Risk Factors Comparison 2024-03-07 to 2023-03-14 Form: 10-K

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

Our operating results depend upon many factors and are subject to various risks and uncertainties, including those discussed below. The material risks and uncertainties known to us and described below may negatively affect our business, financial condition and results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair or otherwise adversely affect our business, financial condition and results of operations, and may give rise to or amplify many of the risks discussed below. Business Risks A significant portion of our inventory may become obsolete. Our business strategy requires us to carry a significant amount of inventory to meet rapid processing of customer orders. If our inventory forecasting and production planning processes result in inventory levels exceeding the levels demanded by customers or should our customers decrease their orders with us, our operating results could be adversely affected due to costs of carrying the inventory and additional inventory write- downs for excess and obsolete inventory, which could materially adversely affect our business, financial condition and results of operations. ~~For example, in 2022, our adjusted gross profit was negatively impacted by an inventory charge of $ 1. 7 million to reduce inventory related to discontinued products where the anticipated net realizable value was lower than the cost reflected in our records.~~ Work stoppages and other disruptions at transportation centers or shipping ports, along with other supply chain disruptions, may adversely affect our ability to obtain inventory and make deliveries to our customers. Our ability to rapidly process customer orders is an integral component of our overall business strategy. Interruptions at our company- operated facilities or disruptions at a major transportation center or shipping port, due to events such as severe weather, labor interruptions, natural disasters, acts of terrorism, trade restrictions, government- imposed quotas or other events, could adversely affect our ability to maintain core products in inventory or deliver products to our customers on a timely basis or adversely affect demand for our products, which may in turn adversely affect our business, financial condition and results of operations. Similarly, other supply chain disruptions have impacted our ability to maintain certain core products in inventory and deliver products to customers on a timely basis, and may continue to impact our ability to do so. Such supply chain disruptions may adversely affect our business, financial condition and results of operations. TestEquity relies on a single supplier for a significant amount of its product inventory, and any disruptions in such supplier' s business, operations or financial condition, or TestEquity' s relationship with such supplier, could have a material adverse effect on our business, financial condition and results of operations. TestEquity relies on a single supplier for a significant amount of its product inventory, including electronic test and measurement equipment. During **2023 and** 2022 ~~and 2021~~, the aggregate dollar amount of TestEquity' s purchases from that supplier represented approximately **11 % and** 25 ~~% and 41~~ %, respectively, of the aggregate dollar amount of TestEquity' s purchases of product inventory from all of TestEquity' s suppliers during such periods. Any disruptions in that supplier' s business, operations or financial condition, or TestEquity' s relationship with this supplier, could have a material adverse effect on our business, financial condition and results of operations. Changes in our customers, product mix and pricing strategy could cause our gross profit margin percentage to decline in the future. From time to time, our businesses have experienced overall changes in the product mix demand of customers. When customers or product mix changes, there can be no assurance that we will be able to maintain our gross profit margins. Changes in our customers, product mix, volume of orders or prices charged, along with additional freight costs or lower productivity levels, could cause our gross profit margin percentage to decline. Our gross profit margin percentage may also come under pressure in the future if we increase the percentage of national accounts in our customer base, as sales to these customers are generally at lower margins. Disruptions of our information and communication systems could adversely affect the Company. We depend on our information and communication systems to process orders, purchase and manage inventory, maintain cost- effective operations, sell and ship products, manage accounts receivable collections and serve our customers. Disruptions in the operation of information and communication systems can occur due to a variety of factors including power outages, hardware failure, programming faults and human error. Disruptions in the operation of our information and communication systems, whether over a short or an extended period of time or affecting one or multiple distribution centers, could have a material adverse effect on our business, financial condition and results of operations. Cyber- attacks or other information security incidents could have a material adverse effect on our business **strategy** , ~~operating~~ results ~~and~~ **of operations or** financial condition ~~,~~ **and** subject us to additional legal costs ~~and damage our reputation in the marketplace~~ . We are increasingly dependent on digital technology to process and record financial and operating data and communicate with our employees and business partners. During the normal course of business we receive, retain and transmit certain confidential information that our customers provide to purchase products or services or to otherwise communicate with us, as well as certain **potentially sensitive** information about our employees and other persons and entities. Our technologies, systems, networks and data and information processes (and those of our business partners) have been, and may in the future be, the target of cyber- attacks and / or information security incidents that may have resulted in, or may in the future result in, the unauthorized release, misuse, loss or destruction of proprietary, personal and other information, or other disruption of our business operations, including compromise of our email systems. For example, in February 2022, ~~DSG~~ **Lawson** became aware that its computer network was the subject of a cyber incident potentially involving unlawful access **(the " Cyber Incident ")** . Because of the nature of the information that may have been **potentially** compromised **, which may have included personal identifiable information and protected health information** , we were required to notify the parties whose information was potentially compromised of the incident as well as various governmental agencies and have taken other actions, such as offering credit monitoring services **. After this incident, we also reviewed our overall systems and processes, and implemented certain changes, including employee training, designed to improve our overall cybersecurity program, but**

we cannot assure you that these changes will be effective to prevent future incidents . In addition, from time to time our email systems (and those of our business partners communicating with us) have been subjected to malicious attacks, including phishing attacks. Such attacks or incidents could have a material adverse effect on our ~~operating~~ **business strategy,** results ~~and~~ **of operations or** financial condition ~~,~~ **and** subject us to additional legal costs ~~and~~ **. For example, a putative class action lawsuit was filed against DSG in April 2023 asserting a variety of claims seeking monetary** ~~damage~~ **damages** ~~our reputation in~~ **, injunctive relief and** ~~the~~ **other** ~~marketplace~~ **related relief in connection with the Cyber Incident, which could result in additional legal and other costs** . The techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognizable until launched against a target or until a breach has already occurred. Accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures **. In addition, we are exposed to growing and evolving risks arising from the use of Artificial Intelligence technologies by bad actors to commit fraud, misappropriate funds and facilitate cyberattacks** . As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and fix any information security vulnerabilities. We maintain and have access to data and information that is subject to privacy and security laws, data protection laws and applicable regulations. The interpretation and application of such laws, including federal, state and international laws, relating to the collection, use, retention, disclosure, security and transfer of personally identifiable data in the United States (including but not limited to the California Consumer Privacy Act and the California Privacy Rights Act), Europe (including but not limited to the European Union' s General Data Protection Regulation) and elsewhere, are uncertain and evolving. Despite our efforts to protect such information, cyber **, privacy or security** incidents **,** or misplaced or lost data could have a materially adverse impact on our business **strategy** , **results of operations or financial condition** and may divert management and employee attention from other business and growth initiatives ~~. Further, an information privacy or security incident could result in legal or reputational risks and could have a materially adverse impact on our business, financial condition and results of operations~~ . The inability to successfully recruit, integrate and retain productive sales representatives could adversely affect our business, financial condition and operating results. We have committed to a plan to increase the size of our sales force. A successful expansion in our sales force requires us to identify under- served territories that offer the greatest potential growth opportunity, locate and recruit talented sales representatives, provide them with the proper training, and successfully integrate them into our organization. This expansion will require significant investment in capital and resources. The failure to identify the optimal sales territories, recruit and retain quality sales representatives and provide them with sufficient support could adversely affect our business, financial condition and results of operations. It is also critical to retain the experienced and productive sales representatives that have historically contributed to the successes of our businesses. Failure to retain a sufficient number of talented, experienced and productive sales representatives could adversely affect our business, financial condition and results of operations. There may be difficulties in integrating certain operations of TestEquity' s and Gexpro Services' respective businesses with our legacy operations, and the failure to successfully combine those operations within our expected timetable could adversely affect our future results and the market price of our common stock. The Mergers involve the combination of businesses that previously operated as independent businesses. Management has devoted and will continue to devote, significant attention and resources to combine certain business operations of TestEquity and Gexpro Services with our legacy business operations. This may divert the time and attention of our management team and diminish their time to manage our businesses, service existing customers, attract new customers, develop new products, services and strategies and identify other beneficial opportunities. If our management is not able to effectively manage the process following the closing of the Mergers, or if any significant business activities are interrupted as a result of this process, our businesses could suffer. Furthermore, it is possible that the Mergers could result in the loss of key employees. If we are not able to fully realize the anticipated savings and synergies from the Mergers in a timely manner, or the cost to achieve these synergies is greater than expected, we may not fully realize the anticipated benefits (or any benefits) of the Mergers, or it may take longer than expected to realize any benefits. The failure to fully or timely realize the anticipated benefits could have a negative effect on the market price of DSG common stock. Failure to retain talented employees, managers and executives could negatively impact our business and operating results. Our success depends on, among other things, our ability to attract, develop and retain talented employees, including executives and other key managers. The loss of certain key executives and managers or the failure to attract and develop talented employees could have a material adverse effect on our business, financial condition and results of operations. The inability of management to successfully implement changes in operating processes could lead to disruptions in our operations. We strive to improve operational efficiencies throughout our organization and to identify and initiate changes intended to improve our internal operations. The implementation of changes to our current operations involves a risk that the changes may not work as intended, may disrupt related processes, may not be properly applied or may not result in accomplishing the intended efficiencies. Failure to successfully manage the implementation of these changes could lead to disruptions in our operations. ~~The inability to successfully integrate~~ **Any pursuit or completion by DSG of** additional ~~acquisitions~~ **acquisition** ~~into our organization~~ **opportunities would involve risks that** could adversely affect our **business, financial condition and results of** operations ~~and operating results~~ . One of our growth strategies is to actively pursue additional acquisition opportunities which complement our business model. However, there are risks associated with pursuing acquisitions, which include the incurrence of significant transaction costs without the guarantee that such transactions will be completed and the risk that we may not realize the anticipated benefits of the acquisition once it is completed. We may fail to successfully identify the right opportunities and / or to successfully integrate the acquired businesses, operations, technologies, systems and / or personnel with those of DSG, which could adversely affect our business, financial condition and results of operations. See also the section entitled " Item 1A. Risk Factors – TestEquity Merger and Gexpro Services Merger Risks " for a discussion of various additional risk factors relating to our completed business combination with TestEquity and Gexpro Services. We operate in highly competitive markets. The marketplaces in which we operate are highly competitive. Our competitors include large and small companies with similar or greater market presence, name recognition, and financial, marketing, and other resources. We believe the competition will continue to challenge our business with their product selection, financial resources and services. We may be required to recognize impairment charges for goodwill and other intangible assets. As a result of the closing of the Mergers on April 1, 2022 **and other acquisitions completed during 2023 and 2022** , we have ~~an~~ **a significant** amount of goodwill and other intangible assets on our ~~balance sheet that is significantly greater than the amount of goodwill and other intangible assets on our December 31, 2021~~ consolidated balance sheet **as of December 31, 2023** . In accordance with **generally accepted accounting principles in the United States ("** GAAP **")** , our management periodically assesses our goodwill and other intangible assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, an inability to effectively integrate acquired businesses, unexpected significant changes, planned changes in use of the assets, divestitures and market capitalization declines may impair goodwill and other intangible assets. Any charges relating to such impairments could materially and adversely affect our results of operations in the periods recognized, which could result in an adverse effect on the market price of DSG common stock. Changes that affect governmental and other tax- supported entities, including but not limited to changes arising from ~~the ongoing conflict in Ukraine~~ **geopolitical instability and military hostilities** , could negatively impact our revenue and earnings. A portion of our revenue is derived from the United States military and other governmental and tax- supported entities. These entities are largely dependent upon government budgets and require adherence to certain laws and regulations, including sanctions. ~~In February 2022, armed conflict escalated between Russia and Ukraine and resulted in sanctions against Russia and Belarus by the U. S. and other countries.~~ Such sanctions **could** ~~to date~~ include restrictions on selling or importing goods, services, or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business, and financial organizations ~~in~~ **. In addition, geopolitical instability and military hostilities, such as the current Hamas- Israel military conflict and the** Russia ~~and Belarus.~~ **- Ukraine military conflict, could negatively impact our business** Although we have not, do not currently and do not plan to conduct business operations in **Gaza, Israel,** Russia, Belarus, or Ukraine, it is not possible to predict the broader consequences of ~~this~~ **these** ongoing ~~conflict~~ **conflicts** , which could include ~~further~~ sanctions, embargoes, increases or decreases in military spending or other geopolitical instability. Any decrease in the levels of defense and other governmental spending or the introduction of more stringent governmental regulations and oversight, arising from ~~the~~ **these** ongoing ~~conflict~~ **conflicts** ~~in Ukraine~~ or otherwise, could lead to reduced revenue or an increase in compliance costs which would adversely affect our business, financial condition and results of operations. **We are required to evaluate our internal controls over financial reporting under Section 404 of the Sarbanes- Oxley Act of 2002 and any adverse results from such evaluation, and any failure to maintain effective internal controls over financial reporting, could result in a loss of investor confidence in our financial reports and could have an adverse effect on our stock price. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Pursuant to Section 404 of the Sarbanes- Oxley Act of 2002 and applicable SEC rules, we are required to include in each Annual Report on Form 10- K a report by our management on our internal control over financial reporting. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Each year, we must prepare or update the process documentation and perform the evaluation needed to comply with Section 404 of the Sarbanes- Oxley Act of 2002 and applicable SEC rules in providing this report. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. For example, management' s report on our internal controls over financial reporting contained in our Annual Report on Form 10- K for the fiscal year ended December 31, 2022, identified a material weakness and concluded that we did not maintain effective internal controls over financial reporting as of December 31, 2022. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time- consuming exercise that needs to be re-evaluated frequently. We and our independent auditors may in the future discover areas of our internal controls that need further attention and improvement, particularly with respect to any other businesses that we decide to acquire in the future. One of our growth strategies is to actively pursue additional acquisition opportunities which complement our business model. These acquired businesses are typically private companies and may not have in place the financial organization, reporting and controls which are required for a U. S. public company. The cost of implementing this type of financial organization, reporting and controls in respect of the acquired business and integrating their financial reporting processes with our financial reporting processes may be significant. If there are limitations in the acquired businesses' financial organization, reporting and controls, or if we are unable to effectively integrate their financial reporting processes with our financial reporting processes, we could have, among other things, material weaknesses in our internal controls, violate our indebtedness covenants, miss an SEC reporting deadline or otherwise fail to comply with an applicable law or regulation. Implementing any appropriate changes to our internal controls may require specific compliance training, entail substantial costs in order to modify our existing accounting systems or those of the companies that we acquire, and take a material period of time to complete. However, such changes may not be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could harm our ability to operate our business. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to maintain effective internal controls over financial reporting, or any investor perception that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely, consistent basis, may result in a loss of investor confidence in our financial reports and may adversely affect our stock price. Any failure to maintain**

effective internal controls over financial reporting or to comply with Section 404 of the Sarbanes- Oxley Act of 2002 and applicable SEC rules could also potentially subject us to sanctions or investigations by the SEC, Nasdaq or other regulatory authorities. Debt Financing Risks We have a significant amount of indebtedness, and our significant indebtedness could adversely affect our business, financial condition and results of operations. We have $ ~~417~~ **574** . ~~1~~ **7** million of indebtedness as of December 31, ~~2022~~ **2023** , which includes a significant amount of indebtedness under our **2023** Amended ~~and Restated~~ Credit Agreement (as defined herein). In addition, we may be able to incur a significant amount of additional indebtedness, subject to the terms and restrictions of our **2023** Amended ~~and Restated~~ Credit Agreement. Our indebtedness could have significant consequences on our future operations, including: • events of default if we fail to comply with the financial and other covenants contained in the **2023** Amended ~~and Restated~~ Credit Agreement and / or other agreements governing our debt instruments, which could result in all of the debt becoming immediately due and payable or require us to negotiate an amendment to financial or other covenants that could cause us to incur additional fees and expenses; • reducing the availability of our cash flow to fund working capital, capital expenditures, investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes; • limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industries in which we operate, and the overall economy; • limiting our ability to buy back common stock or pay dividends; • placing us at a competitive disadvantage compared to any of our competitors that have less debt or are less leveraged; and • increasing our vulnerability to the impact of adverse economic and industry conditions. Our ability to meet our payment and other obligations under our debt instruments will depend on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure that we will generate cash flow from operations, or that future borrowings will be available to us, in an amount sufficient to enable us to meet our indebtedness obligations and to fund other liquidity needs. Failure to adequately fund our operating and working capital needs through cash generated from operations and borrowings available under our **2023** Amended ~~and Restated~~ Credit Agreement could negatively impact our ability to invest in our business and maintain our capital structure. Our business requires investment in working capital and fixed assets. We expect to fund these investments from cash generated from operations and borrowings available under our **2023** Amended ~~and Restated~~ Credit Agreement. Failure to generate sufficient cash flow from operations or from our **2023** Amended ~~and Restated~~ Credit Agreement could cause us to have insufficient funds to operate our business. Adequate funds may not be available when needed or may not be available on favorable terms. Our business, financial condition and operating results could be materially adversely affected if we failed to meet the covenant requirements of our **2023** Amended ~~and Restated~~ Credit Agreement. Our **2023** Amended ~~and Restated~~ Credit Agreement contains financial and other restrictive covenants. These covenants could adversely affect us by limiting our financial and operating flexibility as well as our ability to plan for and react to market conditions and to meet our capital needs. Failure to meet these covenant requirements could lead to higher financing costs and increased restrictions, reduce or eliminate our ability to borrow funds, result in events of default and accelerate the date on which our indebtedness must be repaid. If we require more liquidity than is available to us under our **2023** Amended ~~and Restated~~ Credit Agreement, we may need to raise additional funds through debt or equity offerings which may not be available when needed or may not be available on terms favorable to us. Should funding be insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. Government efforts to combat inflation, along with other interest rate pressures, could lead to higher financing costs. Inflation has risen on a global basis, the United States has been experiencing historically high levels of inflation, and government entities have taken various actions to combat inflation, such as raising interest rate benchmarks. Government entities may continue their efforts, or implement additional efforts, to combat inflation, which could include among other things continuing to raise interest rate benchmarks and / or maintaining interest rate benchmarks at elevated levels. Such government efforts, along with other interest rate pressures, could lead to higher financing costs and have material adverse effect on our business, financial condition and results of operations. Common Stock Risks The market price of our common stock may decline. The price of our common stock could decrease if our financial performance is inadequate or does not meet investors' expectations, if there is deterioration in the overall market for equities, if large amounts of shares are sold in the market, if there is index trading, or if investors have concerns that our business, financial condition, results of operations and capital requirements are negatively impacted by an economic downturn or any other adverse development. Entities affiliated with LKCM and J. Bryan King beneficially own a significant majority of the outstanding DSG common stock and, therefore, have significant influence over our Company, which could delay or deter a change in control or other business combination or otherwise cause us to take actions with which you may disagree. Based on a Schedule 13D filed with the SEC by LKCM and various other persons and entities (as amended through ~~June 17~~ **December 27** , ~~2022~~ **2023**), entities affiliated with LKCM beneficially owned in the aggregate approximately ~~14~~ **36** . ~~6~~ **4** million shares of DSG common stock as of ~~June 15~~ **December 26** , ~~2022~~ **2023** , representing approximately ~~75~~ **77. 8** % of the outstanding shares of DSG common stock as of ~~February 28~~ **December 31** , 2023. J. Bryan King, Chairman and Chief Executive Officer of the Company, is a Principal of LKCM. **In addition, M. Bradley Wallace, who became a director of the Company upon his election at the Company' s 2023 annual stockholders meeting on May 19, 2023, is a Founding Partner of LKCM Headwater Investments, the private capital investment group of LKCM** As a result, LKCM has significant influence over the outcome of matters requiring a stockholder vote, including the election of directors and the approval of other significant matters, and LKCM' s interests may not align with the interests of other stockholders. This concentration of ownership could also have the effect of delaying or preventing a change of control or other business combination that might be beneficial to our stockholders. In addition, as a result of this concentrated ownership interest of DSG common stock, DSG believes that it qualifies as a " controlled company. " Under ~~NASDAQ~~ **Nasdaq** Listing Rules, a listed company of which more than 50 % of the voting power is held by an individual, group or another company is a " controlled company " and, accordingly, DSG believes that, if it so desired, it would be generally exempt from the requirements of Rule 5605 (b), (d) and (e) of the Nasdaq Listing Rules that among other things would otherwise require DSG to have: • a majority of the DSG ~~board~~ **Board** of ~~directors~~ **Directors** comprised of independent directors; • a compensation committee comprised solely of independent directors; and • director nominees be selected ~~,~~ or recommended to the DSG ~~board~~ **Board** of ~~directors~~ **Directors** for selection, either by (1) DSG' s independent directors constituting a majority of the DSG ~~board~~ **Board** of ~~directors~~ **Directors** ' independent directors in a vote in which only independent directors participate or (2) a nominating committee comprised solely of independent directors. **Entities affiliated with LKCM beneficially own** ~~Completion of the Mergers resulted in the issuance of~~ a significant number of shares of DSG common stock, and **any sales** ~~may result in the issuance~~ of **any such** ~~a significant number of additional~~ shares **or the possibility of any such sales could have a negative effect on the price** of DSG common stock **. Entities affiliated with LKCM beneficially** ~~, which could have a negative effect on~~ **own** ~~the price~~ **a significant number of shares** of DSG common stock. ~~We issued an aggregate of 10. 3 million shares of DSG common stock on April 1, 2022 in connection with the closing of the Mergers.~~ In ~~addition, we could be obligated to issue up to an aggregate of 1. 7 million additional shares of DSG common stock in accordance with the earnout provisions of the Merger Agreements. As of February 28, 2023, approximately 1. 7 million additional shares of DSG common stock are expected to be issued to entities affiliated with LKCM in accordance with, and subject to customary terms and conditions of, the earnout provisions of the Merger Agreements. The issuance of such a significant number of shares of DSG common stock could have a negative effect on the market price of DSG common stock. In addition, in~~ accordance with the Merger Agreements, DSG granted to certain entities affiliated with LKCM certain registration rights with respect to the shares of DSG common stock that DSG ~~has~~ issued ~~, and would be required~~ to ~~issue,~~ **those entities** in connection with the Mergers. Any sales of **any of the shares of DSG common stock held by any entities affiliated with LKCM (whether** those shares **were acquired by those entities in connection with the Mergers or in other transactions)** , or the anticipation of the possibility of **any** such sales, could create downward pressure on the market price of DSG common stock. Legal and Regulatory Risks A violation of federal, state or local environmental protection regulations could lead to significant penalties and fines or other remediation costs. Our product offerings include a wide variety of industrial chemicals and other products which are subject to a multitude of federal, state and local regulations. These environmental protection laws change frequently and affect the composition, handling, transportation, storage and disposal of these products. Failure to comply with these regulations could lead to severe penalties and fines for each violation. Additionally, a facility we own in Decatur, Alabama, was found to contain hazardous substances in the soil and groundwater as a result of historical operations prior to our ownership. We retained an environmental consulting firm to further investigate the contamination, including measurement and monitoring of the site. The Company concluded that further remediation was required, and accordingly, has made an accrual for the estimated cost of this environmental matter. A remediation plan was approved by the Alabama Department of Environmental Management and the remediation of the affected area is ongoing. Additional procedures may be required that could negatively impact our business, financial condition and results of operations. Our results of operations could be affected by changes in taxation. **We are subject to income taxation at federal and state levels in the United States and to income taxation in numerous non- U. S. jurisdictions.** Our results of operations could be **adversely** affected by changes in **the Company' s effective tax rate as a result of changes in the mix of earnings in countries with differing statutory** tax rates **, changes in the valuation of deferred tax assets** , audits by taxing authorities or changes in **tax** laws, regulations and their interpretation **. From time- to- time changes in tax laws or regulations may be proposed or enacted that could adversely affect our overall tax liability. In addition, the Organization for Economic Co- operation and Development (" OECD "), which represents a coalition of member countries, has recommended fundamental tax reform affecting the taxation of multinational corporations, including the Base Erosion and Profit Shifting (" BEPS ") project, which in part aims to address international corporate tax avoidance. On December 20, 2021, the OECD released Pillar Two Model Rules defining the global minimum tax rules, which contemplate a 15 % minimum tax rate. The OECD continues to release additional guidance on these rules and the framework calls for law enactment by OECD and G20 members to take effect in 2024 or 2025. However, the detail of the proposals is subject to change and the impact on the Company will need to be determined by reference to the final rules. The Company is continuing to monitor the potential impact of the Pillar Two proposals and developments on our consolidated financial statements and related disclosures, including eligibility for any transitional safe harbor rules. As of December 31, 2023, among the jurisdictions where the Company operates, only the U. K. has enacted legislation adopting the Pillar Two Rules, effective in fiscal 2025** . Changes in applicable tax laws and regulations could affect our ability to realize our deferred tax assets, which could adversely affect our results of operations. **Our** ~~TestEquity' s and Gexpro Services'~~ international operations subject us to ~~new and~~ additional legal and regulatory regimes. TestEquity has business operations and / or sales in a number of foreign countries, including Canada, Mexico, Germany and the United Kingdom. Gexpro Services has business operations and / or sales in a number of foreign countries, including Hungary and China. Lawson has business operations in Canada ~~. As a result of the completion of the Mergers, we are subject to a wider array of foreign legal and regulatory regimes (including tax regimes) than what we were subject to prior to the completion of the Mergers~~ . Compliance with diverse legal and regulatory requirements, including in connection with the movement or repatriation of cash, may be costly and time- consuming and require significant resources. Violations could result in significant fines or monetary damages, sanctions, prohibitions or restrictions on doing business and damage to our reputation. In addition, operating in foreign countries requires us to manage the potential conflicts between locally accepted business practices in any given jurisdiction and our obligations to comply with laws and regulations with respect to such jurisdictions, including anti- corruption laws or regulations applicable to DSG, such as the U. S. Foreign Corrupt Practices Act (the " FCPA ") and the UK Bribery Act 2010 (the " UKBA "). The U. S., U. K. and other foreign agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the FCPA, the UKBA, and other laws, rules, sanctions, embargoes and regulations, including those established by the Office of Foreign Assets Control. Any violation of these legal requirements, even if prohibited by our policies, procedures and controls, could subject us to criminal or civil enforcement actions or penalties for non- compliance or otherwise have an adverse effect on our business and reputation. As a result of the Mergers, DSG' s ability to use its net operating losses and certain other tax attributes generated prior to the Mergers may be subject to limitations. At December 31, ~~2022~~ **2023** , the Company had $ ~~24~~ **21** . ~~2~~ **4** million of U. S. federal net operating loss carryforwards which are subject to expiration beginning in ~~2026~~ **2027** and $ ~~28~~ **53** . ~~7~~ **5** million of various state net operating loss carryforwards which expire at varying dates between ~~2023~~ **2024** and ~~2034~~ **2035** . As a result of the Mergers, DSG' s ability to use its net operating losses and certain other tax attributes generated prior to the Mergers may be subject to limitations, which may adversely impact on our future tax liability and cash flows. Public Health Emergencies Risks Public health emergencies, whether domestic or international, such as the COVID- 19 pandemic, may materially adversely affect our business **strategy** , financial condition ~~and~~ **or** results of operations. Pandemics, epidemics or disease outbreaks in the U. S. or globally **, including new variants of COVID- 19,** may have a material adverse effect on our business **strategy** , **financial condition or results of operations, as well as on our** employees, suppliers, customers, and the general economy. The full effect and estimated length of these disruptions could be difficult to predict by the Company given such an event is affected by a number of factors, many of which could be outside of our control. For example, the COVID- 19 pandemic resulted in lost revenue to our Company, limited our ability to source high demand product, limited our sales force to perform certain functions due to state or federal stay- at- home orders, resulted in a slow- down of customer demand for our products and limited the ability of some customers to pay us on a timely basis. We are subject to business uncertainties as a result of the Mergers that could materially and adversely affect our businesses. Uncertainty about the effect of the Mergers on employees, customers, suppliers and others having business relationships with us may have a material and adverse effect on our businesses. These uncertainties may impair our ability to attract, retain and motivate key personnel for a period of time after the closing of the Mergers. These uncertainties could also cause our customers, suppliers and other contractors to change or sever existing business relationships with us. Employee retention and recruitment may be challenging for the combined company as existing employees and prospective employees may experience uncertainty about their future roles with the combined company. Furthermore, no assurance can be given that after the Mergers we will be able to attract or retain key management personnel or other key employees to the same extent that legacy Lawson, TestEquity and Gexpro Services had been able to attract or retain their own employees. The departure of existing key employees or the failure of potential key employees to accept employment with the combined company, despite our retention and recruiting efforts, could have a material adverse impact on our business, financial condition and operating results. Litigation relating to the Mergers could result in the payment of damages following the closing of the Mergers. DSG and members of the DSG ~~board~~ **Board** of ~~directors~~ **Directors** currently are, and may in the future be, parties, among others, to litigation related to the Merger Agreements and the Mergers. Among other remedies, the stockholders in the pending litigation seek, and other stockholders could seek, monetary damages. The outcome of any legal proceedings are difficult to predict and any such lawsuits could result in substantial costs to us. The existence of litigation relating to the Mergers may also be costly and distracting to management. Further, the resources and costs to defend or settle any lawsuit or claim may adversely affect our business, financial condition, results of operations and cash flows. See Note 15 – Commitments and Contingencies to our consolidated financial statements, included in Item 8. Financial Statements **and Supplementary Data** , for a description of certain of our pending legal proceedings relating to the Mergers, which are incorporated herein by reference ~~. TestEquity and Gexpro Services were private companies before the Mergers and may not have had in place the financial organization, reporting and internal controls necessary for a public company. We are required to evaluate our internal controls over financial reporting under Section 404 of the Sarbanes- Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and could have an adverse effect on our stock price. TestEquity and Gexpro Services were private companies before the Mergers and may not have had in place the financial organization, reporting and controls which are required for a U. S. public company. The cost of implementing this type of financial organization, reporting and controls in respect of TestEquity and Gexpro Services and integrating their financial reporting processes with our financial reporting processes may be significant. If there are limitations in TestEquity' s or Gexpro Services' financial organization, reporting and controls, or if we are unable to effectively integrate their financial reporting processes with our financial reporting processes, we could have, among other things, material weaknesses in our internal controls, violate our indebtedness covenants, miss an SEC reporting deadline or otherwise fail to comply with an applicable law or regulation. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of our expanding business operations, primarily related to our merger in April 2022, we have experienced an increase in complex and non- routine accounting transactions and control activities necessary to properly present consolidated results. Specifically, in our TestEquity operating segment, we did not have sufficient technical accounting resources and personnel (i) to help ensure proper application of U. S. GAAP in the accounting for certain areas primarily related to accounting for business acquisitions and the disposal of rental equipment, or (ii) to effectively design and execute our process level controls around (a) revenue recognition, (b) account reconciliations, (c) accounting policies, and (d) proper segregation of duties. Although these control deficiencies did not result in any material misstatement of our consolidated financial statements, it could lead to a material misstatement of account balances or disclosures. Accordingly, management has concluded that these control deficiencies constitute a material weakness at December 31, 2022. Management has identified the steps necessary to remediate the material weakness, however, the material weakness has not been remediated as of December 31, 2022. Pursuant to Section 404 of the Sarbanes- Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Each year, we must~~

~~prepare or update the process documentation and perform the evaluation needed to comply with Section 404 of the Sarbanes-Oxley Act of 2002. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time- consuming exercise that needs to be re- evaluated frequently. We and our independent auditors may in the future discover areas of our internal controls that need further attention and improvement, particularly with respect to any other businesses that we decide to acquire in the future. Implementing any appropriate changes to our internal controls may require specific compliance training, entail substantial costs in order to modify our existing accounting systems or those of the companies that we acquire, and take a material period of time to complete. However, such changes may not be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could harm our ability to operate our business. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Investor perception that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely, consistent basis may adversely affect our stock price. Failure to comply with Section 404 of the Sarbanes- Oxley Act of 2002 could also potentially subject us to sanctions or investigations by the SEC, NASDAQ or other regulatory authorities~~ . General Risks Our results of operations may be adversely impacted by a downturn in the economy or in certain sectors of the economy. Any decline or uncertainty in the strength of the economy may lead to a decrease in customer spending and may cause certain customers to cancel or delay placing orders. Some of our customers may file for bankruptcy protection, preventing us from collecting on accounts receivable and may result in our stocking excess inventory. Contractions in the credit markets may also cause some of our customers to experience difficulties in obtaining financing, leading to lower sales, delays in the collection of receivables and result in an increase in bad debt expense. Adverse economic conditions could also affect our key suppliers and contractors. This could lead us to incur additional expenses or result in delays in shipping products to our customers. Economic uncertainty can make it difficult to accurately predict future order activity and affect our ability to effectively manage inventory levels. There are no assurances that we would be able to establish alternative financing or obtain financing with terms similar to our existing financing arrangements, including our credit agreement. Changes in energy costs, tariffs, transportation costs and the cost of raw materials used in our products, and other inflationary pressures, could impact our cost of goods and distribution and occupancy expenses, which may result in lower operating margins. Increases in the cost of raw materials used in our products (e. g., steel, brass, copper), quotas imposed on any cross border supplies within our businesses, increases in tariffs, increases in natural gas, electricity and other energy costs and increases in freight and other costs necessary to produce and transport our products, as well as other inflationary pressures, will raise the production costs of our vendors. Those vendors have typically looked to pass the higher costs along to us through price increases. If we are unable to fully pass such increased prices and costs through to our customers or to modify our activities, the impact would have an adverse effect on our operating profit margins and financial condition. On the other hand, a decrease in oil prices may result in weaker demand from oil and gas customers in the future, resulting in lower net sales. Changes in trade policies could affect our sourcing of product and ability to secure sufficient product and / or impact the cost or price of our products, with potentially negative impacts on our reported gross profits and results of operations. Supply chain constraints, inflationary pressure and labor shortages could impact our cost of goods and other costs and expenses, which may result in lower gross profit margins and / or otherwise materially adversely affect our business, financial condition and results of operations. Our businesses have been and may continue to be impacted by supply chain constraints, resulting in inflationary pressure on material costs, longer lead times, port congestion, and increased freight costs. This could result in challenges in acquiring and receiving inventory in a timely fashion and fulfilling customer orders. In addition, we have been and may continue to be impacted by labor shortages. This could result in challenges in fulfilling customer orders and can have a negative impact on our operating results as we may be required to utilize higher- cost temporary labor. We have also experienced and continue to experience inflationary pressure in other areas that adversely impact our cost of goods sold and other costs and expenses. While we ~~have~~ instituted various price increases during 2022 **and 2023** in response to rising supplier costs, as well as increased transportation and labor costs, there can be no assurance that future cost increases can be partially or fully passed on to customers, or that the timing of such sales price increases will match our supplier cost increases. As a result, we are unable to predict the impact of these constraints on our business, financial condition and results of operations. The Company is exposed to the risk of foreign currency changes. A number of our subsidiaries are located and operate outside the United States, and each uses the currency in such foreign country as its functional currency. Operating results denominated in foreign currencies are translated into U. S. dollars when consolidated into our financial statements. Therefore, we are exposed to market risk relating to the fluctuation of value of such foreign currencies (including the Canadian dollar, Mexican peso, British pound sterling, the Euro, Danish krone, Brazilian real, Chinese renminbi, and Turkish lira) relative to the U. S. dollar that could adversely affect our financial condition and operating results. In addition, the revolving credit facility under our **2023** Amended ~~and Restated~~ Credit Agreement is available to be drawn in U. S. dollars, Canadian dollars and any other additional currencies that may be agreed between us and our lenders. Any borrowings in Canadian dollars or any other foreign currency would expose us to market risk relating to the change in the value of such foreign currency in relation to the U. S. dollar.