

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 Quarter Ended March 31, 1999

Commission file no. 0-10546

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2229304

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1666 East Touhy Avenue, Des Plaines, Illinois

60018

(Address of principal executive offices)

(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. 10,563,822 Shares, \$1 par value, as of April 16, 1999.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	March 31, 1999	December 31, 1998
	-----	-----
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 16,491	\$ 13,872
Marketable securities	11,220	13,816
Accounts receivable, less allowance for doubtful accounts	35,137	35,255
Inventories (Note B)	46,414	46,670
Miscellaneous receivables and prepaid expenses	7,614	7,533
Deferred income taxes	1,284	1,256
	-----	-----
Total Current Assets	118,160	118,402
Marketable securities	13,284	11,020
Property, plant and equipment, less allowances for depreciation and		

amortization	42,233	41,142
Investments in real estate	4,202	4,054
Deferred income taxes	6,768	6,747
Other assets	19,309	17,617
	-----	-----
Total Assets	\$ 203,956	\$ 198,982
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities:		
Accounts payable	\$ 5,848	\$ 5,113
Accrued expenses and other liabilities	21,039	22,405
Income taxes	5,744	3,283
	-----	-----
Total Current Liabilities	32,631	30,801
	-----	-----
Accrued liability under security bonus plans	15,421	15,315
Other	10,036	9,931
	-----	-----
	25,457	25,246
	-----	-----
Stockholders' Equity:		
Preferred Stock, \$1 par value:	---	---
Authorized - 500,000 shares		
Issued and outstanding - None		
Common Stock, \$1 par value:	10,624	10,664
Authorized - 35,000,000 shares		
Issued and outstanding - (1999- 10,623,822 shares; 1998 - 10,663,822 shares)		
Capital in excess of par value	747	749
Retained earnings	135,208	132,209
Accumulated other comprehensive income	(711)	(687)
	-----	-----
Total Stockholders' Equity	145,868	142,935
	-----	-----
Total Liabilities and Stockholders'	\$ 203,956	\$ 198,982
	=====	=====

Equity

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 March 31,	
	1999	1998
	-----	-----
Net sales	\$74,148	\$70,363
Cost of goods sold (Note B)	25,837	24,828
	-----	-----
Gross Profit	48,311	45,535
Selling, general and administrative expenses	39,925	38,448
	-----	-----
Operating income	8,386	7,087
Investment and other income	606	641
	-----	-----
Income before income taxes	8,992	7,728
Provision for income taxes	3,715	3,205
	-----	-----
Net income	\$ 5,277	\$ 4,523
	=====	=====
Net income per share of common stock:	\$ 0.50	\$ 0.41
	=====	=====
Basic		
Diluted	\$ 0.50	\$ 0.40
	=====	=====
Cash dividends declared per share of common stock	\$ 0.14	\$ 0.14
	=====	=====
Weighted average shares outstanding:	10,651	11,135
	=====	=====
Basic		
Diluted	10,651	11,175
	=====	=====

See notes to condensed consolidated financial statements

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

(UNAUDITED)

(Amounts in thousands)

	For the Three Months Ended March 31,	
	1999	1998
Operating activities:		
Net income	\$ 5,277	\$ 4,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,594	1,403
Changes in operating assets and liabilities	26	1,330
Other	325	517
	7,222	7,773
Net Cash Provided by Operating Activities	7,222	7,773
Investing activities:		
Additions to property, plant and equipment	(2,546)	(2,601)
Purchases of marketable securities	(36,355)	(59,005)
Proceeds from sale of marketable securities	36,617	61,171
Other	15	100
	(2,269)	(335)
Net Cash Used in Investing Activities	(2,269)	(335)
Financing activities:		
Purchases of treasury stock	(841)	---
Dividends paid	(1,493)	(1,559)
Other	---	8
	(2,334)	(1,551)
Net Cash Used in Financing Activities	(2,334)	(1,551)
Increase in Cash and Cash Equivalents	2,619	5,887
Cash and Cash Equivalents at Beginning of Period	13,872	10,248
Cash and Cash Equivalents at End of Period	\$ 16,491	\$ 16,135

See notes to condensed consolidated financial statements.

Part I

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS  
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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 the Company's Annual Report on Form 10-K for the year ended December 31, 1998. The Condensed Consolidated Balance Sheet as of March 31, 1999, the Condensed Consolidated Statements of Income for the three month periods ended March 31, 1999 and 1998 and the Condensed Consolidated Statements of Cash Flows for the three month periods ended March 31, 1999 and 1998 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 quarter ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999.

B) Inventories (consisting of primarily finished goods) at March 31, 1999 and cost of goods sold for the three month periods ended March 31, 1999 and 1998 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 1998, this adjustment increased net income by approximately \$1,146,000.

C) As of January 1, 1998, the Company adopted FASB Statement 130, "Reporting Comprehensive Income," (SFAS 130). SFAS 130 establishes new rules for reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or stockholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments to be included in other comprehensive income, which prior to adoption were reported separately in stockholders' equity.

Total comprehensive income and its components, net of related tax, for the first quarter of 1999 and 1998 are as follows:

	1999 ----	1998 ----
Net income	\$ 5,277,034	\$ 4,522,749
Unrealized gains(losses) on securities	(54,000)	148,000
Foreign currency translation adjustments	29,829	447,858
	-----	-----
Comprehensive income	\$ 5,252,863	\$ 5,118,607
	=====	=====

The components of accumulated other comprehensive income, net of related tax, at March 31, 1999 and December 31, 1998 are as follows:

	1999 ----	1998 ----
Unrealized gain on securities	\$ 614,000	\$ 668,000
Foreign currency translation adjustments	(1,325,242)	(1,355,071)
	-----	-----
Accumulated other comprehensive income	\$ (711,242)	\$ (687,071)
	=====	=====

#### D) Earnings per Share

The calculation of dilutive weighted average shares outstanding at March 31, 1999 and 1998 are as follows:

	1999 ----	1998 ----
Basic weighted average shares outstanding	10,651,322	11,135,383
Dilutive impact of options outstanding	---	39,388
	-----	-----
Dilutive weighted average shares outstanding	10,651,322	11,174,771
	=====	=====

Independent Accountants' Review Report

Board of Directors  
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of March 31, 1999 and the related condensed consolidated statements of income and cash flows for the three month periods ended March 31, 1999 and 1998. 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 generally accepted auditing standards, 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 review, 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 generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Lawson Products, Inc. as of December 31, 1998, 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 26, 1999, 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, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

April 16, 1999

This Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, contains certain forward-looking statements pertaining to the Year 2000 Issue and other matters. These statements are subject to uncertainties and other factors which could cause actual events or results to vary materially from those anticipated.

ITEM 2                    MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Net sales for the three month period ended March 31, 1999 rose 5.4% to \$74,148,000 relative to the similar period of 1998. The sales gain reflects increased contribution from substantially all Lawson operations.

Net income advanced 16.7% to \$5,277,000 (\$.50 per diluted share) for the three months ended March 31, 1999 from \$4,523,000 (\$.40 per share) for the comparable period of 1998. This gain is attributable to higher gross margins, cost containment efforts and the increase in net sales noted above. Per share net income for 1999 and 1998 was positively impacted by the Company's share repurchase program.

Cash flows provided by operations for the three months ended March 31, 1999 decreased to \$7,222,000 from \$7,773,000 in the similar period of the prior year. This decline was due primarily to a smaller increase in operating liabilities (principally accounts payable and income taxes payable) from 1998 levels as compared to the increase noted from 1997 to 1998, which more than offset the gain in net income from the comparable period of 1998. Current investments and cash flows from operations are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures. Additions to property, plant and equipment were \$2,546,000 and \$2,601,000, respectively, for the three months ended March 31, 1999 and 1998. Capital expenditures during 1999 and 1998 primarily reflect costs incurred relative to the construction of a new Lawson outbound facility in Atlanta, Georgia and purchases of computer related equipment. The new facility, expected to be completed during 1999 at a cost of approximately \$7,000,000, will be used in place of the Norcross, Georgia facility, which will be sold.

During the first quarter of 1999, the Company purchased 40,000 shares of its own common stock for approximately \$841,000, relative to the Board's 1996 authorization to repurchase 1,000,000 shares. No shares were purchased during the quarter ended March 31, 1998. To date, 991,500 shares have been purchased relative to the 1996 stock repurchase program. All shares purchased as of March 31, 1999 have been retired. Funds to purchase these shares were provided by

investments and cash flows from operations. In 1998, the Board of Directors authorized the purchase of up to 500,000 additional shares of the Company's common stock, of which none had been purchased as of March 31, 1999.

The Company has developed a plan to modify its information technology to recognize the Year 2000 Issue. The Year 2000 Issue involves computer programs being written using two digits rather than four to define the applicable year. Computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a system failure or miscalculations causing disruptions in the processing of normal business transactions.

Based on the Company's assessment of the Year 2000 Issue, it has been determined that it will be required to modify or replace portions of its software and certain hardware to insure the proper recognition of dates beyond December 31, 1999. The Company presently believes that with modifications or replacements of certain existing software and hardware, the Year 2000 Issue can be mitigated.

The Company's plan to resolve the Year 2000 Issue involves the following four phases: assessment, remediation, testing, and implementation. The Company has fully completed its assessment of all systems that could be significantly impacted by the Year 2000 and is currently converting its critical data processing systems.

Based on a review of its product line, the Company has determined that the products it has sold and will continue to sell do not require remediation to be Year 2000 compliant. Accordingly, the Company does not believe that the Year 2000 presents exposure as it relates to the Company's products.

The Company has contacted all of its suppliers and has gathered information about their Year 2000 compliance status. To date, the Company is not aware of any supplier with a Year 2000 issue that would have a material impact on the operations of the Company. However, the Company does not have the means to ensure that third parties will be Year 2000 ready. The inability of third parties to complete their Year 2000 resolution process in a timely fashion could materially impact the Company. The effect of non-compliance by third parties is not determinable.

The Company will utilize both internal and external resources to reprogram, or replace, test, and implement the software and operating equipment for Year 2000 modifications. This project remains on schedule, including testing and

implementation. The Company presently believes all phases of the conversion will be completed by the end of the second quarter of 1999 at a total cost of approximately \$500,000, of which \$400,000 of expense has been incurred as of March 31, 1999. These costs are primarily for modifying code and testing computer software programs. This project is not expected to have a significant effect on operations.

If the Company is unsuccessful in its remediation efforts or if the remediation efforts of its key suppliers or customers are unsuccessful, there may be a material adverse impact on the Company's results of operations and financial position. If the Year 2000 Issue project is unsuccessful, the worst case scenario is that the Company will be unable to distribute its products. As the Company cannot predict the magnitude or time length of Year 2000 business interruptions, the Company is unable to estimate the financial impact of Year 2000 issues. The Company does not currently have a contingency plan although one is under development.

Although the project is not yet complete, the management of the Company believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner. The Company is committed to providing the necessary resources, including additional funding and manpower, as required, until such time that all phases of the Year 2000 project are completed.

Part II

OTHER INFORMATION

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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) 3(ii) By-laws of the Company

15 Letter from Ernst & Young LLP regarding  
Unaudited Interim Financial Information

27 Financial Data Schedule

(b) The registrant 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 April 16, 1999  
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/s/ Bernard Kalish  
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Bernard Kalish  
Chairman of the Board

Dated April 16, 1999  
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/s/ Joseph L. Pawlick  
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Joseph L. Pawlick  
Vice President and Controller

LAWSON-PRODUCTS, INC.  
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BY-LAWS  
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ARTICLE I  
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OFFICES  
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Section 1.1 Registered Office. The registered office of the Corporation shall be maintained in the City of Dover, State of Delaware, and the registered agent in charge thereof is United States Corporation Company.

Section 1.2 Other Offices. The Corporation may also have an office in the City of Des Plaines, State of Illinois and at such other places as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II  
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STOCKHOLDERS MEETINGS  
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Section 2.1 Place of Meetings. All meetings of the stockholders, whether annual or special, shall be held at the offices of the Corporation in Des Plaines, Illinois, or at such other place as may be fixed from time to time by the Board of Directors.

Section 2.2 Annual Meetings. An annual meeting of the stockholders shall be held in May in each year on such date and at such time as may from time to time be determined by the Board of Directors, at which the stockholders shall elect directors, and transact such other business as may properly be brought before the meeting.

Section 2.3 Notice of Meeting. Written notice of the annual meeting stating the place, date and hour of the meeting, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 2.4 Stockholder Nominations and Proposals. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before an annual meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) otherwise properly brought before the meeting by a stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Section, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation at the principal executive office of the

Corporation. To be timely, a stockholder's notice shall be delivered not less than 90 days nor more than 110 days prior to the first anniversary of the preceding year's meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder, to be timely, must be so delivered not later than the 10th day following the day on which public announcement (as defined herein) of the date of such meeting is first made.

Such stockholder's notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and any interest in such

business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (A) the name and address of such stockholder, as they appear on the Corporation's books, and the name and address of such beneficial owner, (B) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner as of the date such notice is given, and (C) a representation that such stockholder intends to appear in person or by proxy at the meeting to propose such business; (iii) in the event that such business includes a proposal to amend either the Certificate of Incorporation or the Bylaws of the Corporation, the language of the proposed amendment and (iv) if the stockholder intends to solicit proxies in support of such stockholder's proposal, a representation to that effect. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such stockholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that if such stockholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such a meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with this paragraph, and the Chairman of the Board or other person presiding at an annual meeting of stockholders, may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the stockholder solicits proxies in support of such stockholder's proposal without such stockholder having made the representation required by clause (iv) of the second preceding sentence. For the purposes of this paragraph "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition to the provisions of this paragraph, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth herein. Nothing in these Bylaws shall be deemed to affect any rights of the stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.5 Stockholders List. At least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder,

shall be prepared, or caused to be prepared, by the Secretary. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.6 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chairman of the Executive Committee, if any, the Chairman of the Board or by the President and shall be called by the Secretary at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting. Unless otherwise prescribed by statute or by the Certificate of Incorporation, stockholders of this Corporation shall not be entitled to request a special meeting of stockholders.

Section 2.7 Notice of Special Meetings. Except as otherwise provided by statute, written notice of a special meeting, stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 2.8 Quorum. The holders of a majority of the total voting power of all outstanding shares of capital stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute, by the Certificate of Incorporation or by these By-Laws. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, of the place, date and hour of the adjourned meeting, until a quorum shall again be present or represented by proxy. At the adjourned meeting at which a quorum shall be present or represented by proxy, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.9 Voting. When a quorum is present at any meeting, and subject to the provisions of the General Corporation Law of the State of Delaware, the Certificate of Incorporation or by these By-Laws in respect of the vote that shall be required for a specified action, the vote of the holders of a majority of the total voting power of all outstanding shares of capital stock of the Corporation, present in person or represented by proxy, shall be determinative of any question brought before such meeting, unless the question is one upon which, by express provision of the statutes or of the Certificate of Incorporation or of these By-Laws, a different vote is required in which case such express provision shall govern and control the decision of such question. Each stockholder shall have one vote for each share of stock having voting power registered in his name on the books of the Corporation, except as otherwise provided in the Certificate of Incorporation.

Section 2.10 Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may in writing authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period not to exceed ten years.

Without limiting the manner in which a stockholder may authorize another person or persons to act for him as proxy, a stockholder may validly authorize another person or persons to act for him as proxy by: (a) executing a writing to that effect, which execution may be accomplished by the stockholder or his authorized officer, director, employee or agent signing the writing or causing his signature to be affixed to the writing by any reasonable means including, but not limited to, by facsimile signature; or (b) transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that any telegram, cablegram or other electronic transmission submitted pursuant to clause (b) above is valid, the inspectors shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 2.11 Elimination of Right to Act by Consent. No action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

#### Section 2.12 Voting Procedures and Inspectors of Elections.

(a) The Corporation, by action of the Secretary, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting of stockholders and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting and their count of all

votes and ballots. The inspectors may appoint or retain other persons or entities to assist them in the performance of their duties.

(c) The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with clause (b) of Section 2.10 of these By-Laws, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors, at the time they make their certification pursuant to subsection (b)(v) of this Section, shall specify the specific information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors belief that the information is accurate and reliable.

### ARTICLE III

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#### DIRECTORS

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Section 3.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such acts and things as are not by the General Corporation Law of the State of Delaware nor by the Certificate of Incorporation nor by these By-Laws directed or required to be exercised or done by the stockholders.

Section 3.2 Number of Directors, Classes, Terms and Election; Vacancies. The number of directors shall not be less than five nor more than nine, the exact number of directors to be determined from time to time by resolution adopted by a majority of the whole Board, and such exact number shall be nine until otherwise determined by resolution adopted by a majority of the whole Board. As used in this Article, a whole Board means the total number of directors which at the time are to constitute the Board of Directors, either as designated in this Section or as determined by the Board of Directors in accordance herewith, as the case may be. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

The Board of Directors shall be divided into three classes as nearly equal in number as possible, with the term of office of Class I expiring at the annual meeting of stockholders in 1983, of Class II expiring at the annual meeting of stockholders in 1984, and of Class III expiring at the annual meeting of stockholders in 1985. At each annual meeting of stockholders, directors

chosen to succeed those whose terms then expire shall be elected for a term of office expiring at the third succeeding annual meeting of stockholders after their election.

If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, or a new directorship is created, a majority of the remaining directors, though less than a quorum, shall choose a successor or successors, or a director to fill the newly created directorship. Directors elected to fill a vacancy shall hold office for a term expiring at the annual meeting at which the term of the class to which they shall have been elected expires.

Section 3.3 Removal of Directors. Subject to the rights of the holders of any series of Preferred Stock then outstanding, (a) any director, or the entire Board of Directors may be removed at any time, but only for cause; and (b) the affirmative vote of the holders of not less than 75% of the total voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) outstanding at the time a determination is made shall be required to remove a director from office.

Section 3.4 Place of Meetings. The Board of Directors may hold its meetings outside of the State of Delaware, at the office of the Corporation or at such other places as they may from time to time determine, or as shall be fixed in the respective notices or waivers of notice of such meetings.

Section 3.5 Committees of Directors. The Board of Directors may, by resolution or resolutions passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate Members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amendment to the By-Laws of the Corporation; and, unless the resolution, By-Laws, or Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. The committees shall keep regular minutes of their proceedings and report the same to the Board of Directors when required.

Section 3.6 Compensation of Directors. Directors, as such, may receive such stated salary for their services and/or such fixed sums and expenses of attendance for attendance at each regular or special meeting of the Board of Directors as may be established by resolution of the Board; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.7 Annual Meeting. The annual meeting of the Board of Directors shall be held within ten days after the annual meeting of the stockholders in each year. Notice of such meeting, unless waived, shall be given

by mail or telegram to each director elected at such annual meeting, at his address as the same may appear on the records of the Corporation, or in the absence of such address, at his residence or usual place of business, at least three days before the day on which such meeting is to be held. Said meeting may be held at such place as the Board may fix from time to time or as may be specified or fixed in such notice or waiver thereof.

Section 3.8 Special Meetings. Special meetings of the Board of Directors may be held at any time on the call of the Chairman of the Executive Committee (if any), the Chairman of the Board or President or at the request in writing made to either of said Chairman or the President of any three directors. Notice of any such meeting, unless waived, shall be given by mail or telegram to each director at his address as the same appears on the records of the Corporation not less than one day prior to the day on which such meeting is to be held if such notice is by telegram, and not less than three days prior to the day on which the meeting is to be held if such notice is by mail. If the Secretary shall fail or refuse to give such notice, then the notice may be given by the officer to whom the request is made or by any one of the directors making the call. Any such meeting may be held at such place as the Board may fix from time to time or as may be specified or fixed in such notice or waiver thereof. Any meeting of the Board of Directors shall be a legal meeting without any notice thereof having been given, if all the directors shall be present thereat, and no notice of a meeting shall be required to be given to any director who shall attend such meeting.

Section 3.9 Action Without Meeting; Participation at Meeting by Telephone. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors.

Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

Section 3.10 Quorum and Manner of Acting. Except as otherwise provided in these By-Laws, a majority of the total number of directors as at the time specified by the By-Laws shall constitute a quorum at any regular or special meeting of the Board of Directors. Except as otherwise provided by statute, by the Certificate of Incorporation, or by these By-Laws, the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In case of an equality of votes on any question before the Board of Directors of the Corporation, the Director who holds the office of Chairman of the Executive Committee, if any, Chairman of the Board, or the President (if a director), in that order if present, shall have a second and deciding vote. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given, except that notice shall be given to all directors if the adjournment is for more than thirty days.

ARTICLE IV  
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OFFICERS  
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Section 4.1 Executive Officers. The executive officers of the Corporation shall be a Chairman of the Executive Committee (if such a committee is established in the manner prescribed by Section 3.5 of these By-Laws) , a Chairman of the Board, President or Officer of the President established in the manner prescribed by Section 4.17 of these by-laws, one or more Executive Vice Presidents, one or more Senior Vice Presidents, such number of Vice Presidents, if any, as the Board of Directors may determine, a Secretary and a Treasurer. One person may hold any number of said offices.

Section 4.2 Election, Term of Office and Eligibility. The executive officers of the Corporation shall be elected annually by the Board of Directors at its annual meeting or at a special meeting held in lieu thereof. Each officer, except such officers as may be appointed in accordance with the provisions of Section 4.3, shall hold office until his successor shall have been duly elected or appointed and qualified or until his death, resignation or removal. The Chairman of the Board shall be and remain a member of the Board of Directors. None of the other officers need be members of the Board.

Section 4.3 Subordinate Officers. The Board of Directors may appoint such Assistant Secretaries, Assistant Treasurers, Controller and other officers, and such agents as the Board may determine, to hold office for such period and with such authority and to perform such duties as the Board may from time to time determine. The Board may, by specific resolution, empower the chief executive officer of the Corporation or the Executive Committee to appoint any such subordinate officers or agents.

Section 4.4 Removal. The Chairman of the Executive Committee, the Chairman of the Board, the President, any Vice President, the Secretary and/or the Treasurer may be removed at any time, either with or without cause, but only by the affirmative vote of the majority of the total number of directors as at the time specified by the By-Laws. Any subordinate officer appointed pursuant to Section 4.3 may be removed at any time, either with or without cause, by the majority vote of the directors present at any meeting of the Board or by any committee or officer empowered to appoint such subordinate officers.

Section 4.5 The Chairman of the Executive Committee. The Chairman of the Executive Committee shall, subject to the control of the Board of Directors and to such limitations as are imposed by statute, the Articles of Incorporation, and these By-Laws, be responsible for planning the future course and direction of the business of this Corporation and developing a program for the implementation thereof. Such responsibilities may include, but shall not be limited to, initiating programs for the development of new executive positions within this Corporation, the establishment of requirements and qualifications of personnel to fill such positions, determining potential new product categories, and exploring the utilization of new and more sophisticated operating and general business techniques. In the absence of the Chairman of the Board, the Chairman of the Executive Committee shall act as Chief Executive Officer of the Company and shall administer and be responsible for the management of the business and affairs of this Corporation.

Section 4.6 The Chairman of the Board. The Chairman of the Board shall be the chief executive officer of the Corporation. Subject to the control vested in the Board of Directors by statute, by the Certificate of Incorporation, or by these By-Laws, he shall administer and be responsible for the overall management of the business and affairs of the Corporation. He shall preside at all meetings

of the stockholders and the Board of Directors; and in general, shall perform all duties incident to the office of the Chairman of the Board and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.7 The President. The President shall have authority to see that all resolutions of the Board of Directors and of the Executive Committee are carried into effect, shall perform such duties as are incident to the office of President or as may from time to time be assigned by the Chairman of the Executive Committee, the Chairman of the Board, or the Board of Directors, and, if the President is a director, in the absence or disability of the Chairman of the Board, shall perform the duties of the Chairman of the Board.

Section 4.8 The Executive Vice Presidents. In the absence of the Chairman of the Executive Committee, the Chairman of the Board and the President, or in the event of their inability or refusal to act, the Executive Vice President (or in the event there be more than one Executive Vice President, Executive Vice Presidents in the order designated, or in the absence of any designation, in the order elected) shall perform the duties of the Chairman of the Executive Committee, the Chairman of the Board and the President. Each Executive Vice President shall perform such other duties as from time to time may be assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or by the Board of Directors.

Section 4.9 The Vice Presidents. In the event of the absence or disability of the Chairman of the Executive Committee, the Chairman of the Board, the President and/or all Executive Vice Presidents, each senior Vice President, in the order of his seniority, which shall be in the order of his election, and then each Vice President, in the order of his seniority, shall perform the duties of such officers. The Vice Presidents shall also perform such other duties as from time to time may be assigned to them by the Chairman of the Executive Committee, the Chairman of the Board, the President, Executive Vice Presidents or by the Board of Directors of the Corporation.

Section 4.10 The Secretary. The Secretary shall:

(a) Keep the minutes of the meetings of the stockholders and of the Board of Directors;

(b) See that all notices are duly given in accordance with the provisions of these By-Laws or as required by law;

(c) Be custodian of the records and of the seal of the Corporation and see that the seal or a facsimile or equivalent thereof is affixed to or reproduced on all documents, the execution of which on behalf of the Corporation under its seal is duly authorized;

(d) Have charge of the stock record books of the Corporation, unless the same shall be entrusted by the Board of Directors to a registrar or transfer agent, in which case the registrar or transfer agent shall have charge of same;

(e) In general, perform all duties incident to the office of Secretary, and such other duties as are provided by these By-Laws and as from time to time are assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or the Board of Directors of the Corporation.

Section 4.11 The Assistant Secretaries. If one or more Assistant Secretaries shall be appointed pursuant to the provisions of Section 4.3 respecting subordinate officers, then, at the request of the Secretary, or in his absence or disability, the Assistant Secretary designated by the Secretary (or in the absence of such designations, then any one of such Assistant Secretaries) shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 4.12 The Treasurer. The Treasurer shall:

(a) Receive and be responsible for all funds of and securities owned or held by the Corporation and, in connection therewith, among other things: keep or cause to be kept full and accurate records and accounts for the Corporation; deposit or cause to be deposited to the credit of the Corporation all moneys, funds and securities so received in such bank or other depository as the Board of Directors or an officer designated by the Board may from time to time establish; and disburse or supervise the disbursement of the funds of the Corporation as may be properly authorized;

(b) Render to the Board of Directors at any meeting thereof, or from time to time whenever the Board of Directors or the chief executive officer of the Corporation may require, financial and other appropriate reports on the condition of the Corporation;

(c) In general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or the Board of Directors of the Corporation.

Section 4.13 The Assistant Treasurers. If one or more Assistant Treasurers shall be appointed pursuant to the provisions of Section 4.3 respecting subordinate officers, then, at the request of the Treasurer, or in his absence or disability, the Assistant Treasurer designated by the Treasurer (or in the absence of such designation, then any one of such Assistant Treasurers) shall perform all the duties of the Treasurer and when so acting shall have all the powers of and be subject to all the restrictions upon the Treasurer.

Section 4.14 Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

Section 4.15 Bonds. If the Board of Directors or the chief executive officer shall so require, any officer or agent of the Corporation shall give bond to the Corporation in such amount and with such surety as the Board of Directors or the chief executive officer, as the case may be, may deem sufficient, conditioned upon the faithful performance of their respective duties and offices.

Section 4.16 Delegation of Duties. In case of the absence of any officer of the Corporation or for any other reason which may seem sufficient to the Board of Directors, the Board of Directors may, for the time being, delegate his powers and duties, or any of them, to any other officer or to any director.

Section 4.17 Office of the President. Notwithstanding anything herein to the contrary, the Board of Directors of the Corporation may at any time, and from time to time, (i) designate, in lieu of a President, an Office of the

President or (ii) disband such Office of the President in favor of a President. The Office of the President shall consist of at least two, but not more than three employees of the Corporation, elected by the Board of Directors. Each member of the Office of the President shall perform such duties as may be prescribed by the Chairman of the Board or the Board of Directors and shall have the same duties and powers as a President of the Corporation hereunder; provided, however, that (i) the Board of Directors of the Corporation may, by resolution, designate only certain members of the Office of the President who may exercise certain authority of a President hereunder, and (ii) the approval of at least two members of the Office of the President shall be required for all actions of the Office of the President including, but not limited to, the following:

- (a) Calling for a special meeting of stockholders pursuant to Section 2.6 hereof;
- (b) Calling for a special meeting of the Board of Directors of the Corporation pursuant to Section 3.8 hereof;
- (c) Casting the deciding vote on any question before the Board of Directors of the Corporation pursuant to Section 3.10 if and only if all such members of the Office of the President are also directors of the Corporation. If only one member of the Office of the President is a director, such member shall have authority to cast the deciding vote pursuant to Section 3.10 hereof; and
- (d) Assign duties to any Executive Vice President, any Vice President, the Secretary or the Treasurer.

ARTICLE V

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SHARES OF STOCK

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Section 5.1 Regulation. Subject to the terms of any contract of the Corporation, the Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation, including the issue of new certificates for lost, stolen or destroyed certificates, and including the appointment of transfer agents and registrars.

Section 5.2 Stock Certificates. Certificates for shares of the stock of the Corporation shall be respectively numbered serially for each class of stock, or series thereof, as they are issued, shall be impressed with the corporate seal or a facsimile thereof, and shall be signed by the Chairman of the Board, the President or an Executive Vice President, and by the Secretary or Treasurer, or an Assistant Secretary or an Assistant Treasurer, provided that such signatures may be facsimiles on any certificate countersigned by a transfer agent other than the Corporation or its employee. Each certificate shall exhibit the name of the Corporation, the class (or series of any class) and number of shares represented thereby, the name of the holder, the par value of the shares represented thereby, or that such shares are without par value. The powers, designations, preferences, and relative, participating, optional or other

special rights of each class of stock and series of any class and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificates which the Corporation shall issue, or such certificate shall contain a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Each certificate shall be otherwise in such form as may be prescribed by the Board of Directors.

Section 5.3 Transfer of Shares. Shares of the capital stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his duly authorized attorney, upon the surrender or cancellation of a certificate or certificates for a like number of shares. Upon presentation and surrender of a certificate properly endorsed and payment of all taxes therefor, the transferee shall be entitled to a new certificate or certificates in lieu thereof. As against the Corporation, a transfer of shares can be made only on the books of the Corporation and in the manner hereinabove provided, and the Corporation shall be entitled to treat the registered holder of any share as the owner thereof and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the statutes of the State of Delaware.

Section 5.4 Fixing Date for Determination Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 5.5 Lost Certificate. Any stockholder claiming that a certificate representing shares of stock has been lost, stolen or destroyed may make an affidavit or affirmation of the fact and, if the Board of Directors so requires, advertise the same in a manner designated by the Board, and give the Corporation a bond of indemnity in form and with security for an amount satisfactory to the Board (or an officer or officers designated by the Board), whereupon a new certificate may be issued of the same tenor and representing the same number, class and/or series of shares as were represented by the certificate alleged to have been lost, stolen or destroyed.

ARTICLE VI

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BOOKS AND RECORDS

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Section 6.1 Location. The books, accounts and records of the Corporation may be kept at such place or places within or without the State of Delaware as the Board of Directors may from time to time determine.

Section 6.2 Inspection. The books, accounts and records of the Corporation shall be open to inspection by any member of the Board of Directors at all times; and open to inspection by the stockholders at such times, and

subject to such regulations as the Board of Directors may prescribe, except as otherwise provided by statute.

Section 6.3 Corporate Seal. The corporate seal shall contain two concentric circles between which shall be the name of the Corporation and the word Delaware and in the center shall be inscribed the words Corporate Seal.

ARTICLE VII

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DIVIDENDS AND RESERVES

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Section 7.1 Dividends. Dividends upon the outstanding shares of capital stock of the Corporation (other than liquidating dividends) shall be declared only from the earned surplus or net profits of the Corporation. Subject to the provisions of the Certificate of Incorporation, and to any other lawful commitments of the Corporation, and subject to applicable law, dividends may be declared and made payable at such times and in such amounts as the Board of Directors may from time to time determine. Dividends may be declared at any regular or special meeting of the Board and may be paid in cash or other property or in the form of a stock dividend.

Section 7.2 Reserves. The Board of Directors of the Corporation may set apart, out of any of the funds of the Corporation available for dividends, a reserve or reserves for any proper purpose and may increase, reduce or abolish any such reserve.

ARTICLE VIII

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MISCELLANEOUS PROVISIONS

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Section 8.1 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 8.2 Depositories. The Board of Directors or an officer designated by the Board shall appoint banks, trust companies, or other depositories in which shall be deposited from time to time the money or securities of the Corporation.

Section 8.3 Checks, Drafts and Notes. All checks, drafts, or other orders for the payment of money and all notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers or agent or agents as shall from time to time be designated by resolution of the Board of Directors or by an officer appointed by the Board.

Section 8.4 Contracts and Other Instruments. The Board of Directors may authorize any officer, agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation and such authority may be general or confined to specific instances.

Section 8.5 Notices. Whenever under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in a post office or letter box, in a postpaid sealed wrapper or by delivery to a telegraph company, addressed to such director or stockholder at such address as

appears on the records of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus mailed or delivered to a telegraph company.

Section 8.6 Waivers of Notice. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice.

Section 8.7 Stock in Other Corporations. Any shares of stock in any other Corporation which may from time to time be held by this Corporation may be represented and voted at any meeting of shareholders of such Corporation by the Chairman of the Executive Committee, if any, the Chairman of the Board, or the President or an Executive Vice President, or by any other person or persons thereunto authorized by the Board of Directors, or by any proxy designated by written instrument of appointment executed in the name of this Corporation by its Chairman of the Executive Committee, if any, the Chairman of the Board, the President or an Executive Vice President. Shares of stock belonging to the Corporation need not stand in the name of the Corporation, but may be held for the benefit of the Corporation in the individual name of the Treasurer or of any other nominee designated for the purpose by the Board of Directors. Certificates for shares so held for the benefit of the Corporation shall be endorsed in blank or have proper stock powers attached so that said certificates are at all times in due form for transfer, and shall be held for safekeeping in such manner as shall be determined from time to time by the Board of Directors.

Section 8.8 Indemnification. (a) Each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he, or a person of whom he is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the laws of Delaware as the same now or may hereafter exist (but, in the case of any change, only to the extent that such change authorizes the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such change) against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his heirs, executors and administrators. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that the director or officer is not entitled to be indemnified under this

Section or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(b) If a claim under subsection (a) of this Section is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he has met such standard of conduct, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct, nor the termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall be a defense to the action or create a presumption that the claimant has failed to meet the required standard of conduct.

(c) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Law, agreement, vote of stockholders or disinterested directors or otherwise.

(d) The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another Corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(e) To the extent that any director, officer, employee or agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any proceeding, he shall be indemnified against all costs and expenses actually and reasonably incurred by him or on his behalf in connection therewith.

(e) Any amendment, repeal or modification of any provision of this Section by the stockholders or the directors of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment, repeal or modification.

#### Section 8.9 Amendment of By-Laws.

The stockholders, by the affirmative vote of holders of not less than 75% of the total voting power of all outstanding shares of capital stock of the Corporation may, at any annual or special meeting if notice of such alteration

or amendment of the By-Laws is contained in the notice of such meeting, alter, amend, or repeal these By-Laws, and alterations or amendments of By-Laws made by the stockholders shall not be altered or amended by the Board of Directors.

The Board of Directors, by the affirmative vote of a majority of the whole Board, may make, alter, amend, or repeal these By-Laws at any meeting, except as provided in the above paragraph. By-Laws made, altered, amended or repealed by the Board of Directors may be altered or repealed by the stockholders.

April 16, 1999

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, 1999 relating to the unaudited condensed consolidated interim financial statements of Lawson Products, Inc. which are included in its Form 10-Q for the quarter ended March 31, 1999.

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.

ERNST & YOUNG LLP

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MAR-31-1999

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135,244

203,956

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74,754

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