

## 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 September 30, 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.  
10,348,822 shares, \$1 par value, as of October 15, 1999.

## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	September 30, 1999	December 31, 1998
	----- (UNAUDITED)	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,817	\$ 13,872
Marketable securities	9,657	13,816
Accounts receivable, less allowance for doubtful accounts	40,241	35,255
Inventories (Note B)	53,154	46,670
Miscellaneous receivables and prepaid expenses	8,144	7,533
Deferred income taxes	1,317	1,256
Total Current Assets	----- 126,330	----- 118,402
Marketable securities	2,399	11,020
Property, plant and equipment, less allowances for depreciation and amortization	42,421	41,142
Investments in real estate	4,149	4,054
Deferred income taxes	8,013	6,747

Other assets	23,776	17,617
	-----	-----
Total Assets	\$ 207,088	\$ 198,982
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 6,498	\$ 5,113
Accrued expenses and other liabilities	24,041	22,405
Income taxes	2,597	3,283
	-----	-----
Total Current Liabilities	33,136	30,801
	-----	-----
Accrued liability under security bonus plans	16,144	15,315
Other	10,502	9,931
	-----	-----
	26,646	25,246
	-----	-----
Stockholders' Equity:		
Preferred Stock, \$1 par value:		
Authorized - 500,000 shares		
Issued and outstanding - None	---	---
Common Stock, \$1 par value:		
Authorized - 35,000,000 shares		
Issued and outstanding-(1999-10,353,822 shares; 1998-10,663,822 shares)	10,354	10,664
Capital in excess of par value	728	749
Retained earnings	137,332	132,209
Accumulated other comprehensive income	(1,108)	(687)
	-----	-----
Total Stockholders' Equity	147,306	142,935
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 207,088	\$ 198,982
	=====	=====

See notes to condensed consolidated financial statements

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

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30	
	1999	1998	1999	1998
Net sales	\$ 82,515	\$ 75,530	\$ 234,910	\$ 218,427
Cost of goods sold (Note B)	29,595	25,941	82,104	75,645
	-----	-----	-----	-----
Gross profit	52,920	49,589	152,806	142,782
Selling, general and administrative expenses	43,678	41,043	125,720	119,520
Non-recurring charge	---	---	2,053	---
	-----	-----	-----	-----
Operating income	9,242	8,546	25,033	23,262
Investment and other income	700	592	2,617	1,870
	-----	-----	-----	-----
Income before income taxes	9,942	9,138	27,650	25,132
Provision for income taxes	4,081	3,884	11,386	10,627
	-----	-----	-----	-----
Net income	\$ 5,861	\$ 5,254	\$ 16,264	\$ 14,505
	=====	=====	=====	=====
Net income per share of common stock:				
Basic	\$ 0.57	\$ 0.48	\$ 1.55	\$ 1.31
	=====	=====	=====	=====
Diluted	\$ 0.57	\$ 0.48	\$ 1.55	\$ 1.30
	=====	=====	=====	=====
Cash dividends declared per share of common stock	\$ 0.14	\$ 0.14	\$ 0.42	\$ 0.42
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	10,354	11,054	10,500	11,103
	=====	=====	=====	=====
Diluted	10,360	11,057	10,502	11,125
	=====	=====	=====	=====

See notes to condensed consolidated financial statement.

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

(UNAUDITED)

(Amounts in thousands)

	For the Nine Months Ended September 30,	
	1999 ----	1998 ----
Operating activities:		
Net income	\$ 16,264	\$ 14,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,682	4,196
Changes in operating assets and liabilities	(7,120)	(8,970)
Other	44	(118)
	-----	-----
Net Cash Provided by Operating Activities	13,870	9,613
	-----	-----
Investing activities:		
Additions to property, plant and equipment	(5,319)	(3,949)
Purchases of marketable securities	(83,794)	(172,749)
Proceeds from sale of marketable securities	96,412	181,418
Acquisition of SunSource Inventory Management Company, Inc.	(10,192)	---
Other	492	629
	-----	-----
Net Cash (Used in)/Provided by Investing Activities	(2,401)	5,349
	-----	-----
Financing activities:		
Purchases of treasury stock	(7,094)	(6,201)
Dividends paid	(4,430)	(4,677)
Other	---	14
	-----	-----
Net Cash Used in Financing Activities	(11,524)	(10,864)
	-----	-----
Increase in Cash and Cash Equivalents	(55)	4,098
Cash and Cash Equivalents at Beginning of Period	13,872	10,248
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 13,817	\$ 14,346
	=====	=====

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the Annual Report on Form 10-K for the year ended December 31, 1998 for Lawson Products, Inc. ("Lawson" or the "Company"). The Condensed Consolidated Balance Sheet as of September 30, 1999, the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 1999 and 1998 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 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 three and nine month periods ended September 30, 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 September 30, 1999 and cost of goods sold for the three and nine month periods ended September 30, 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) Total comprehensive income and its components, net of related tax, for the first three and nine months of 1999 and 1998 are as follows (in thousands):

	Three months ended September 30	
	1999	1998
	-----	-----
Net income	\$ 5,861	\$ 5,254
Unrealized gain(loss) on marketable securities	---	(43)
Foreign currency translation adjustments	111	(280)
	-----	-----
Comprehensive income	\$ 5,972	\$ 4,931
	=====	=====

  

	Nine months ended September 30	
	1999	1998
	-----	-----
Net income	\$ 16,264	\$ 14,505
Unrealized gain(loss) on marketable securities	(683)	123
Foreign currency translation adjustments	262	(50)
	-----	-----
Comprehensive income	\$ 15,843	\$ 14,578
	=====	=====

The components of accumulated other comprehensive income, net of related tax, at September 30, 1999 and December 31, 1998 are as follows (in thousands):

	1999	1998
	-----	-----
Unrealized gain (loss) on marketable securities	\$ (15)	\$ 668
Foreign currency translation adjustments	(1,093)	(1,355)
	-----	-----
Accumulated other comprehensive income	\$ (1,108)	\$ (687)
	=====	=====

#### D) Earnings per Share

The calculation of dilutive weighted average shares outstanding for the three and nine months ended September 30, 1999 and 1998 are as follows (in thousands):

	Three months ended September 30	
	1999	1998
	-----	-----
Basic weighted average shares outstanding	\$ 10,354	\$ 11,054
Dilutive impact of options outstanding	6	3
	-----	-----
Dilutive weighted average shares outstanding	\$ 10,360	\$ 11,057
	=====	=====

	Nine months ended September 30	
	1999	1998
	-----	-----
Basic weighted average shares outstanding	\$ 10,500	\$ 11,103
Dilutive impact of options outstanding	2	22
	-----	-----
Dilutive weighted average shares outstanding	\$ 10,502	\$ 11,125
	=====	=====

E) In the second quarter of 1999, the Company recorded a non-recurring charge of \$1,237,000, net of income tax benefit of \$816,000, for severance and early retirement benefits in connection with previously announced management changes. Additionally, in the second quarter of 1999, a gain of \$554,000, net of income taxes of \$369,000, was recorded on the sale of marketable securities.

F) On July 1, 1999, the Company's newly created subsidiary, ACS/SIMCO, signed a purchase agreement to acquire substantially all of the assets and assume substantially all liabilities of SunSource Inventory Management Company, Inc. and Hillman Industrial Division which comprised the original equipment fastener business of SunSource Inc., for approximately \$10,197,000, with certain contingent purchase price adjustment features based on future operating results. This all-cash transaction was accounted for as a purchase, and accordingly, the accounts and transactions of these operations have been included in the consolidated financial statements since the date of acquisition.

## Independent Accountants' Review Report

Board of Directors and Stockholders  
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of September 30, 1999 and the related condensed consolidated statements of income for the three month and nine month periods ended September 30, 1999 and 1998 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 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 reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with 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

October 15, 1999

This Quarterly Report on Form 10-Q for the quarter ended September 30, 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 of Financial Condition and Results of Operations.

Net sales for the three and nine month periods ended September 30, 1999 increased 9.2% to \$82,515,000 and 7.5% to \$234,910,000 relative to the comparable periods of 1998. The sales gains for the three month period result principally from the sales made by our new subsidiary, ACS/SIMCO. See Note F to Notes to Condensed Consolidated Financial Statements. The sales increase for the nine month period also reflects increases from substantially all Lawson operations.

Net income for the third quarter advanced 11.6% to \$5,861,000 (\$.57 per diluted share) from \$5,254,000 (\$.48 per diluted share) for the comparable period of 1998. Net income for the nine months ended September 30, 1999 gained 12.1% to \$16,264,000 (\$1.55 per diluted share) from \$14,505,000 (\$1.30 per diluted share) for the same period of 1998. These increases are primarily attributable to cost containment efforts and the gains in net sales noted above. In the second quarter of 1999, the Company recorded a non-recurring charge of \$1,237,000, net of income tax benefit of \$816,000, for severance and early retirement benefits in connection with previously announced management changes. Additionally, in the second quarter of 1999, an after tax gain of \$554,000 was recorded on the sale of marketable securities. Excluding the effects of these items, net income for the nine month period ended September 30, 1999 was \$16,947,000 (\$1.61 per diluted share), an increase of 16.8%. 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 nine months ended September 30, 1999 advanced to \$13,870,000 from \$9,613,000 in the comparable period of the prior year. This gain was due primarily to a smaller increase in operating assets (principally inventories) as compared to the increase in operating assets and the gain in net income from the same 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 \$5,319,000 and \$3,949,000, respectively, for the nine months ended September 30, 1999 and 1998. Capital expenditures during 1999 and 1998 primarily reflect costs incurred relative to the construction of a new Lawson outbound facility in Suwanee, Georgia and purchases of computer related equipment. The new facility was substantially completed during the third quarter of 1999 at a cost of approximately \$7,000,000. The new facility will be used in place of the Norcross, Georgia facility, which was disposed of in a tax-free exchange as a component of the purchase price of the new facility.



During the third quarter of 1999, the Company purchased substantially all of the assets and liabilities of SunSource Inventory Management Company, Inc. ("SunSource") and Hillman Industrial Division ("Hillman"), headquartered in Lenexa, Kansas, at a cost of approximately \$10,197,000. SunSource and Hillman are distributors of fasteners in the original equipment manufacturing marketplace. The former business operations of SunSource and Hillman are conducted by a new subsidiary known as ACS/SIMCO.

During the first nine months of 1999, the Company purchased 310,000 shares of its own common stock for approximately \$7,094,000. Of these purchases, 261,500 shares were acquired relative to the 1998 Board authorization of 500,000 shares and 48,500 shares represented the remaining shares relative to a 1996 stock repurchase authorization of 1,000,000 shares. All treasury shares purchased as of September 30, 1999 have been retired.

#### Year 2000

The Company has developed a plan to modify its information technology in light of problems associated with the Year 2000 (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, the Company was 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 these modifications or replacements of certain existing software and hardware have mitigated the Year 2000 Issue.

The Company's plan to resolve the Year 2000 Issue involved 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 virtually completed 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 substantially 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 compliant. The inability of third parties to complete their Year 2000 compliance process in a timely manner could materially impact the Company. The effect of non-compliance by third parties is not determinable.

The Company has utilized 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 in the fourth quarter of 1999 at a total cost of approximately \$550,000, of which \$500,000 of expense has been incurred as of September 30, 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 Company's efforts to become Year 2000 compliant are 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.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risk at September 30, 1999 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

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) 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

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAWSON PRODUCTS, INC.  
(Registrant)

Dated October 15, 1999

/s/ Robert J. Washlow

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Robert J. Washlow  
Chairman of the Board

Dated October 15, 1999

/s/ Joseph L. Pawlick

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Joseph L. Pawlick  
Vice President and Controller  
(principal accounting officer)

October 15, 1999

Board of Directors and Shareholders  
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 October 15, 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 September 30, 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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	SEP-30-1999	
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