280	$ 256,157	$ 462,854		$ 1,233,152

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

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(in thousands, except per share amounts)

For the Year Ended December 31, 2021

	Adjusted		Historical			
	TestEquity Year ended December 31, 2021 (Note 2c)	Gexpro Services Year ended December 31, 2021 (Note 2a)	Distribution Solutions Group Inc. Year ended December 31, 2021	Pro forma adjustments (Note 5)		Pro forma Combined Year ended December 31, 2021
Total revenue	$ 387,518	$ 344,028	$ 417,733	$ —		$ 1,149,279
Cost of goods sold	304,950	244,117	198,498	—		747,565
Gross profit	$ 82,568	$ 99,911	$ 219,235	$ —		$ 401,714
Operating expenses:						
Selling expenses	$ 28,206	$ 16,578	$ 96,643	$ —		$ 141,427
General and administrative expenses	46,292	60,871	110,605	22,520	(a), (b),(c)	240,288
Operating expenses	$ 74,498	$ 77,449	$ 207,248	$ 22,520		$ 381,715
Operating income	$ 8,070	$ 22,462	$ 11,987	$ (22,520)		$ 19,999
Interest expense	(10,809)	(6,372)	(869)	65	(d)	(17,985)
Other income (expense), net	115	(520)	801	—		396
Income before income taxes	$ (2,624)	$ 15,570	$ 11,919	$ (22,455)		$ 2,410
Income tax expense	(1,130)	3,548	2,513	(5,614)	(e)	(683)
Net income	$ (1,494)	$ 12,022	$ 9,406	$ (16,841)		$ 3,093
Basic income per share of common stock			1.04			0.16
Diluted income per share of common stock			1.01			0.16
Weighted average shares outstanding:						
Basic weighted average shares outstanding			9,073			19,373
Effect of dilutive securities outstanding			277			277
Diluted weighted average shares outstanding			9,350			19,650

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

The unaudited pro forma condensed combined financial information was prepared pursuant to 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 the Combined Company upon consummation of the 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 also is not including Management’s Adjustments within hte staements and notes.

The unaudited pro forma condensed combined balance sheet as of December 31, 2021 combines the historical unaudited condensed consolidated balance sheet of the Company as of December 31, 2021, the audited consolidated balance sheet of Gexpro Services as of December 31, 2021 and the audited consolidated balance sheet of TestEquity as of December 31, 2021, giving effect to (i) the Transactions as if they had been completed on December 31, 2021 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 statements of operations for the year ended December 31, 2021 gives effect to (i) the Transactions as if they had been completed on January 1, 2021, 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. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2021 was prepared using the Company’s historical unaudited condensed consolidated statement of operations for the year ended December 31, 2021, Gexpro Services’ audited consolidated statement of operations for the year ended December 31, 2021 and TestEquity’s audited consolidated statement of operations for the year ended December 31, 2021.

The unaudited pro forma condensed combined financial information has been 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 are under the common control of an entity that will beneficially own a majority of the voting rights of the Combined Company and therefore, only the Company will experience a change in control. Accordingly, under the acquisition method of accounting, the purchase price will be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of the Company, based on their estimated acquisition-date fair values. These estimates will be determined through established and generally accepted valuation techniques.

The unaudited pro forma condensed combined financial information may differ from the final purchase accounting 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. Adjustments to Gexpro Services' and TestEquity's Historical Financial Statement

(2a) Adjustments to Gexpro Services' historical statements of operations related to closed acquisitions:

Gexpro Services' adjusted combined statement of operations for year ended December 31, 2021 was prepared by combining Gexpro Services' historical audited consolidated statement of operations for the year ended December 31, 2021 and the unaudited historical statements of operations for Gexpro Services' closed acquisitions that closed during 2021 (Omni, National Engineered Fasteners, and State Industrial Supply Inc) through the respective acquisition date and that closed during 2022 (Resolux and Frontier) for the year ended December 31, 2021. Reclassification adjustments are included to conform the presentation to the Company's selling expenses and cost of goods sold from selling, general and administrative expenses.

	Historical (in thousands)							Adjusted Combined
	Gexpro Services Year ended December 31, 2021	Omni Five months ended May 31, 2021	National Engineered Fasteners Ten months ended October 30, 2021	Resolux Year ended December 31, 2021	State Industrial Supply Year ended December 31, 2021	Frontier Year ended December 31, 2021	Reclassification adjustments	Gexpro Services Year ended December 31, 2021
Total revenue	$ 255,317	$ 2,354	$ 24,410	$ 31,906	$ 9,624	$ 20,417	$ —	$ 344,028
Cost of goods sold	174,035	846	18,004	21,840	6,097	14,402	8,893	244,117
Gross profit	$ 81,282	$ 1,508	$ 6,406	$ 10,066	$ 3,527	$ 6,015	(8,893)	$ 99,911
Operating expenses:								
Selling expenses	$ —	$ —	$ —	$ —	$ —	$ —	16,578	$ 16,578
General and administrative expenses	—	—	—	—	—	—	60,871	60,871
Selling, general and administrative	70,295	1,068	3,948	6,333	1,953	2,745	(86,342)	—
Operating expenses	$ 70,295	$ 1,068	$ 3,948	$ 6,333	$ 1,953	$ 2,745	$ (8,893)	$ 77,449
Operating income	$ 10,987	$ 440	$ 2,458	$ 3,733	$ 1,574	$ 3,270	—	$ 22,462
Interest expense	(6,140)	—	(114)	(117)	(1)	—	—	(6,372)
Other income (expense), net	—	—	(186)	(63)	(271)	—	—	(520)
Income before income taxes	$ 4,847	$ 440	$ 2,158	$ 3,553	$ 1,302	$ 3,270	$ —	$ 15,570
Income tax expense	1,883	40	489	1,131	5	—	—	3,548
Net income	$ 2,964	$ 400	$ 1,669	$ 2,422	$ 1,297	$ 3,270	$ —	$ 12,022

(2b) Adjustments to Gexpro Services' historical balance sheet related to closed acquisitions:

Gexpro Services' adjusted combined balance sheet as of December 31, 2021 was prepared by combining Gexpro Services' historical audited consolidated balance sheet as of December 31, 2021 with the unaudited historical balance sheets for Gexpro Services' closed acquisitions (Resolux and Frontier) that had acquisition dates after December 31, 2021. The unaudited information was derived from the underlying books and records of each respective company and adjusted to exclude items not considered as part of the acquisition.

	Historical (in thousands)			Adjusted Combined
	Gexpro Services As of December 31, 2021	Resolux As of December 31, 2021	Frontier As of December 31, 2021	Gexpro Services As of December 31, 2021
Assets				
Current Assets:				
Cash and cash equivalents	$ 9,128	$ 3,836	$ —	$ 12,964
Accounts receivable, less allowance for doubtful accounts	39,665	4,759	1,090	45,514
Inventories, net	93,539	4,071	1,468	99,078
Miscellaneous receivables and prepaid expenses	4,023	1,450	—	5,473
Total current assets	$ 146,355	$ 14,116	$ 2,558	$ 163,029
Property, plant and equipment, less accumulated depreciation and amortization	$ 7,497	$ 474	$ —	$ 7,971
Deferred income taxes	3,565	—	—	3,565
Goodwill	34,099	—	—	34,099
Intangible assets, net	47,527	—	—	47,527
Other assets	—	89	—	89
Total assets	$ 239,043	$ 14,679	$ 2,558	$ 256,280
Liabilities and Stockholders' Equity				
Current Liabilities:				
Accounts payable	$ 27,006	$ 3,158	$ 625	$ 30,789
Current portion of long term debt	9,727	264	—	9,991
Accrued expenses and other liabilities	11,930	918	111	12,959
Total current liabilities	$ 48,663	$ 4,340	$ 736	$ 53,739
Long-term debt	$ 92,554	$ 5,677	$ —	$ 98,231
Deferred tax liability	2,238	—	—	2,238
Other liabilities	—	—	—	—
Total liabilities	$ 143,455	$ 10,017	$ 736	$ 154,208
Stockholders' Equity				
Capital in excess of par value	$ 91,876	$ —	$ —	$ 91,876
Retained earnings	2,670	—	—	2,670
Members' equity	—	4,662	1,822	6,484
Accumulated other comprehensive income (loss)	1,042	—	—	1,042
Total stockholders' equity	$ 95,588	$ 4,662	$ 1,822	$ 102,072
Total liabilities and stockholders' equity	$ 239,043	$ 14,679	$ 2,558	$ 256,280

(2c) Adjustments to TestEquity's historical statement of operations related to closed acquisitions:

TestEquity's adjusted combined statement of operations for the year ended December 31, 2021 was prepared by combining TestEquity's historical audited consolidated statement of operations for the year ended December 31, 2021, with the unaudited historical statement of operations for TestEquity's closed acquisitions that closed during 2021 (MCS) through the respective acquisition date and that closed during 2022 (Interworld Highway LLC) for the year ended December 31, 2021.MCS' seven months ended July 31, 2021 statement of operations was derived from its five months ended July 31, 2021 results, adjusted to include the two months ended February 28, 2021 (with those two months also included in the results for the year ended February 28, 2021), as permitted by Rule 11-02 of Regulation S-X.Reclassification adjustments are included to conform the presentation to the Company's selling expenses and cost of goods sold from selling, general and administrative expenses.

	Historical (in thousands)				Adjusted Combined
	TestEquity Year ended December 31, 2021	MCS January 1, 2021 through July 31, 2021	Interworld Highway LLC Year ended December 31, 2021	Reclassification adjustments	TestEquity Year ended December 31, 2021
Total revenue	$ 270,503	$ 7,425	$ 109,590	$ —	$ 387,518
Cost of goods sold	203,699	4,179	88,610	8,462	304,950
Gross profit	$ 66,804	$ 3,246	$ 20,980	$ (8,462)	$ 82,568
Operating expenses:					
Selling expenses	$ —	$ —	$ —	$ 28,206	$ 28,206
General and administrative expenses	—	—	—	46,292	46,292
Selling, general and administrative	59,483	1,778	15,471	(76,732)	—
Depreciation and amortization	6,228	—	—	(6,228)	—
Operating expenses	$ 65,711	$ 1,778	$ 15,471	$ (8,462)	$ 74,498
Operating income	$ 1,093	$ 1,468	$ 5,509	$ (0)	$ 8,070
Interest expense	(10,850)	41	—	—	(10,809)
Other income (expense), net	(180)	—	295	—	115
Income before income taxes	$ (9,937)	$ 1,509	$ 5,804	$ (0)	$ (2,624)
Income tax expense (benefit)	(1,272)	142	—	—	(1,130)
Net income	$ (8,665)	$ 1,367	$ 5,804	$ (0)	$ (1,494)

(2d) Adjustments to TestEquity's historical balance sheet related to closed acquisitions:

TestEquity's adjusted combined balance sheet as of December 31, 2021 was prepared by combining TestEquity's historical audited consolidated balance sheet as of December 31, 2021 with the unaudited historical balance sheet for TestEquity's closed acquisition (Interworld Highway LLC) that had an acquisition date after December 31, 2021 and before April 30, 2022. The unaudited information was derived from the underlying books and records of each respective company and adjusted to exclude items not considered as part of the acquisition. Reclassification adjustments are included to conform the Company's presentation.

	Historical (in thousands)				Adjusted Combined
	TestEquity As of December 31, 2021	Interworld Highway LLC As of December 31, 2021	Reclassification adjustments	Assets /Liabilities not assumed	TestEquity As of December 31, 2021
Assets					
Current Assets:					
Cash and cash equivalents	$ 5,543	$ 3,211	$ —	$ —	$ 8,754
Accounts receivable, less allowance for doubtful accounts	40,908	3,805	—	—	44,713
Inventories, net	39,178	11,089	—	—	50,267
Miscellaneous receivables and prepaid expenses	3,265	868	66	—	4,199
Income tax receivable	66	—	(66)	—	—
Total current assets	$ 88,960	$ 18,973	$ —	$ —	$ 107,933
Property, plant and equipment, less accumulated depreciation and amortization	$ 1,582	$ 355	$ —	$ —	$ 1,937
Rental Equipment, net	24,726	—	—	—	24,726
Goodwill	70,112	—	—	—	70,112
Intangible assets, net	52,977	569	—	(569)	52,977
Other assets	166	10	—	—	176
Total assets	$ 238,523	$ 19,907	$ —	$ (569)	$ 257,861
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable and accrued expenses	$ 34,668	$ 8,591	$ (14,689)	$ —	$ 28,570
Note payable—current portion—releated parties	4,317	—	—	—	4,317
Revolving loan facility	1,000	—	—	—	1,000
Term loan related party	119,361	—	—	—	119,361
Income tax payable	40	—	(40)	—	—
Accrued expenses and other liabilities	—	—	14,729	—	14,729
Total current liabilities	$ 159,386	$ 8,591	$ —	$ —	$ 167,977
Deferred tax liability	$ 3,733	$ —	$ —	$ —	$ 3,733
Total liabilities	$ 163,119	$ 8,591	$ —	$ —	$ 171,710
Stockholders' Equity					
Retained earnings	$ —	$ —	$ (31,666)	$ —	$ (31,666)
Members' equity	75,404	11,316	31,768	(569)	117,919
Accumulated other comprehensive income (loss)	—	—	(102)	—	(102)
Total stockholders' equity	$ 75,404	$ 11,316	$ —	$ (569)	$ 86,151
Total liabilities and stockholders' equity	$ 238,523	$ 19,907	$ —	$ (569)	$ 257,861

Note 3. Calculation of Accounting Consideration and Preliminary Purchase Price Allocation in the Mergers

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 estimated consideration is as follows:

(in thousands, except share data)	Total
Number of DSGR common shares as of March 31, 2022	9,120,167
Price per share of DSGR common stock at March 31, 2022	$ 38.54
Fair value of DSGR common shares at March 31, 2022	**$ 351,491**
Preliminary estimate of fair value of share-based instruments	2,227
Fair value of total estimated purchase consideration transferred	$ 353,718
Cash paid for closed acquisitions	125,378
Total consideration	**$ 479,096**

The following table shows the change in the price per share of DSGR common stock, estimated accounting consideration and goodwill:

(in thousands, except share data)	Price per Share of DSGR Common Stock	Estimated Accounting Consideration	Estimated Goodwill
Increase of 10%	$ 42.39	$ 514,245	$285,264
Decrease of 10%	$ 34.69	$ 443,947	$228,981

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

(in thousands, except share data)	Total
Current assets	$132,776
Property, plant, and equipment, net	38,644
Identifiable intangible assets	163,000
Cash value of life insurance	18,573
Right of use assets	14,045
Deferred tax assets	20,111
Other assets	346
Total Assets	$387,495
Accounts payable	21,089
Accrued expenses and other liabilities	37,409
Lease obligations—current	4,467
Revolving loan facility	11,900
Long-term debt	—
Security bonus plan	10,578
Lease obligations—noncurrent	10,841
Deferred compensation	11,962
Deferred tax liability	47,375
Other liabilities	69,472
Total Liabilities	$225,093
Net assets acquired	162,402
Estimated purchase consideration transferred	353,718
Estimated Goodwill	$191,316

The table below represents a preliminary allocation of the estimated total consideration to the assets and liabilities of closed acquisitions (Interworld Highway LLC,Resolux, and Frontier) based on each acquisition's respective preliminary estimate of its fair value (in thousands):

(in thousands, except share data)	Interworld Highway LLC	Resolux	Frontier	Total
Current assets	$ 18,973	$14,116	$ 2,558	$ 35,647
Property, plant, and equipment, net	355	474	—	829
Identifiable intangible assets	20,358	16,027	12,963	49,348
Other assets	10	89	—	99
Total Assets	$ 39,696	$30,706	$15,521	$ 85,923
Accounts payable	8,591	3,158	625	12,374
Current portion of long term debt	—	264	—	264
Accrued expenses and other liabilities	—	918	111	1,029
Long-term debt	—	5,677	—	5,677
Total Liabilities	$ 8,591	$10,017	$ 736	$ 19,344
Net assets acquired	31,105	20,689	14,785	66,579
Estimated cash consideration	55,878	39,500	30,000	125,378
Estimated Goodwill	$ 24,773	$18,811	$15,215	$ 58,799

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 Gexpro Services' and TestEquity'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 Mergers, additional valuation work will be performed. Increases or decreases in the fair value of relevant balance sheet amounts and in the value of the total merger consideration 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 Mergers. The Company anticipates that the valuations of Gexpro Services' and TestEquity'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 the Company's and the closed acquisitions' assets and liabilities.

The final total consideration and amounts allocated to the Company's assets and liabilities could differ materially from the preliminary amounts presented in these unaudited pro forma condensed combined financial statements. Consideration could decrease based on the market price of DSGR common stock which would have a corresponding increase in the amount of goodwill that would result from the Mergers. A decrease in the fair value of the Company's assets or an increase in the fair value of the Company'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 Mergers. 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

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

	Approximate Fair Value					
(dollars in thousands)	Distribution Solutions Group, Inc.	Interworld Highway LLC	Resolux	Frontier	Total	Estimated Useful Life (in years)
Customer relationships	$ 117,000	$ 14,613	$11,504	$ 9,305	$152,422	12.0
Tradenames	46,000	5,745	4,523	3,658	59,926	15.0
Total Assets	$ 163,000	$ 20,358	$16,027	$12,963	$212,348	

The amortization related to the identifiable intangible assets is reflected as a pro forma adjustment in the unaudited pro forma condensed combined statements of operations based on the estimated useful lives above and detailed in Note 5. The identifiable intangible assets and related amortization have been estimated using a straight line method and are based on management's estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation. In addition, the amortization impacts will ultimately be based upon the periods in which the associated economic benefits or detriments are expected to be derived or, where appropriate, based on the consumption method. Therefore, the amount of amortization following the Mergers may differ significantly between periods based upon the final value assigned and amortization methodology used for each identifiable intangible asset.

Estimated future amortization expense for other intangible assets as of December 31, 2021 is as follows

	(in thousands)
Fiscal year 2022	$ 16,697
Fiscal year 2023	16,697
Fiscal year 2024	16,697
Fiscal year 2025	16,697
Fiscal year 2026	16,697
Fiscal year 2027 and thereafter	128,863

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 borrowings under the Amended and Restatewd Credit Agreeement, (ii) repayment of the Company's, Gexpro Services' and TestEquity's debt instruments repaid in connection with the closing of the Mergers, including fees associated with the repayment, (iii) the purchase of closed known acquisitions in 2022 (Interworld Highway LLC, Resolux, and Frontier).

	(in thousands)
To record the issuance of new debt facility	$ 389,500
To record the payment of new debt issuance fees	(4,017)
Repayment of the Company's debt	(11,900)
Repayment of Gexpro Services debt	(110,069)
Repayment of TestEquity debt	(124,916)
Cash consideration for closed acquisitions	(125,378)
Total	$ 13,220

(b) To reflect the adjustment to eliminate the debt issuance costs on the Company's revolving line of credit.

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

(d) Reflects the acquisition method of accounting based on the estimated fair value, largely based on benchmarking analysis of other similar transactions, of the intangible assets of the Company, Interworld Highway LLC, Resolux, and State Industrial Supply. 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 Mergers.

	Total
Goodwill—elimination of the Company's historical	$ (35,313)
Goodwill—fair value—the Company	191,316
Goodwill—fair value—known and closed acquisitions	58,799
Total goodwill pro forma adjustment	$214,802

	Total
Intangible assets—elimination of the Company's historical	$ (16,165)
Intangible assets—fair value—the Company	163,000
Intangible assets—fair value—known and closed acquisitions	49,348
Total intangible assets pro forma adjustment	$196,183

(e) To reflect the adjustment to establish new debt issuance costs for the revolving line of credit.

(f) To reflect the adjustment for the adoption of ASC 842 Lease Accounting for Gexpro Services and TestEquity and related acquisitions.

	Gexpro Services	TestEquity	Total
Right of Use Assets—operating	$ 8,695	$ 8,804	$17,499
Lease obligation—current	1,675	1,770	3,445
Lease obligation—noncurrent	7,020	7,034	14,054

(g) To record issuance of new long-term debt and related debt issuance costs of the Company and eliminate the Company's, Gexpro Services' and TestEquity's historical debt and related debt issuance costs that have no future economic benefit, as follows:

	(in thousands)
Establish current portion of long-term debt	$ 15,000
Repayment of TestEquity current portion of long-term debt	(4,317)
Repayment of Gexpro Services current portion of long-term debt	(9,991)
Total current portion of long-term debt pro forma adjustment	$ 692

	(in thousands)
Repayment of TestEquity revolving credit facility	$ (1,000)
Total revolving credit facility pro forma adjustment	$ (1,000)

	(in thousands)
Repayment of TestEquity term loan related party	$ (119,599)
Repayment of TestEquity debt—elimination of deferred financing costs	238
Total revolving line of credit pro forma adjustment	$ (119,361)

	(in thousands)
Repayment of the Company's revolving line of credit	$ (11,900)
Total revolving line of credit pro forma adjustment	$ (11,900)

	(in thousands)
Establish additional long-term debt—term loan	$ 237,500
Establish additional long-term debt—delayed draw term loan	47,500
Establish additional long-term debt—revolver	89,500
Estimated deferred financing costs—term loan	(2,363)
Repayment of Gexpro Services long-term debt	(100,078)
Repayment of Gexpro Services long-term debt—elimination of deferred financing costs	1,847
Total long-term debt pro forma adjustment	$ 273,906

(h) To reflect the adjustment to accrue transactions costs.

(i) To reflect $(9,274) adjustment for the change in fair value related to stock performance rights and other stock compansation items classified as a liability.

(j) To record $65.5 million for the first and second earnout opportunity under the Merger agreement. The Company is in the process of evaluating the accounting, but for pro forma purposes has assumed that the earnout obligation will be a derivative liability and has estimated the fair value based on an aggregate of 1.7 milllion shares assumed to be issued under the earnout provisions of the Merger Agrements.

(k) 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.

(l) Reflects (i) the elimination of the Company's and the known and closed acquisitions' historical capital in excess of par value (net of the par value of common and treasury stock), members equity, retained earnings, and accumulated other comprehensive income, (ii) the issuance of 10.3 million shares of DSGR common stock at the closing of the Mergers, and (iii) the estimated transaction advisory costs and extinguishment of deferred financing and debt issuance costs.

	Common stock	Capital in excess of par value	Members Equity	Retained earnings	Treasury Stock	Accumulated other comprehensive income
Elimination of the Company's historical balances	$ (9,363)	$ (22,118)	$ —	$ (111,015)	$ 10,033	$ (544)
Establish par value of DSGR common and treasury stock	9,363	670	—	—	(10,033)	—
Elimination of known and closed acquisitions historical balances	—	—	(17,231)	—	—	—
Issuance of DSGR common stock as merger consideration	10,300	341,191	—	—	—	—
Fair value adjustment of share-based compensation awards		2,227				
Estimated transaction costs and extinguishment of the deferred financing and debt issuance costs	—	—	—	(8,399)	—	—
Total	$ 10,300	$ 321,970	$ (17,231)	$ (119,414)	$ —	$ (544)

Note 5. Notes to Unaudited Pro Forma Condensed Combined Statements of Operations

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

	Pro forma year ended December 31, 2021
Reversal of historical amortization	$ (2,500)
Amortization of purchased identifiable intangible assets	16,697
Total intangible asset amortization pro forma adjustment	$ 14,197

(b) Unrecognized transaction costs of $5,944 thousand are included in the historical statement of operations for the year ended December 31, 2021.

(c) Reflects the incremental expense related to the adjustment to the fair value of share-based compensation awards of $2,379 thousand for the year ended December 31, 2021.

(d) Reflects the adjustments to (i) reverse interest expense associated with the anticipated repayment of the Company's, Gexpro Services', and TestEquity's existing debt and (ii) recognize new interest expense associated with the new debt financing.

	Pro forma year ended December 31, 2021
Reversal of the Company's interest expense	$ 869
Reversal of Gexpro Services' interest expense related to the repayment of Gexpro Services' debt	6,372
Reversal of TestEquity's interest expense related to the repayment of TestEquity's debt	10,809
Extiguishment of debt issuance and deferred financing costs	(2,405)
Interest expense on new debt financing	(15,580)
Total interest pro forma adjustment	$ 65

A sensitivity analysis on interest expense for the year ended December 31, 2021 has been performed to assess the effect a change of 1/8% of the hypothetical interest rate would have on the debt. The interest rates assumed for purposes of preparing this pro forma financial information related to the new term loan facility is approximately 4.0% as of December 31, 2021.The interest rate is comprised of the adjusted term SOFR Rate for a one month interest period plus an additional margin ranging from 1.0% to 2.75% per annum. A 1/8% increase or decrease in interest rates would result in a change in pro forma interest expense of approximately $0.5 million for the year ended December 31, 2021.

(e) 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, 2021.

	Pro forma year ended December 31, 2021
Income tax expense pro forma adjustment	$ (5,614)

(f) Represents the pro forma weighted average shares outstanding that have been calculated using the historical weighted average shares of DSGR common stock outstanding for the year ended December 31, 2021.

Pro forma basic weighted average shares (in thousands)	**Pro forma year ended December 31, 2021**
Historical DSGR weighted average shares outstanding—basic	9,073
Shares issued of DSGR common stock to be issued pursuant to the Merger Agreements	10,300
Pro forma weighted average shares—basic	19,373

Pro forma diluted weighted average shares (in thousands)	**Pro forma year ended December 31, 2021**
Historical DSGR weighted average shares outstanding—diluted	9,350
Shares issued of DSGR common stock to be issued pursuant to the MergerAgreements	10,300
Pro forma weighted average shares—diluted	19,650