UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

☑ **Quarterly Report under Section 13 OR 15(d) of the Securities Exchange Act of 1934**

For quarterly period ended September 30, 2011

or

o **Transition Report under Section 13 OR 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission file Number: 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)

(847) 827-9666

(Registrant’s telephone number, including area code)

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 ☑ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

The number of shares outstanding of the registrant’s common stock, $1 par value, as of October 31, 2011 was 8,565,517.

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"Safe Harbor" Statement under the Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms "may," "should," "could," "anticipate," "believe," "continues," "estimate," "expect," "intend," "objective," "plan," "potential," "project" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include:

- the effect of general economic and market conditions;
- inventory obsolescence;
- work stoppages and other disruptions at transportation centers or shipping ports;
- changing customer demand and product mixes;
- increases in commodity prices;
- disruptions of the Company's information and communication systems;
- the inability of management to successfully implement strategic initiatives;
- failure to manage change;
- failure to retain a talented workforce;
- the influence of controlling stockholder;
- changes in taxation; and,
- all other factors discussed in the Company's "Risk Factors" set forth in its Annual Report on Form 10-K for the year ended December 31, 2010, updated in its Quarterly Report on Form 10-Q for the period ended June 30, 2011 and in this Quarterly Report on Form 10-Q.

The Company undertakes no obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

Lawson Products, Inc.
Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share data)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,260	$ 40,566
Accounts receivable, less allowance for doubtful accounts	39,813	33,398
Inventories	44,320	47,167
Miscellaneous receivables and prepaid expenses	6,949	8,905
Deferred income taxes	4,340	4,251
Discontinued operations	591	619
Total current assets	115,273	134,906
Property, plant and equipment, net	49,308	44,442
Cash value of life insurance	15,601	15,660
Deferred income taxes	10,075	11,492
Goodwill	27,966	28,307
Other assets	733	1,577
Total assets	$ 218,956	$ 236,384
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,396	$ 18,195
Accrued expenses and other liabilities	30,014	35,348
Discontinued operations	460	2,008
Total current liabilities	43,870	55,551
Security bonus plan	24,092	25,602
Deferred compensation	9,414	10,792
Other liabilities	1,289	1,574
	34,795	37,968
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 - 8,568,220 and 8,534,028 shares		
Outstanding - 8,565,517 and 8,531,325 shares	8,568	8,534
Capital in excess of par value	6,114	5,328
Retained earnings	123,945	126,098
Treasury stock — 2,703 shares	(70)	(70)
Accumulated other comprehensive income	1,734	2,975
Total stockholders' equity	140,291	142,865
Total liabilities and stockholders' equity	$ 218,956	$ 236,384

See notes to condensed consolidated financial statements.

Lawson Products, Inc.
Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 75,366	$ 81,553	$ 242,099	$ 236,768
Cost of goods sold	32,820	31,605	101,315	91,706
Gross profit	42,546	49,948	140,784	145,062
Operating expenses:				
Selling, general and administrative expenses	45,335	43,605	137,026	132,097
Severance expense	282	1,334	1,492	2,984
Legal settlement	—	(3,500)	—	(4,050)
Gain on sale of assets	—	—	—	(1,701)
Operating income (loss)	(3,071)	8,509	2,266	15,732
Other income (expense), net	59	(14)	138	25
Interest expense	(79)	(105)	(662)	(386)
Income (loss) from continuing operations before income taxes	(3,091)	8,390	1,742	15,371
Income tax (benefit) expense	(937)	2,624	758	5,893
Income (loss) from continuing operations	(2,154)	5,766	984	9,478
Discontinued operations, net of income taxes	(9)	(2,337)	(61)	(2,030)
Net income (loss)	$ (2,163)	$ 3,429	$ 923	$ 7,448
Basic income (loss) per share of common stock:				
Continuing operations	$ (0.25)	$ 0.68	$ 0.12	$ 1.11
Discontinued operations	—	(0.28)	(0.01)	(0.24)
Net income (loss) per share	$ (0.25)	$ 0.40	$ 0.11	$ 0.87
Diluted income (loss) per share of common stock:				
Continuing operations	$ (0.25)	$ 0.68	$ 0.11	$ 1.11
Discontinued operations	—	(0.28)	—	(0.24)
Net income (loss) per share	$ (0.25)	$ 0.40	$ 0.11	$ 0.87
Basic weighted average shares outstanding	8,566	8,522	8,549	8,522
Dilutive effect of stock based compensation	—	12	62	6
Diluted weighted average shares outstanding	8,566	8,534	8,611	8,528
Cash dividends declared per share of common stock	$ 0.12	$ 0.08	$ 0.36	$ 0.20

See notes to condensed consolidated financial statements.

Lawson Products, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities:		
Net income	$ 923	$ 7,448
Loss from discontinued operations	61	2,030
Income from continuing operations	984	9,478
Adjustments to reconcile income from continuing operations to cash used in operating activities:		
Depreciation and amortization	3,955	4,467
Deferred income taxes	1,328	3,325
Stock based compensation	(406)	276
Settlement payment	—	(10,000)
Gain on sale of property	—	(1,701)
Changes in operating assets and liabilities:		
Accounts receivable	(6,941)	(7,032)
Inventories	2,642	(3,353)
Prepaid expenses and other assets	2,068	2,745
Accounts payable and accrued expenses	(9,735)	3,039
Other	(2,342)	(1,744)
Net cash used in operating activities of continuing operations	$ (8,447)	$ (500)
Investing activities:		
Additions to property, plant and equipment	$ (8,918)	$ (5,218)
Net proceeds (outlay) related to sale of businesses	(192)	16,000
Proceeds from sale of property	—	2,027
Net cash (used in) provided by investing activities of continuing operations	$ (9,110)	$ 12,809
Financing activities:		
Dividends paid	$ (3,071)	$ (1,534)
Other	—	(32)
Net cash used in financing activities of continuing operations	$ (3,071)	$ (1,566)
Discontinued operations:		
Operating cash flows	$ (678)	$ 3,644
Investing cash flows	—	(4)
Net cash (used in) provided by activities of discontinued operations	$ (678)	$ 3,640
Increase (decrease) in cash and cash equivalents	(21,306)	14,383
Cash and cash equivalents at beginning of period	40,566	8,787
Cash and cash equivalents at end of period	$ 19,260	$ 23,170

See notes to condensed consolidated financial statements.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 — Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Lawson Products, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they 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, 2010. In the opinion of the Company, all normal recurring adjustments have been made, that 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The condensed consolidated financial statements have been reclassified for all prior periods presented to reflect current discontinued operations treatment (see Note 2 — *Discontinued Operations*). Unless noted otherwise, discussions in the Notes to Condensed Consolidated Financial Statements pertain to continuing operations. Certain other reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications have no effect on net income as previously reported.

There have been no material changes in our significant accounting policies during the nine months ended September 30, 2011 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2010. The Company has determined that there were no subsequent events to recognize or disclose in these financial statements.

Note 2 — Discontinued operations

In the third quarter of 2010 the Company sold substantially all of the assets of Assembly Component Systems, Inc. ("ACS"), a wholly owned subsidiary for $19.0 million. A $2.5 million net loss on the sale was recorded in the third quarter of 2010.

In the fourth quarter of 2010, the Company sold substantially all of the assets of Rutland Tool & Supply Company, Inc. ("Rutland"). Accordingly, Rutland's results of operations have been reflected in discontinued operations. Rutland's net sales, which were previously included in the Company's Maintenance Repair and Operations ("MRO") segment, were $7.7 million and $23.3 million for the three and nine month periods ended September 30, 2010, respectively.

Note 3 — Inventories

Components of inventories were as follows:

	(Amounts in thousands)	
	September 30, 2011	December 31, 2010
Finished goods	$ 45,187	$ 49,084
Work in progress	1,755	1,203
Raw materials	1,646	1,591
Total	48,588	51,878
Reserve for obsolete and excess inventory	(4,268)	(4,711)
	$ 44,320	$ 47,167

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 4 — Severance Reserve

The table below shows the changes in the Company's reserve for severance and related payments, included in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets as of September 30, 2011 and 2010:

	(Amounts in thousands) Nine Months Ended September 30, 2011	2010
Balance at beginning of year	$ 3,062	$ 4,086
Charged to earnings	1,492	2,984
Cash paid	(2,715)	(3,651)
Balance at end of the period	$ 1,839	$ 3,419

Note 5 — Credit Agreement

During the third quarter of 2011, the Company entered into an Amendment to the Credit Agreement dated August 21, 2009 between the Company and The PrivateBank and Trust Company ("Amended Credit Agreement"). The Amended Credit Agreement extends the term of the $55.0 million credit facility, which includes an additional $20.0 million accordion feature, to October 1, 2016. The Amended Credit Agreement decreases the interest rate spreads and the unused line fee, increases the annual allowable dividends from $7.0 million to $10.0 million, increases the allowance for acquisitions and reduces the minimum working capital to total debt ratio from 2.0 to 1.75.

Note 6 — Legal Settlement

During the three and nine month periods ended September 30, 2010, the Company recorded a benefit of $3.5 million and $4.1 million, respectively, related to proceeds received from legal remedies related to the actions of several former sales agents and Share Corporation alleging, among other things, breach of contract and interference with customer relationships.

Note 7 — Gain on Sale of Assets

In the first nine months of 2010, the Company received cash proceeds of $2.0 million from the sale of its Dallas, Texas distribution center, resulting in a gain of $1.7 million.

Note 8 — Income Tax

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of multiple state and foreign jurisdictions. As of September 30, 2011, the Company is subject to U.S. Federal income tax examinations for the years 2009 and 2010 and income tax examinations from various other jurisdictions for the years 2005 through 2010.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 9 — Comprehensive Income (loss)

Components of comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2010 are as follows:

	(Amounts in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$ (2,163)	$ 3,429	$ 923	$ 7,448
Foreign currency translation adjustment	(1,649)	1,296	(1,241)	1,169
Comprehensive income (loss)	$ (3,812)	$ 4,725	$ (318)	$ 8,617

Note 10 — Related Party Transaction

The Company's Chairman of the Board, Dr. Port, was a partner in two partnerships that had an interest in Lawson's common stock. During 2010, litigation was initiated against Dr. Port, requesting that the partnerships be changed to allow the partners to have more control over their respective shares. The suit named Dr. Port as a defendant based on his role in the partnerships and as a Director of the Company. The Company was not a party to the lawsuit.

On March 17, 2011 the litigation was settled with assets distributed under the terms of a settlement agreement and all parties agreed to release Dr. Port, individually and as a Director of the Company, from any and all claims related to the litigation. Through September 30, 2011, the Company had incurred $0.8 million for legal services provided to Dr. Port in relation to this litigation of which $0.1 million was incurred during the nine months ended September 30, 2011.

Note 11 — Contingency

One of the Company's subsidiaries, Drummond American LLC ("Drummond"), is under an employment tax examination for the years 2007 and 2008 of the long-standing treatment of its sales agents as independent contractors. The Company has received indications from the IRS that it intends to challenge Drummond's position that the sales agents were independent contractors and will seek certain adjustments, potentially including penalties and interest. The Company intends to continue to pursue resolution with the IRS, but it is not possible at this time to predict the final outcome or to establish a reasonable estimate or a range of possible outcomes of this matter. An unfavorable outcome of this examination could have a material adverse effect on the Company's business, financial condition and results of operations.

Note 12 — Segment Reporting

The Company has two operating segments: MRO and OEM. The Company's MRO segment is a distributor of products and services to the industrial, commercial, institutional, and governmental Maintenance, Repair and Operations marketplace. The Company's OEM segment manufactures, sells and distributes production and specialized component parts to the Original Equipment Manufacturer marketplace. The Company's two reportable segments are distinguished by the nature of products distributed and sold, types of customers and manner of servicing them. The Company evaluates performance and allocates resources to reportable segments primarily based on operating income.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table presents summary financial information for the Company's reportable segments:

	(Amounts in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales				
MRO	$ 71,490	$ 77,949	$ 231,370	$ 226,680
OEM	3,876	3,604	10,729	10,088
Consolidated total	$ 75,366	$ 81,553	$ 242,099	$ 236,768
Operating income (loss)				
MRO	$ (3,140)	$ 6,191	$ 3,126	$ 12,979
OEM	351	152	632	(14)
Severance expense	(282)	(1,334)	(1,492)	(2,984)
Legal Settlement	—	3,500	—	4,050
Gain on sale of assets	—	—	—	1,701
Consolidated total	$ (3,071)	$ 8,509	$ 2,266	$ 15,732
Other income (expense), net	59	(14)	138	25
Interest expense	(79)	(105)	(662)	(386)
Income (loss) from continuing operations before income taxes	$ (3,091)	$ 8,390	$ 1,742	$ 15,371

Note 13 — Earnings Per Share

Approximately 51,000 contingent shares of common stock, that could potentially dilute earnings per share in the future, have been excluded from the computation of diluted earnings per share for the three months ended September 30, 2011 because their effect would have been anti-dilutive. The contingent shares relate to the Company's stock based compensation plans.

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

Quarter ended September 30, 2011 compared to Quarter ended September 30, 2010

The following table presents a summary of our financial performance for the three months ended September 30, 2011 and 2010:

	2011		2010	
($ in thousands)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales				
MRO	$ 71,490	94.9%	$ 77,949	95.6%
OEM	3,876	5.1	3,604	4.4
Consolidated total	$ 75,366	100.0%	$ 81,553	100.0%
Gross profit				
MRO	$ 41,742	58.4%	$ 49,362	63.3%
OEM	804	20.7	586	16.3
Consolidated total	42,546	56.5	49,948	61.2
Operating expenses:				
Selling, general and administrative expenses	45,335	60.2	43,605	53.5
Severance expense	282	0.4	1,334	1.6
Legal settlement	—	—	(3,500)	(4.3)
Operating income (loss)	(3,071)	(4.1)	8,509	10.4
Other expense, net	(20)	—	(119)	(0.1)
Income (loss) from continuing operations before income tax expense	(3,091)	(4.1)	8,390	10.3
Income tax (benefit) expense	(937)	(1.2)	2,624	3.2
Income (loss) from continuing operations	$ (2,154)	(2.9)%	$ 5,766	7.1%

Net Sales

Net sales for the third quarter of 2011 decreased 7.6% to $75.4 million, from $81.6 million in the third quarter of 2010. Excluding the Canadian exchange rate impact, net sales decreased 8.0% for the quarter.

MRO net sales decreased $6.5 million or 8.3% in the third quarter of 2011, to $71.5 million from $77.9 million in the prior year period. The third quarter was impacted by the loss of two selling days during the conversion to our new Enterprise Resource Planning ("ERP") system. Additionally, the ERP conversion temporarily impacted our ability to timely process orders and replenish our distribution centers which resulted in lower fill rates and, in some cases, untimely shipments to our customers. Average daily MRO sales decreased from $1.180 million in July to $1.035 million in August as a result of our August ERP conversion. September average daily MRO sales of $1.147 million reflect a gradual return toward more normalized sales levels as we improve our order fulfillment.

For the quarter, our national accounts increased 6.7% or $0.4 million, while our government accounts decreased $3.2 million due to a reduction in our military orders. MRO average daily sales decreased to $1.117 million in the third quarter of 2011 compared to $1.218 million in the third quarter of 2010.

OEM net sales were $3.9 million in the third quarter of 2011 compared to $3.6 million in the prior year quarter.

Gross Profit

Gross profit decreased $7.4 million in the third quarter of 2011, to $42.5 million from $49.9 million in the prior year period. MRO gross profit as a percent of net MRO sales decreased to 58.4% in the third quarter of 2011, compared to 63.3% achieved in the third quarter of 2010. The decline was driven by three factors: (i) Increased vendor costs were not passed along to our customers as we held pricing constant to facilitate our ERP conversion; (ii) Outbound freight costs increased as we shipped more single line orders to support our customers during the conversion; and (iii) our strategic decision to pursue larger customers with lower margins, which should increase retention and allow for margin dollar expansion over time.

OEM gross profit increased $0.2 million and increased as a percent of OEM sales to 20.7% in the third quarter of 2011 from 16.3% in the third quarter of 2010, driven primarily by a shift in sales toward higher margin customers.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses increased 4.0% to $45.3 million in the third quarter of 2011 from $43.6 million in 2010. SG&A expenses consist of selling expenses (i.e. commissions paid to our independent agents and employee sales expenses and related expenses to support our sales efforts), costs within our distribution network, and general and administrative costs to manage the business.

Selling expenses decreased to $19.3 million in the third quarter of 2011 from $20.3 million in the third quarter of 2010, but increased as a percent of net sales to 25.7% in 2011 from 24.9% in 2010, primarily reflecting higher health insurance claims.

General and administrative ("G&A") expenses increased $2.7 million, primarily driven by expenses related to our ERP implementation of $2.3 million, investments in our comprehensive website re-development, higher health insurance claims and temporary labor costs, partially offset by decreased incentive and stock based compensation expenses.

Severance Expense

Severance expense in the third quarter of 2011 was $0.3 million compared to $1.3 million in the third quarter of 2010. Severance expense in both 2011 and 2010 related to the elimination of certain positions associated with the realignment of various operating responsibilities.

Legal Settlement

During the third quarter of 2010, we recorded a $3.5 million benefit related to proceeds received from legal remedies related to the actions of several former sales agents and Share Corporation alleging, among other things, breach of contract and interference with customer relationships.

Income Tax (Benefit) Expense

An income tax benefit of $0.9 million was recorded based on a pre-tax loss of $3.1 million for the three months ended September 30, 2011, resulting in an effective tax benefit rate of 30.3%. For the three months ended September 30, 2010, income tax expense was $2.6 million based on pre-tax income of $8.4 million, resulting in an effective tax rate of 31.3%.

Income (Loss) from Continuing Operations

We reported a loss from continuing operations of $2.2 million or $0.25 per diluted share in the third quarter of 2011. Income from continuing operations for the third quarter of 2010 which included a favorable legal settlement of $3.5 million was $5.8 million or $0.68 per diluted share. Excluding the legal settlement and related tax impact, income from continuing operations was $0.39 per diluted share in for the third quarter of 2010.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

The following table presents a summary of our financial performance for the nine months ended September 30, 2011 and 2010:

	2011		2010	
($ in thousands)	Amount	Net Sales	Amount	Net Sales
Net sales				
MRO	$ 231,370	95.6%	$ 226,680	95.7%
OEM	10,729	4.4	10,088	4.3
Consolidated total	$ 242,099	100.0%	$ 236,768	100.0%
Gross profit				
MRO	$ 138,675	59.9%	$ 143,520	63.3%
OEM	2,109	19.7	1,542	15.3
Consolidated total	140,784	58.2	145,062	61.3
Operating expenses:				
Selling, general and administrative expenses	137,026	56.6	132,097	55.8
Severance expense	1,492	0.7	2,984	1.3
Legal settlement	—	—	(4,050)	(1.7)
Gain on sale of assets	—	—	(1,701)	(0.7)
Operating income	2,266	0.9	15,732	6.6
Other expense, net	(524)	(0.2)	(361)	(0.1)
Income from continuing operations before income tax expense	1,742	0.7	15,371	6.5
Income tax expense	758	0.3	5,893	2.5
Income from continuing operations	$ 984	0.4%	$ 9,478	4.0%

Net Sales

Net sales for the first nine months of 2011 increased 2.3% to $242.1 million, from $236.8 million in the first nine months of 2010. Excluding the Canadian exchange rate impact, net sales increased 1.6% over the prior year period.

MRO net sales increased 2.1% in the first nine months of 2011, to $231.4 million from $226.7 million in the prior year period. MRO average daily sales increased to $1.211 million in the first nine months of 2011 compared to $1.187 million in the first nine months of 2010. National and government accounts represented approximately 17.1% of net sales for the first nine months of 2011 versus approximately 15.7% in the prior year period.

OEM net sales increased 6.4% in the first nine months of 2011, to $10.7 million from $10.1 million in the prior year period, driven by strength in our aerospace customer base and new customer growth.

Gross Profit

Gross profit decreased $4.3 million in the first nine months of 2011, to $140.8 million from $145.1 million in the prior year period. MRO gross profit as a percent of net MRO sales decreased to 59.9% in the first nine months of 2011, compared to 63.3% achieved in the prior year period, primarily due to the shift toward acquiring new larger customers at lower margins, increased outbound freight costs and increased vendor costs while holding customer pricing constant to facilitate our ERP conversion.

OEM gross profit increased $0.6 million and increased as a percent of OEM sales to 19.7% in the first nine months of 2011 from 15.3% in the first nine months of 2010. The improvement as a percent of sales was primarily driven by higher margin new business growth.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses increased $4.9 million or 3.7% to $137.0 million in the first nine months of 2011 from $132.1 million in 2010. As a percent of net sales, SG&A increased by 0.9 percentage points to 56.7% in the first nine months of 2011 compared to 55.8% in the prior year period.

Selling expenses increased slightly to $60.9 million in the first nine months of 2011 from $60.8 million in the first nine months of 2010 and decreased as a percent of net sales to 25.2% in 2011 from 25.7% in 2010. The decrease, as a percent of sales, reflects costs incurred in 2010 related to the transition of the district sales managers to full-time employees and the planned shift toward higher volume lower margin national customers that pay a lower commission.

G&A expenses increased $4.8 million or 6.7%, primarily driven by additional ERP implementation expenses in 2011 over 2010 of $4.4 million, partially offset by lower incentive compensation. Excluding ERP, G&A expenses increased $0.4 million or 0.6%.

Severance Expense

Severance expense was $1.5 million in the first nine months of 2011 compared to $3.0 million in the first nine months of 2010. Severance expense in both 2011 and 2010 related to the elimination of certain positions associated with the realignment of various operating responsibilities.

Legal Settlement

In the first nine months of 2010, we recorded a $4.1 million benefit related to proceeds received from legal remedies related to the actions of several former sales agents and Share Corporation alleging, among other things, breach of contract and interference with customer relationships.

Gain on Sale of Assets

During the first nine months of 2010 we recorded a gain on sale of assets of $1.7 million related to the sale of our Dallas, Texas distribution center.

Other Expense, net

Other expense, net of $0.5 million in the first nine months of 2011 relates primarily to interest assessed on unclaimed property settlements. Other expense, net of $0.4 million in the first nine months of 2010 relates primarily to interest charged on our credit facility.

Income Tax Expense

Income tax expense of $0.8 million was recorded based on pre-tax income of $1.7 million for the nine months ended September 30, 2011, resulting in an effective tax rate of 43.5%. For the nine months ended September 30, 2010, income tax expense was $5.9 million based on pre-tax income of $15.4 million resulting in an effective tax rate of 38.3%. The 2011 tax rate increased from 2010 primarily due to the effect of permanent tax differences on lower projected pre-tax income in 2011.

Income from Continuing Operations

We reported income from continuing operations of $1.0 million or $0.11 per diluted share in the first nine months of 2011. Income from continuing operations for the prior year period, which included the gain from the sale of the Dallas distribution center and a favorable legal settlement, was $9.5 million or $1.11 per diluted share. Excluding these items and related tax impact, income from continuing operations was $0.70 per diluted share in 2010.

Liquidity and Capital Resources

Cash and cash equivalents were $19.3 million on September 30, 2011 compared to $40.6 million on December 31, 2010. Net cash used in operating activities was $8.4 million for the first nine months of 2011 compared to $0.5 million for the first nine months of 2010 which included a $10.0 million settlement payment. The increase in cash used in operations was driven by lower income and increases in working capital during the first nine months of the year. Accounts receivable increased due to seasonal fluctuations and temporarily easing our collection efforts during the ERP conversion. Additionally, inventory declined due to lower product purchases during the quarter along with a sell through of pre-ERP inventory.

Capital expenditures were $8.9 million for the first nine months of 2011 compared to $5.2 million for the first nine months of 2010. Capital expenditures related to the ERP implementation were $6.5 million for the first nine months of 2011 compared to $4.2 million in 2010. To date, the Company has invested, including both capital and expense, $23.4 million related to the ERP implementation. We anticipate that total capital expenditures for 2011 will be approximately $12.0 million.

Cash flows from investing activities in the first nine months of 2010 benefited from the receipt of $16.0 million from the sale of ACS and the receipt of $2.0 million from the sale of our Dallas, Texas distribution center. Net cash used in financing activities included dividend payments of $3.1 million and $1.5 million for the first nine months of 2011 and 2010, respectively.

During the third quarter of 2011, we entered into an Amendment to the Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement extends the term of the $55.0 million credit facility, which includes an additional $20.0 million accordion feature, to October 1, 2016. The Amended Credit Agreement decreases the interest rate spreads and the unused line fee, increases the annual allowable dividends from $7.0 million to $10.0 million, increases the allowance for acquisitions and reduces the minimum working capital to total debt ratio from 2.00 to 1.75.

On September 30, 2011 and 2010, we had no borrowings outstanding on our revolving line of credit. At September 30, 2011 we were in compliance with all covenants related to our revolving line of credit as detailed below:

Covenant	Minimum Requirement	Actual
Cash plus accounts receivable and inventory to debt ratio	1.75:1.00	84.61:1.00
Tangible net worth	$55.0 million	$90.2 million
Debt service ratio	1.2	2.9

We believe that cash on hand, cash provided by future operations and our $55.0 million revolving line of credit will be sufficient to fund our operating requirements, capital expenditures and other commitments and obligations in the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2011 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that (i) the information relating to Lawson, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the third quarter, we completed a major phase of the implementation of a new ERP system. The ERP implementation replaced our existing order entry, fulfillment, service and financial systems, resulting in significant changes to our business processes and therefore our internal controls. These changes are intended to improve customer service and controls and reduce manual processes. Our implementation process was designed to identify and remediate control issues as they are identified. We have monitoring controls in place to ensure the ongoing reliability of our financial reporting. We believe the controls, as implemented, are appropriate and functioning effectively.

Other than the change mentioned above, no other change in the Company's internal control over financial reporting during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

ITEMS 1, 2, 3 and 5 of Part II are inapplicable and have been omitted from this report.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors at September 30, 2011 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.

ITEM 6. EXHIBITS

Exhibit #	
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
* 101.INS	XBRL Instance Document
* 101.SCH	XBRL Taxonomy Extension Schema Document
* 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
* 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
* 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished but not filed.

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 November 7, 2011	/s/ Thomas J. Neri Thomas J. Neri President and Chief Executive Officer (principal executive officer)
Dated November 7, 2011	/s/ Ronald J. Knutson Ronald J. Knutson Senior Vice President and Chief Financial Officer (principal financial and accounting officer)

Exhibit 31.1

CERTIFICATION

I, Thomas J. Neri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2011

/s/ Thomas J. Neri

Thomas J. Neri
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, Ronald J. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (b) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2011

/s/ Ronald J. Knutson

Ronald J. Knutson
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lawson Products, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

November 7, 2011

/s/ Thomas J. Neri
Thomas J. Neri
Lawson Products, Inc.
President and Chief Executive Officer
(principal executive officer)

/s/ Ronald J. Knutson
Ronald J. Knutson
Lawson Products, Inc.
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)