

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, 1996 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.

11,566,214 Shares, \$1 par value, as of October 18, 1996.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	September 30, 1996	December 31, 1995

(UNAUDITED)		

ASSETS

Current Assets:

Cash and cash equivalents	\$ 14,114	\$ 10,432
Marketable securities	15,988	16,068
Accounts receivable, less allowance for doubtful accounts	31,746	28,296
Inventories (Note B)	35,856	27,083
Miscellaneous receivables and prepaid expenses	5,903	5,635
Deferred income taxes	640	464

Total Current Assets	104,247	87,978

Marketable securities	11,360	20,847
Property, plant and equipment, less allowances for depreciation and amortization	39,397	35,501
Investments in real estate	3,247	3,152
Deferred income taxes	3,719	3,201
Other assets	10,854	9,935
	-----	-----
Total Assets	\$172,824	\$160,614
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 5,251	\$ 3,219
Accrued expenses and other liabilities	14,806	14,329
Income taxes	1,428	962
	-----	-----
Total Current Liabilities	21,485	18,510
	-----	-----
Accrued liability under security bonus plans	12,568	11,422
Other	8,931	7,871
	-----	-----
	21,499	19,293
	-----	-----
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 - (1996 - 11,601,214 shares; 1995 - 11,686,614 shares)	11,601	11,687
Capital in excess of par value	498	494
Retained earnings	118,373	111,321
	-----	-----
	130,472	123,502
Other	(632)	(691)
	-----	-----
Total Stockholders' Equity	129,840	122,811
	-----	-----
Total Liabilities and Stockholders' Equity	\$172,824	\$160,614
	=====	=====

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1996	1995	1996	1995
Net Sales	\$66,303	\$56,177	\$185,890	\$167,117
Investment and other income	475	462	1,525	2,003
	66,778	56,639	187,415	169,120
Cost of goods sold (Note B)	22,856	15,832	60,286	47,075
Selling, general and administrative expenses	35,651	32,368	103,965	96,885
	58,507	48,200	164,251	143,960
Income before income taxes	8,271	8,439	23,164	25,160
Provision for income taxes	3,443	3,348	9,583	9,767
Net income	\$ 4,828	\$ 5,091	\$ 13,581	\$ 15,393
Net income per share of common stock	\$0.42	\$0.43	\$1.17	\$1.26
Cash dividends declared per share of common stock	\$0.13	\$0.13	\$0.39	\$0.38
Weighted average shares outstanding	11,601	11,826	11,609	12,177

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands)

	For the Nine months ended September 30,	
	1996	1995
	-----	-----
Operating activities:		
Net income	\$ 13,581	\$ 15,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,981	2,527
Changes in operating assets and liabilities	(4,697)	(6,722)
Other	2,353	2,090
	-----	-----
Net Cash Provided by Operating Activities	14,218	13,288
	-----	-----
Investing activities:		
Additions to property, plant and equipment	(2,774)	(2,280)
Purchases of marketable securities	(318,335)	(184,507)
Proceeds from sale of marketable securities	327,600	197,988
Acquisition of Automatic Screw Machine Products, net of cash acquired	(10,506)	---
Other	100	684
	-----	-----
Net Cash (Used in)/Provided by Investing Activities		(3,915)
	-----	-----
Financing activities:		
Purchases of common stock	(2,095)	(21,292)
Dividends paid	(4,535)	(4,537)
Other	9	5
	-----	-----
Net Cash Used in Financing Activities	(6,621)	(25,824)
	-----	-----
Increase/(Decrease) in Cash and Cash Equivalents	3,682	(651)
Cash and Cash Equivalents at Beginning of Period	10,432	9,853
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 14,114	\$ 9,202
	=====	=====

See notes to condensed consolidated financial statements.

Part I

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 Company's Annual Report to Stockholders for the year ended December 31, 1995. The Condensed Consolidated Balance Sheet as of September 30, 1996 and the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 1996 and 1995 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 1996 and 1995 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.

B) Inventories (consisting of primarily finished goods) at September 30, 1996 and cost of goods sold for the three and nine month periods ended September 30, 1996 and 1995 were determined through the use of estimated gross profit rates.

C) On April 30, 1996 the Company purchased substantially all of the assets and liabilities of Automatic Screw Machine Products Company (Automatic) for cash of approximately \$10,746,000. This transaction was accounted for as a purchase, accordingly, the accounts and transactions of Automatic have been included in the consolidated financial statements since the date of acquisition.

The following exhibits are attached to Part I:

1. Letter from independent accountants furnished pursuant to Rule 10.01 (d) of regulation S-X.
2. Letter from independent accountants furnished pursuant to Item 601, #15 of regulation S-K.

- 5 -

Part I

Independent Accountant's 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 September 30, 1996 and the related condensed consolidated statements of income for the three month and nine month periods ended September 30, 1996 and 1995 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 1996 and 1995. 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, 1995, 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, 1996, 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, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

October 18, 1996

- 6 -

Part I

October 18, 1996

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 October 18, 1996 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, 1996.

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

- 7 -

Part I

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash flows provided by operations for the nine months ended September 30, 1996 increased slightly to \$14,218,000 from \$13,288,000 in the comparable period of the prior year. This increase was due primarily to an increase in net operating liabilities, partially offset by a decrease in net income in the

similar period of 1995. Current investments and cash flows from operations are expected to finance the Company's future growth, cash dividends and capital expenditures. Additions to property, plant and equipment were \$2,774,000 and \$2,280,000, respectively, for the nine months ended September 30, 1996 and 1995. Capital expenditures during 1996 reflect primarily purchases of computer related equipment and facility improvements, while 1995 additions include the completion of a Lawson outbound facility in Addison, Illinois, at a cost of approximately of \$5,600,000.

During the second quarter of 1996, the Company purchased substantially all of the assets and liabilities of Automatic Screw Machine Products Company (Automatic), headquartered in Decatur, Alabama, at a cost of approximately \$10,746,000. Automatic is a manufacturer and distributor of production components. The former business operations of Automatic are conducted by new subsidiaries known as Assembly Component Systems, Inc. and Automatic Screw Machine Products Company.

In December of 1994, the Board of Directors authorized the purchase up to 1,000,000 shares of the Company's common stock. During the first nine months of 1996, the Company expended \$2,095,000 to acquire the remaining 86,000 shares authorized for repurchase. These treasury shares were subsequently retired. In the similar period of 1995, the Company acquired 807,000 shares at a cost of \$21,292,000. These shares and 4,493,676 shares purchased prior to 1995 were retired in the quarter ended September 30, 1995. During the third quarter of 1996, the Board of Directors authorized the purchase up to 1,000,000 shares of the Company's common stock of which none have been purchased.

Net sales for the three and nine month periods ended September 30, 1996, advanced 18.0% to \$66,303,000 and 11.2% to \$185,890,000 relative to the comparable periods of 1995. The increases are principally the result of gains in the number of orders processed and sales made by ACS.

Net income for the third quarter decreased 5.2% to \$4,828,000 (\$.42 per share) from \$5,091,000 (\$.43 per share) for the similar period of 1995. Net income for the nine months ended September 30, 1996 decreased 11.8% to \$13,581,000 (\$1.17 per share) from \$15,393,000 (\$1.26 per share) for the comparable period of 1995. These decreases are attributable to lower gross margins and a higher effective tax rate, which more than offset the gains in net sales noted above. Per share net income for 1996 and 1995 was positively impacted by the Company's share repurchase program.

- 8 -

Part II

OTHER INFORMATION

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

Item 4. Submission of Matters to a Vote of Security Holders.

- (a) The annual meeting of stockholders of Lawson Products, Inc. was held on May 7, 1996.
- (b) Not applicable.
- (c) Set forth below is the tabulation of the votes on each nominee for election as a director:

	For	Withheld Authority
Ronald B. Port, M.D.	10,006,128	437,616
Robert G. Rettig	9,996,543	447,201
Peter G. Smith	10,002,833	440,911

- (d) Not applicable.

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

5
1,000

9-MOS

	DEC-31-1996	
	SEP-30-1996	
		14,114
		27,348
		31,746
		0
		35,856
	104,247	
		39,397
	0	
	172,824	
21,485		
		0
		11,601
0		
		0
		118,239
172,824		
		185,890
	187,415	
		60,286
		60,286
	0	
	770	
19		
	23,164	
		9,583
13,581		
	0	
0		
		0
		13,581
		1.17
		1.17