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

FORM 10-Q

Quarterly Report under Section 13 or 15(d) of
The Securities Exchange Act of 1934

For quarterly period ended September 30, 2001 Commission file no. 0-10546

LAWSON PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

36-2229304
(I.R.S. Employer Identification No.)

1666 East Touhy Avenue, Des Plaines, Illinois
(Address of principal executive offices)

60018
(Zip Code)

Registrant's telephone no., including area code: (847) 827-9666

Not applicable
Former name, former address and former fiscal year, if changed since last report.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date 9,636,207 Shares, $1 par value, as of October 16, 2001.

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)	September 30, 2001 (unaudited)	December 31, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,960	$ 7,912
Marketable securities	6,246	29,973
Accounts receivable, less allowance for doubtful accounts	50,261	40,823
Inventories (Note B)	64,455	55,228
Miscellaneous receivables and prepaid expenses	12,181	9,356
Deferred income taxes	1,961	1,857
Total Current Assets	140,064	145,149
Marketable securities	-----	401
Property, plant and equipment, less allowances for depreciation and amortization	39,232	39,405
Investments in real estate	965	705
Deferred income taxes	10,020	9,212
Goodwill, less accumulated amortization	30,121	2,431
Other assets	27,640	25,418
Total Assets	$ 248,042	$ 222,721

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Revolving line of credit	$ 4,000	$ ---
Accounts payable	8,065	6,730
Accrued expenses and other liabilities	21,153	24,518
Income taxes	2,975	2,615
Total Current Liabilities	36,193	33,863
Accrued liability under security bonus plans	19,175	17,968
Revolving line of credit	17,400	---
Other	11,747	10,978
	48,322	28,946
Stockholders' Equity:		
Preferred Stock, $1 par value:		
Authorized - 500,000 shares		
Issued and outstanding - None	-	-
Common Stock, $1 par value:		
Authorized - 35,000,000 shares		
Issued and outstanding-(2001-9,640,707 shares; 2000-9,706,404 shares)	9,641	9,706
Capital in excess of par value	914	762
Retained earnings	155,100	151,066
Accumulated other comprehensive income	(2,128)	(1,622)
Total Stockholders' Equity	163,527	159,912
Total Liabilities and Stockholders' Equity	$ 248,042	$ 222,721

See notes to condensed consolidated financial statements.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30, 2001	For the Three Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001	For the Nine Months Ended September 30, 2000
Net sales	$ 100,000	$ 88,064	$ 282,630	$ 263,976
	35,256	30,094	99,081	90,498
Gross Profit	64,744	57,970	183,549	173,478
Selling, general and administrative expenses	58,939	47,732	165,784	142,056
Operating income	5,805	10,238	17,765	31,422
Investment and other income	297	499	1,343	1,606
	264	1	518	4
Income before income taxes	5,838	10,736	18,590	33,024
Provision for income taxes	2,525	4,358	8,051	13,485
Net income	$ 3,313	$ 6,378	$ 10,539	$ 19,539
Net income per share of common stock:				
Basic	$ 0.34	$ 0.66	$ 1.09	$ 1.97
Diluted	$ 0.34	$ 0.65	$ 1.08	$ 1.97
Cash dividends declared per share of common stock	$ 0.16	$ 0.15	$ 0.48	$ 0.45
Weighted average shares outstanding:				
Basic	9,686	9,718	9,700	9,906
Diluted	9,715	9,737	9,726	9,917

See notes to condensed consolidated financial statements.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)

	For the Nine Months Ended September 30, 2001	2000
Operating activities:		
Net income	$ 10,539	$ 19,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,935	4,646
Changes in operating assets and liabilities	(20,418)	(7,730)
Other	1,417	625
Net Cash Provided by (Used in) Operating Activities	(2,527)	17,080
Investing activities:		
Additions to property, plant and equipment	(4,141)	(2,223)
Purchases of marketable securities	(12,126)	(46,584)
Proceeds from sale of marketable securities	36,265	51,012
Acquisition of business	(35,591)	---
Other	100	99
Net Cash Provided by (Used in) Investing Activities	(15,493)	2,304
Financing activities:		
Purchases of treasury stock	(1,935)	(11,932)
Proceeds from revolving line of credit	21,400	---
Dividends paid	(4,563)	(4,497)
Other	166	84
Net Cash Provided by (Used in) Financing Activities	15,068	(16,345)
Increase/(Decrease) in Cash and Cash Equivalents	(2,952)	3,039
Cash and Cash Equivalents at Beginning of Period	7,912	11,975
Cash and Cash Equivalents at End of Period	$ 4,960	$ 15,014

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to Lawson Products, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2000. The Condensed Consolidated Balance Sheet as of September 30, 2001, the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 2001 and 2000 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2001 and 2000 are unaudited. In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) have been made, which are necessary to present fairly the results of operations for the interim periods. Operating results for the three and nine month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

B) Inventories (consisting of primarily finished goods) at September 30, 2001 and cost of goods sold for the three and nine month periods ended September 30, 2001 and 2000 were determined through the use of estimated gross profit rates. The difference between actual and estimated gross profit is adjusted in the fourth quarter. In 2000, this adjustment increased net income by approximately $1,349,000.

C) Total comprehensive income and its components, net of related tax, for the first three and nine months of 2001 and 2000 are as follows (in thousands):

	Three months ended September 30, 2001	Three months ended September 30, 2000
Net income	$3,313	$6,378
Unrealized gain on marketable securities	---	4
Foreign currency translation adjustments	(310)	(174)
Comprehensive income	$3,003	$6,208

	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Net income	$10,539	$19,539
Unrealized gain on marketable securities	---	15
Foreign currency translation adjustments	(506)	(612)
Comprehensive income	$10,033	$18,942

The components of accumulated other comprehensive income, net of related tax, at September 30, 2001 and December 31, 2000 are as follows (in thousands):

	2001	2000
Foreign currency translation adjustments	$(2,128)	$(1,622)
Accumulated other comprehensive income	$(2,128)	$(1,622)

D) Earnings per Share

The calculation of dilutive weighted average shares outstanding for the three and nine months ended September 30, 2001 and 2000 are as follows (in thousands):

	Three months ended September 30, 2001	2000
Basic weighted average shares outstanding	9,686	9,718
Dilutive impact of options outstanding	29	19
Dilutive weighted average shares outstanding	9,715	9,737

	Nine months ended September 30, 2001	2000
Basic weighted average shares outstanding	9,700	9,906
Dilutive impact of options outstanding	26	11
Dilutive weighted average shares outstanding	9,726	9,917

E) Revolving Line of Credit

In March 2001, the Company entered into a $50 million revolving line of credit. The revolving line of credit matures five years from the closing date and carries an interest rate of prime minus 150 basis points floating or LIBOR plus 75 basis points, at the Company's option. Interest is payable quarterly on prime borrowings and at the earlier of quarterly or maturity with respect to the LIBOR contracts. The line of credit contains certain financial covenants regarding interest coverage, minimum stockholders' equity and working capital, all of which the Company was in compliance with at September 30, 2001.

F) On March 30, 2001, the Company purchased certain assets of Premier Farnell's Cleveland based North American Industrial Products (IPD) and Kent Automotive (Kent) Divisions for approximately $28.4 million plus approximately $8.0 million for related inventories. This all-cash transaction was accounted for as a purchase; accordingly, the accounts and transactions of the acquired business have been included in the consolidated financial statements since the date of acquisition. Under the agreement, the Company acquired the field sales, telephone sales and customer service professionals, the customer accounts, certain administrative executives, and use of various intellectual properties, including trademarks and trade names of the IPD and Kent divisions in certain territories. The assets acquired were recorded at estimated fair values as determined by the Company's management based on information currently available. Accordingly, the allocation of the purchase price is subject to revision. As the Company only acquired inventory and portions of the IPD and Kent businesses, the Company is unable to provide any meaningful pro forma information of prior period results.

G) Reclassification

In the fourth quarter of 2000, the Company adopted Emerging Issues Task Force (EITF) No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF 00-10 requires companies to reflect all amounts billed to customers in sales transactions as part of net sales. As such, the Company has reclassified $2,640,000 and $7,931,000 of freight revenue to net sales from selling, general and administrative expenses for the third quarter and nine months ended September 30, 2000, respectively.

H) New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Intangible Assets." Statement No. 142 provides that amortization of goodwill no longer be required but does require the testing of the goodwill for impairment at least annually. Statement No. 142 will be required to be adopted by the Company as of January 1, 2002. The Company expects the impact of adoption will be to increase operating income by approximately $1.6 million in 2002.

I) Segment Reporting

The Company has three reportable segments: Maintenance, Repair and Replacement (MRO) distribution, OEM distribution and manufacturing (OEM), and international distribution.

Financial information for the Company's reportable segments consisted of the following:

	Three Months Ended September 30,	
In thousands	2001	2000
Net sales		
MRO distribution	$ 80,920	$ 72,107
OEM distribution	13,445	12,673
International distribution	5,635	3,284
Consolidated total	$ 100,000	$ 88,064
Operating income (loss)		
MRO distribution	$ 5,199	$ 9,536
OEM distribution	565	952
International distribution	41	(250)
Consolidated total	$ 5,805	$ 10,238

The reconciliation of segment profit to consolidated income before income taxes consisted of the following:

	Three Months Ended September 30,	
In thousands	2001	2000
Total operating income from reportable segments	$ 5,805	$ 10,238
Investment and other income	297	499
Interest expense	(264)	(1)
Income before income taxes	$ 5,838	$ 10,736

	Nine Months Ended September 30,	
In thousands	2001	2000
Net sales		
MRO distribution	$ 228,703	$ 213,825
OEM distribution	39,311	40,228
International distribution	14,616	9,923
Consolidated total	$ 282,630	$ 263,976
Operating income (loss)		
MRO distribution	$ 16,152	$ 29,003
OEM distribution	1,821	3,101
International distribution	(208)	(682)
Consolidated total	$ 17,765	$ 31,422

The reconciliation of segment profit to consolidated income before income taxes consisted of the following:

In thousands	Nine Months Ended September 30, 2001	2000
Total operating income from Reportable segments	$ 17,765	$ 31,422
Investment and other income	1,343	1,606
Interest expense	(518)	(4)
Income before income taxes	$ 18,590	$ 33,024

Asset information related to the Company's reportable segments consisted of the following:

In thousands	September 30, 2001	December 31, 2000
Total assets		
MRO distribution	$ 180,353	$ 160,169
OEM distribution	35,276	32,182
International distribution	20,432	19,301
Total for reportable segments	236,061	211,652
Corporate	11,981	11,069
Consolidated total	$ 248,042	$ 222,721

Independent Accountants' Review Report

Board of Directors and Stockholders
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of September 30, 2001 and the related condensed consolidated statements of income for the three month and nine month periods ended September 30, 2001 and 2000 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Lawson Products, Inc. as of December 31, 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, not presented herein, and in our report dated February 23, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

October 16, 2001

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, contains certain forward-looking statements pertaining to the ability of the Company to finance future growth, cash dividends and capital expenditures, the ability to successfully integrate acquired businesses and certain other matters. These statements are subject to uncertainties and other factors which could cause actual events or results to vary materially from those anticipated. Lawson Products, Inc. ("Lawson" or the "Company") does not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net sales for the three and nine-month periods ended September 30, 2001 increased 13.6% to $100,000,000 and 7.1% to $282,630,000, respectively, relative to the comparable periods of 2000. MRO distribution net sales increased by $8.8 million in the third quarter, driven by the sales of $14.3 million in IPD and Kent divisions which were acquired by the Company in March 2001. These sales gains more than offset reduced contributions of other MRO units. The $18.7 million increase in net sales year-to-date is attributable to the $27.3 million of sales generated by the Company's IPD and Kent acquisition. The other MRO operations of the Company were down due to fewer orders in the period.

Lawson's OEM distribution net sales were relatively flat for the quarter and year-to-date periods. The international segment increased net sales by $2.4 million and $4.7 million in the three months and nine months ended September 30, 2001, respectively. These increases were primarily due to increased sales in Canada due to the acquisition.

Gross profit was slightly lower as a percent of sales primarily due to the IPD and Kent acquisition, whose sales generally are at lower margins than the Company's traditional businesses. Selling, general and administrative expenses increased approximately $11 million to $58.9 million for the third quarter of 2001. The biggest cause of this increase was increased sales agent compensation on the increase in net sales as well as additional costs incurred for the IPD/Kent acquisition, including employee salaries and the amortization of goodwill.

The Company's acquisition of IPD and Kent was completed using the proceeds from the sale of marketable securities and borrowings under the $50 million unsecured line of credit which the Company entered into in March 2001. This resulted in the decrease in investment and other income and an increase in interest expense for both of the 2001 periods presented in comparison to 2000.

The decrease in the provision for income taxes for both 2001 periods presented is due to the decrease in income before income taxes partially offset by a higher effective tax rate. The higher effective tax rate was primarily due to foreign losses for which no income tax benefits are currently available.

Net income for the third quarter declined 48.1% to $3.3 million ($.34 per diluted share) from $6.4 million ($.65 per diluted share) for the similar period of 2000. Net income for the nine months ended September 30, 2001 decreased 46.1% to $10.5 million ($1.08 per diluted share) from $19.5 million ($1.97 per diluted share) for the same period of 2000. These decreases in net income are primarily attributable to the higher selling, general and administrative expenses discussed above. Also, a slowing economy negatively affected our earnings by impeding the performance of our sales force throughout the quarter and the nine months ended September 30, 2001. The tragic events of September 11 have also had a negative effect on earnings. Per share net income for 2001 and 2000 was positively impacted by the Company's share repurchase program.

The Company used $2.5 million of cash in operations for the nine months ended September 30, 2001 compared to cash provided from operations of $17.5 million in the similar period of the prior year. This decline was due primarily to the decrease in net income noted above, as well as increases in accounts receivable, inventories and other current assets largely associated with additional business volume of IPD and Kent. Additions to property, plant and equipment were $4.1 million and $2.2 million, respectively, for the nine months ended September 30, 2001 and 2000. Capital expenditures during 2001 primarily reflect purchases of computer related equipment and warehouse equipment and building improvements, while 2000 additions primarily reflect purchases of computer related equipment.

On March 30, 2001, the Company purchased certain assets of Premier Farnell's IPD and Kent Divisions for approximately $28.4 million plus approximately $8.0 million for related inventories. This all-cash transaction was accounted for as a purchase; accordingly, the accounts and transactions of the acquired business have been included in the consolidated financial statements since the date of acquisition. Under the agreement, the Company acquired the field sales, telephone sales and customer service professionals, the customer accounts, certain administrative executives, and use of various intellectual properties, including trademarks and trade names of the IPD and Kent divisions in certain territories. The assets acquired were recorded at estimated fair values as determined by the Company's management based on information currently available. Accordingly, the allocation of the purchase price is subject to revision.

During the first nine months of 2001, the Company purchased 73,097 shares of its own common stock for approximately $1,935,000. These shares were acquired pursuant to the 1999 Board authorization to purchase up to 500,000 shares. In the first nine months of 2000, the Company purchased 501,268 shares of its own common stock for approximately $11,932,000. Of these purchases, 412,668 shares were acquired pursuant to the 1999 Board authorization described above and 88,600 shares represented the remaining shares authorized for purchase under the 1998 Board authorization to purchase up to 500,000 shares. All shares purchased as of September 30, 2001 have been retired. Funds to purchase these shares were provided by investments and cash flows from operations.

Current investments, cash flows from operations and the $50,000,000 unsecured line of credit are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2001 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

PART II

OTHER INFORMATION

Items 1, 2, 3, 4, and 5 are inapplicable and have been omitted from this report.

Item 6. Exhibits and Reports on Form 8-K.

(a) 15 Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information

(b) The Company was not required to file a Current Report on Form 8-K for the most recently completed quarter.

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 thereunto duly authorized.

LAWSON PRODUCTS, INC.
(Registrant)

Dated October 16, 2001	/s/ Robert J. Washlow Robert J. Washlow Chairman of the Board
Dated October 16, 2001	/s/ Joseph L. Pawlick Joseph L. Pawlick Chief Financial Officer (Principal Financial Officer)

Exhibit 15

August 29, 2001

Board of Directors
Lawson Products, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-17912 dated November 4, 1987) of Lawson Products, Inc. of our report dated April 16, 2001 relating to the unaudited condensed consolidated interim financial statements of Lawson Products, Inc. which are included in its Form 10-Q/A for the quarter ended March 31, 2001.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

/s/ ERNST & YOUNG LLP