

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 **June 30, 2018**
or

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

(State or other jurisdiction of
incorporation or organization)

36-2229304

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

8770 W. Bryn Mawr Avenue, Suite 900, Chicago, Illinois

(Address of principal executive offices)

60631

(Zip Code)

(773) 304-5050

(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

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

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's common stock, \$1 par value, as of July 15, 2018 was 8,918,639.

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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;
- the ability to generate sufficient cash to fund our operating requirements;
- the ability to meet the covenant requirements of our line of credit;
- the market price of our common stock may decline;
- inventory obsolescence;
- work stoppages and other disruptions at transportation centers or shipping ports;
- changing customer demand and product mixes;
- increases in energy and commodity prices;
- decreases in demand from oil and gas customers due to lower oil prices;
- disruptions of our information and communication systems;
- cyber attacks or other information security breaches;
- failure to recruit, integrate and retain a talented workforce including productive sales representatives;
- the inability to successfully make or integrate acquisitions into the organization;
- foreign currency fluctuations
- failure to manage change within the organization;
- highly competitive market;
- changes that affect governmental and other tax-supported entities;
- violations of environmental protection or other governmental regulations;
- negative changes related to tax matters; 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, 2017.

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.

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

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

	June 30, 2018	December 31, 2017
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 5,992	\$ 4,416
Restricted cash	800	800
Accounts receivable, less allowance for doubtful accounts of \$447 and \$476, respectively	42,613	38,575
Inventories, net	51,032	50,928
Miscellaneous receivables and prepaid expenses	4,295	3,728
Total current assets	104,732	98,447
Property, plant and equipment, net	25,605	27,333
Deferred income taxes	19,892	21,248
Goodwill	18,804	19,614
Cash value of life insurance	12,074	11,964
Intangible assets, net	10,963	11,813
Other assets	316	248
Total assets	\$ 192,386	\$ 190,667
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit	\$ 16,071	\$ 14,543
Accounts payable	14,794	12,394
Accrued expenses and other liabilities	29,329	33,040
Total current liabilities	60,194	59,977
Security bonus plan	12,802	12,981
Financing lease obligation	5,833	6,420
Deferred compensation	5,862	5,476
Deferred rent liability	2,452	3,512
Deferred tax liability	3,007	3,115
Other liabilities	4,782	5,696
Total liabilities	94,932	97,177
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 - 8,951,913 and 8,921,302 shares, respectively		
Outstanding - 8,918,639 and 8,888,028 shares, respectively	8,952	8,921
Capital in excess of par value	14,298	13,005
Retained earnings	75,554	71,453
Treasury stock – 33,274 shares	(711)	(711)
Accumulated other comprehensive income (loss)	(639)	822
Total stockholders' equity	97,454	93,490
Total liabilities and stockholders' equity	\$ 192,386	\$ 190,667

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Product revenue	\$ 80,397	\$ 75,006	\$ 155,367	\$ 149,623
Service revenue	9,985	—	19,474	—
Total revenue	\$ 90,382	\$ 75,006	\$ 174,841	\$ 149,623
Product cost of goods sold	37,856	29,865	72,688	59,603
Service costs	3,395	—	6,804	—
Gross profit	49,131	45,141	95,349	90,020
Operating expenses:				
Selling expenses	22,004	23,806	43,944	48,610
General and administrative expenses	21,573	18,866	44,014	38,229
Total SG&A	43,577	42,672	87,958	86,839
Gain on sale of property	—	(5,422)	—	(5,422)
Operating expenses	43,577	37,250	87,958	81,417
Operating income	5,554	7,891	7,391	8,603
Interest expense	(264)	(166)	(504)	(260)
Other (expense) income, net	(777)	(115)	(490)	110
Income before income taxes	4,513	7,610	6,397	8,453
Income tax expense	1,319	337	1,967	323
Net income	\$ 3,194	\$ 7,273	\$ 4,430	\$ 8,130
Basic income per share of common stock	\$ 0.36	\$ 0.82	\$ 0.50	\$ 0.92
Diluted income per share of common stock	\$ 0.35	\$ 0.80	\$ 0.48	\$ 0.89
Weighted average shares outstanding:				
Basic weighted average shares outstanding	8,903	8,853	8,896	8,843
Effect of dilutive securities outstanding	314	245	304	252
Diluted weighted average shares outstanding	9,217	9,098	9,200	9,095
Comprehensive income:				
Net income	\$ 3,194	\$ 7,273	\$ 4,430	\$ 8,130
Other comprehensive income, net of tax				
Adjustment for foreign currency translation	22	729	(1,461)	802
Net comprehensive income	\$ 3,216	\$ 8,002	\$ 2,969	\$ 8,932

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	\$ 4,430	\$ 8,130
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,365	3,349
Stock-based compensation	1,057	385
Deferred income taxes	1,380	—
Gain on sale of property	—	(5,422)
Changes in operating assets and liabilities:		
Accounts receivable	(4,632)	(4,886)
Inventories	(682)	346
Prepaid expenses and other assets	(1,563)	(113)
Accounts payable and other liabilities	(1,745)	(6,500)
Other	238	232
Net cash provided by (used in) operating activities	\$ 1,848	\$ (4,479)
Investing activities:		
Purchases of property, plant and equipment	\$ (1,428)	\$ (500)
Business acquisition	(157)	—
Proceeds from sale of property	—	6,177
Net cash (used in) provided by investing activities	\$ (1,585)	\$ 5,677
Financing activities:		
Net proceeds from revolving lines of credit	\$ 1,528	\$ (841)
Repurchase treasury shares	—	(20)
Net cash provided by (used in) financing activities	\$ 1,528	\$ (861)
Effect of exchange rate changes on cash and cash equivalents	(215)	365
Increase in cash, cash equivalents and restricted cash	1,576	702
Cash, cash equivalents and restricted cash at beginning of period	5,216	11,221
Cash, cash equivalents and restricted cash at end of period	\$ 6,792	\$ 11,923

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

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, 2017. 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 six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Company has two operating segments. The first segment, the Lawson operating segment, distributes maintenance, repair and operations (“MRO”) products to customers primarily through a network of sales representatives offering vendor managed inventory (“VMI”) service to customers throughout the United States and Canada. The second segment, the Bolt Supply operating segment, distributes MRO products primarily through its 13 branches located in Western Canada.

Note 2 - Revenue Recognition

Adoption of ASC 606

On January 1, 2018 the Company adopted Accounting Standards Codification 606-Revenue From Contracts With Customers (“ASC 606”). As part of the Company’s adoption of ASC 606, it concluded that it has two separate performance obligations, and accordingly, two separate revenue streams: product and services. As a result, the Company is now reporting two separate revenue streams and two separate costs of revenues. The adoption of ASC 606 had a minimal impact on total reported revenues, costs and net income for the first six months of 2018. However, the adoption required prospective reclassification of certain selling expenses associated with the separately identified vendor managed inventory services performance obligation costs historically classified as selling expenses to cost of sales. As ASC 606 was adopted on a modified retrospective method, prior quarters are not restated. The following information is intended to provide comparable information on selected financial statement line items in accordance with both ASC 606 and previous accounting literature (ASC 605 Revenue Recognition). Effective January 1, 2018, the Company recorded a cumulative effect adjustment in opening retained earnings in the amount of \$0.3 million based on applying the guidance to the customer contracts that were not completed on that date.

ASC 606 defines a five step process to recognize revenues at the time and in an amount that reflects the consideration expected to be received for the performance obligations that have been provided. ASC 606 defines contracts as written, oral and through customary business practice. Under this definition, the Company considers contracts to be created at the time an order to purchase product is agreed upon regardless of whether or not there is a written contract.

Performance Obligations

Lawson has two operating segments; the Lawson segment and the Bolt Supply segment. These customer contracts have the following performance obligations:

The Lawson segment has two distinct performance obligations offered to its customers: a product performance obligation and a service performance obligation. Although the Company has identified that it offers its customers both a product and a service obligation, the customer only receives one invoice per transaction with no price breakout between these obligations and the Company does not price its offerings based on any breakout between these obligations.

Lawson generates revenue primarily from the sale of MRO products to its customers. Revenue related to product sales is recognized at the time that control of the product has been transferred to the customer; either at the time the product is shipped or the time the product has been received by the customer. The Company does not commit to long-term contracts to sell customers a certain minimum quantity of products.

The Lawson segment offers a VMI service proposition to its customers. A portion of these services, primarily related to stocking of product and maintenance of the MRO inventory, is provided a short period of time after control of the purchased product has been transferred to the customer. Since some components of VMI service have not been provided at the time the control of the product transfers to the customer, that portion of expected consideration is deferred until the time that those services have been provided.

The Bolt Supply segment does not provide VMI services for its customers or provide services in addition to product sales to customers. Revenue is recognized at the time that control of the product has been transferred to the customer which is either upon delivery or shipment depending on the terms of the contract.

Accounting Policy Elections

The Company has elected to treat shipping and handling costs after the control of the product has been transferred to the customer as a fulfillment cost.

Sales taxes that are imposed on our sales and collected from customers are excluded from revenues.

The Company expenses sales commissions when incurred as the amortization period is one year or less.

Significant Judgments

The Company employs certain significant judgments to estimate the dollar amount of revenue, and related expenses, allocated to the sale of product and service. These judgments include, among others, the percentage of customers that take advantage of the VMI services offered, the amount of revenue to be allocated to the VMI service based on the value of the service to its customers, and the amount of time after control of the product passes to the customer that the VMI service obligation is completed. It is assumed that any customer who averages placing orders at a frequency of longer than 30 days does not take advantage of the available VMI services offered. The estimate of the cost of sales is based on expenses directly related to sales representatives that provide direct VMI services to the customer.

Financial Impact of ASC 606 Adoption

As a result of applying ASC 606 the Company recorded a liability of \$0.7 million for deferred revenue on January 1, 2018. Expenses related to these revenues of \$0.4 million were also deferred resulting in a net reduction to opening retained earnings of \$0.3 million as of January 1, 2018. At June 30, 2018, the Company had a deferred revenue liability of \$0.7 million and a deferred expense of \$0.2 million for related expenses associated with the deferred service performance obligations, respectively. The deferral of revenue and expenses does not affect the amount, timing and any uncertainty of cash flows generated from operations.

The following table presents the impact of ASC 606 on Condensed Consolidated Statements of Income (Unaudited):

(Dollars in thousands)	Three Months Ended June 30, 2018		
	As Reported	Service Revenues and Costs Adjustments	Pro-Forma as if Previous Accounting Guidance Was in Effect
Product revenue	\$ 80,397	\$ 9,738	\$ 90,135
Service revenue	9,985	(9,985)	—
Total revenue	\$ 90,382	\$ (247)	\$ 90,135
Product cost of goods sold	\$ 37,856	\$ —	\$ 37,856
Service costs	3,395	(3,395)	—
Total cost of goods sold	\$ 41,251	\$ (3,395)	\$ 37,856
Gross profit	49,131	3,148	52,279
Gross profit percentage	54.4%		58.0%
Selling expenses	22,004	3,078	25,082
General and administrative expenses	21,573	—	21,573
Operating expenses	43,577	3,078	46,655

Operating income as reported was \$5.55 million whereas pro forma operating income as if previous accounting guidance was in effect would have been \$5.62 million.

(Dollars in thousands)	Six Months Ended June 30, 2018		
	As Reported	Service Revenues and Costs Adjustments	Pro-Forma as if Previous Accounting Guidance Was in Effect
Product revenue	\$ 155,367	\$ 19,402	\$ 174,769
Service revenue	19,474	(19,474)	—
Total revenue	\$ 174,841	\$ (72)	\$ 174,769
Product cost of goods sold	\$ 72,688	\$ —	\$ 72,688
Service costs	6,804	(6,804)	—
Total cost of goods sold	\$ 79,492	\$ (6,804)	\$ 72,688
Gross profit	95,349	6,732	102,081
Gross profit percentage	54.5%		58.4%
Selling expenses	43,944	6,624	50,568
General and administrative expenses	44,014	—	44,014
Operating expenses	87,958	6,624	94,582

Operating income as reported was \$7.39 million whereas pro forma operating income as if previous accounting guidance was in effect would have been \$7.50 million.

Disaggregated revenue by geographic area follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States	\$ 71,626	\$ 67,320	\$ 139,944	\$ 134,601
Canada	18,756	7,686	34,897	15,022
Consolidated total	\$ 90,382	\$ 75,006	\$ 174,841	\$ 149,623

Disaggregated revenue by product type follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fastening Systems	24.6%	20.5%	24.4%	20.7%
Fluid Power	14.8%	15.4%	14.7%	15.3%
Specialty Chemicals	12.3%	14.6%	12.3%	14.3%
Cutting Tools and Abrasives	13.4%	14.4%	13.4%	14.3%
Electrical	10.8%	11.8%	11.0%	12.1%
Aftermarket Automotive Supplies	7.8%	8.8%	8.2%	9.1%
Safety	4.7%	4.3%	4.7%	4.2%
Welding and Metal Repair	2.1%	2.1%	2.0%	2.2%
Other	9.5%	8.1%	9.3%	7.8%
Consolidated Total	100.0%	100.0%	100.0%	100.0%

Note 3 — Restricted Cash

The Company has agreed to maintain \$0.8 million in a money market account as collateral for an outside party that is providing certain commercial card processing services for the Company. The Company is restricted from withdrawing this balance without the prior consent of the outside party during the term of the agreement.

Note 4 — Inventories, net

Inventories, net, consisting primarily of purchased goods which are offered for resale, were as follows:

	(Dollars in thousands)	
	June 30, 2018	December 31, 2017
Inventories, gross	\$ 56,641	\$ 56,492
Reserve for obsolete and excess inventory	(5,609)	(5,564)
Inventories, net	<u>\$ 51,032</u>	<u>\$ 50,928</u>

Note 5 — Acquisition

In October 2017, the Company acquired The Bolt Supply House Ltd. ("Bolt Supply"), based in Calgary, Canada, for a purchase price of approximately \$32.3 million. The purchase price was funded with cash on hand and utilization of Lawson Products' existing credit facility. Bolt Supply is a leading Canadian distributor of high quality fasteners, power tools and industrial MRO supplies, with 13 branch locations throughout Alberta, Saskatchewan, and Manitoba, Canada.

The purchase price of the acquisition was allocated to the fair market value of Bolt Supply's assets and liabilities on the acquisition date. The fair market value appraisals of the majority of the assets and liabilities were determined by third party valuation firms including intangible assets of \$7.2 million for trade names and \$4.2 million for customer relationships, respectively. The trade names and customer relationships intangible assets have estimated useful lives of 15 and 12 years, respectively. The \$14.0 million allocated to goodwill reflects the purchase price less the fair market value of the identifiable net assets. The fair values of the assets acquired and liabilities assumed, and the related tax balances, are based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change significantly during the purchase price measurement period of one year as the Company finalizes the valuations of the assets acquired and liabilities assumed, and the related tax balances. Such changes could result in material variances between the Company's future financial results and the amounts presented in the unaudited pro forma information, including variances in the estimated purchase price, fair values recorded and expenses associated with these items. Further operating details related to the operations of Bolt Supply subsequent to the acquisition are included in Note 14 - Segment information.

The following table contains unaudited pro forma revenue and net income for Lawson Products assuming the Bolt Supply acquisition closed on January 1, 2016.

	(Dollars in thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Actual	\$ 90,382	\$ 75,006	\$ 174,841	\$ 149,623
Pro forma	90,382	84,187	174,841	165,625
Net income				
Actual	\$ 3,194	\$ 7,273	\$ 4,430	\$ 8,130
Pro forma	3,194	7,553	4,430	8,641

The pro forma disclosures in the table above include adjustments for, amortization of intangible assets and acquisition costs to reflect results as if the acquisition of Bolt Supply had closed on January 1, 2016 rather than on the actual acquisition date. This pro forma information utilizes certain estimates, is presented for illustrative purposes only and is not intended to be indicative of the actual results of operation. In addition, future results may vary significantly from the results reflected in the pro forma

information. The unaudited pro forma financial information does not reflect the impact of future positive or negative events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

Note 6 - Goodwill

Goodwill activity for the first six months of 2018 and 2017 is included in the table below:

	(Dollars in thousands)	
	Six Months Ended June 30,	
	2018	2017
Beginning balance	\$ 19,614	\$ 5,520
Adjustment to original acquisition allocation	(17)	—
Impact of foreign exchange	(793)	161
Ending balance	\$ 18,804	\$ 5,681

Note 7 - Intangible assets

The gross carrying amount and accumulated amortization by intangible asset class were as follows:

	(Dollars in thousands)					
	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade names	\$ 7,874	\$ (1,159)	\$ 6,715	\$ 8,182	\$ (957)	\$ 7,225
Customer relationships	4,704	(456)	4,248	4,911	(323)	4,588
	\$ 12,578	\$ (1,615)	\$ 10,963	\$ 13,093	\$ (1,280)	\$ 11,813

Amortization expense of \$0.4 million and \$0.1 million related to intangible assets was recorded in General and administrative expenses for the six months ended June 30, 2018 and 2017, respectively.

Note 8 — Loan Agreement

Lawson Loan Agreement

In 2012, the Company entered into a Loan and Security Agreement (“Loan Agreement”). The Loan Agreement consists of a \$40.0 million revolving line of credit facility, which includes a \$10.0 million sub-facility for letters of credit. Certain terms of the original Loan Agreement have been revised by subsequent amendments.

The Loan Agreement, as amended, expires in August 2020. Due to the lock box arrangement and a subjective acceleration clause contained in the Loan Agreement, any outstanding borrowings under the revolving line of credit are classified as a current liability.

Currently, credit available under the Loan Agreement, as amended, is based upon:

- 85% of the face amount of the Company’s eligible accounts receivable, generally less than 60 days past due, and
- the lesser of 60% of the lower of cost or market value of the Company’s eligible inventory, generally inventory expected to be sold within 18 months, or \$20.0 million.

The applicable interest rates for borrowings are at the Prime rate or, if the Company elects, the LIBOR rate plus 1.50% to 1.85% based on the Company’s debt to EBITDA ratio. The Loan Agreement is secured by a first priority perfected security interest in substantially all existing assets of the Company. Dividends are restricted to amounts not to exceed \$7.0 million annually.

At June 30, 2018, the Company had \$13.8 million of borrowings under its revolving line of credit facility and additional borrowing availability of \$21.7 million. The Company paid interest of \$0.5 million and \$0.3 million for the six months ended June 30, 2018 and 2017, respectively. The weighted average interest rate was 3.74% for the six months ended June 30, 2018 and 3.91% for the six months ended June 30, 2017.

In addition to other customary representations, warranties and covenants, the Company is required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the amended Loan Agreement, if the excess borrowing capacity is below \$10.0 million. On June 30, 2018, the Company's borrowing capacity exceeded \$10.0 million. Therefore, the Company was not subject to this financial covenant, however, for informational purposes the result of the financial covenant is provided below:

Quarterly Financial Covenant	Requirement	Actual
EBITDA to fixed charges ratio	1.10 : 1.00	3.10 : 1.00

Commitment Letter

Bolt Supply has a Commitment Letter with BMO Bank of Montreal ("BMO") dated March 30, 2017 which allows Bolt Supply to access up to \$5.5 million Canadian dollars in the form of either an overdraft facility or as commercial letters of credit. The Commitment Letter is cancellable at any time at BMO's sole discretion and is secured by substantially all of Bolt Supply's assets. It carries an interest rate of the bank's prime rate plus 0.25%. At June 30, 2018, Bolt Supply had \$2.9 million Canadian dollars of outstanding borrowings and remaining borrowing availability of \$2.6 million Canadian dollars. The Commitment Letter is subject to a working capital ratio of 1.35:1, a maximum ratio of debt to tangible net worth of 2.5:1 of the Bolt Supply assets and Debt Service Coverage Ratio 1.25:1 as defined in the Commitment Letter. At June 30, 2018, Bolt Supply was in compliance with all covenants which are subject to periodic review, at least annually, with the next review due by August 31, 2018.

Note 9 — Severance Reserve

Changes in the Company's reserve for severance as of June 30, 2018 and 2017 were as follows:

	(Dollars in thousands)	
	Six Months Ended June 30,	
	2018	2017
Balance at beginning of period	\$ 483	\$ 1,710
Charged to earnings	692	456
Payments	(532)	(1,213)
Balance at end of period	<u>\$ 643</u>	<u>\$ 953</u>

Note 10 — Stock-Based Compensation

The Company recorded stock-based compensation expense of \$1.1 million and a benefit of \$385 thousand for the first six months of 2018 and 2017, respectively. A portion of stock-based compensation is related to the change in the market value of the Company's common stock.

A summary of stock-based awards activity during the six months ended June 30, 2018 follows:

Stock Performance Rights ("SPRs")

The Company issued 44,737 SPRs to key employees with an exercise price of \$24.70 per share that cliff vest on December 31, 2020 and have a termination date of December 31, 2025.

Restricted Stock Awards ("RSAs")

The Company issued 26,080 RSAs to members of the Company's Board of Directors with a vesting date of May 15, 2019 and issued 20,059 RSAs to key employees that cliff vest on December 31, 2020. Each RSA is exchangeable for one share of the Company's common stock at the end of the vesting period.

Market Stock Units ("MSUs")

The Company issued 32,194 MSUs to key employees that cliff vest on December 31, 2020. MSU's are exchangeable for the Company's common stock at the end of the vesting period. The number of shares of common stock that will be issued upon vesting,

ranging from zero to 48,291, will be determined based upon the trailing sixty-day weighted average closing price of the Company's common stock on December 31, 2020.

For the three and six months ended June 30, 2018, stock options to purchase 63,210 shares of the Company's common stock were excluded from the computation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2017, stock options to purchase 40,000 shares of the Company's common stock were excluded from the computation of diluted earnings per share because they were anti-dilutive.

Note 11 — Income Taxes

The Company recorded income tax expenses of \$2.0 million, a 30.7% effective tax rate for the six months ended June 30, 2018. The effective tax rate is higher than the U.S. statutory rate due mainly to state taxes, income in higher tax jurisdictions, and a Global Intangible Low Taxed Income Inclusion as a result of the 2017 Tax Cuts and Jobs Act. The Securities and Exchange Commission ("SEC") recently issued SAB 118 (Income Tax Accounting Implications of the Tax Cuts and Jobs Act) which allows registrants to record provisional amounts during a measurement period. The SAB allows a company to recognize provisional amounts when it does not have the necessary information prepared in reasonable detail to calculate the effect of the change in tax law. Per the SAB, a company should report provisional amounts when the accounting is not complete, but for which a reasonable estimate can be determined. Lawson included in its 2017 taxable income calculation a provisional amount of approximately \$8.4 million representing previously untaxed foreign earnings and profits as of December 31, 2017. The Company has not accrued any federal income tax on this amount as the company is able to utilize federal net operating losses to offset the income. The Company will make any necessary adjustments to this provisional amount later this year. An income tax expense of \$0.3 million was recorded for the six months ended June 30, 2017 as substantially all deferred tax assets were still subject to a tax valuation allowance at that time.

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 June 30, 2018, the Company is subject to U.S. Federal income tax examinations for the years 2014 through 2016 and income tax examinations from various other jurisdictions for the years 2011 through 2016.

Earnings from the Company's foreign subsidiaries are considered to be indefinitely reinvested. A distribution of these non-U.S. earnings in the form of dividends or otherwise may subject the Company to foreign withholding taxes and U.S. federal and state taxes.

Note 12 — Contingent Liabilities

In 2012, the Company identified that a site it owns in Decatur, Alabama, contains hazardous substances in the soil and groundwater as a result of historical operations prior to the Company's ownership. The Company retained an environmental consulting firm to further investigate the contamination including the measurement and monitoring of the site and the site was enrolled in the Alabama Department of Environmental Management ("ADEM") voluntary cleanup program.

As of December 31, 2017, the Company had received estimates from its environmental consulting firm for two remediation solutions based on a chemical injection process. The first solution consisted of chemical injections throughout the entire site to directly eliminate the hazardous substances in the soil and groundwater. The second solution consisted of chemical injections around the perimeter of the site to prevent the migration of the hazardous chemicals off-site. Neither solution required additional excavation or repairs to be made to the property. The estimated expenditures over an 18 month period under the two injection scenarios ranged from \$0.9 million to \$2.0 million.

The Company had determined that it would initially proceed with the method of injecting chemicals around the perimeter of the site to prevent the migration of the hazardous chemicals off-site. As of December 31, 2017, approximately \$1.0 million remained accrued for this remediation.

In June 2018, the Company received updated environmental remediation estimates from its environmental consulting firm based on information analyzed from further data collection and consultation with ADEM on their anticipated requirements. The new revised remediation plan expands the chemical injection process over a larger area than previously estimated, including under the building on the property. The new plan also requires four consecutive quarters of monitoring the affected area after the injection process is completed.

Based upon the feedback received from ADEM, the Company accrued an additional \$0.5 million of expense in the second quarter of 2018 to bring the total liability to \$1.4 million which represents the most likely outcome. The Company does not expect to capitalize any amounts related to the new revised remediation plan.

Note 13 — Lease Termination

In the first quarter of 2012, the Company signed a 10 year agreement to lease space for a new corporate headquarters in Chicago, Illinois ("Lease"). In the fourth quarter of 2013, due to excess capacity as a result of a corporate restructuring, the Company agreed to sublease a portion (approximately 17,100 square feet) of its corporate headquarters to a third party ("Sublease"). Both the Lease and the Sublease were scheduled to terminate in the first quarter of 2023.

In the second quarter of 2018, the Company entered into agreements with the lessor and the sub lessee to terminate both the Lease and Sublease in June 2019. The original loss recorded on the Sublease was reduced by \$0.7 million in the second quarter of 2018 to reflect the shortened lease time frame. Additionally, the Company is required to pay a \$0.5 million fee before June 2019 as a condition of early termination of the original Lease. As a result of these transactions, a \$0.2 million net gain was recognized in the second quarter of 2018. The \$0.5 million early termination fee is included in current liabilities in the condensed consolidated balance sheet.

The termination of the Lease will reduce the Company's future operating lease obligation by \$1.2 million, offset by a reduction in future payments from the Sublease of \$0.4 million.

Note 14 – Segment Information

With the acquisition of Bolt Supply in the fourth quarter of 2017, the Company operates in two reportable segments. The businesses were determined to be separate reportable segments because of differences in their financial characteristics and the methods they employ to deliver product to customers. The operating segments are reviewed by the Company's chief operating decision maker responsible for reviewing operating performance and allocating resources. The Lawson segment primarily relies on its large network of sales representatives to visit the customer at the customers' work location and provide VMI service and produce sales orders for product that is then shipped to the customer. The Bolt Supply segment primarily sells product to customers through its 13 branch locations.

Financial information for the Company's reportable segments follows:

	(Dollars in thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Lawson product revenue	\$ 70,632	\$ 75,006	\$ 137,569	\$ 149,623
Lawson service revenue	9,985	—	19,474	—
Total Lawson revenue	80,617	75,006	157,043	149,623
Bolt Supply	9,765	—	17,798	—
Consolidated total	\$ 90,382	\$ 75,006	\$ 174,841	\$ 149,623
Gross profit				
Lawson product gross profit	\$ 38,703	\$ 45,141	\$ 75,549	\$ 90,020
Lawson service gross profit	6,590	—	12,670	—
Total Lawson gross profit	45,297	45,141	88,219	90,020
Bolt Supply	3,834	—	7,130	—
Consolidated total	\$ 49,131	\$ 45,141	\$ 95,349	\$ 90,020
Operating Income				
Lawson	\$ 4,660	\$ 7,891	\$ 6,017	\$ 8,603
Bolt Supply	894	—	1,374	—
Consolidated total	5,554	7,891	7,391	8,603
Interest expense	(264)	(166)	(504)	(260)
Other (expense) income, net	(777)	(115)	(490)	110
Income before income taxes	\$ 4,513	\$ 7,610	\$ 6,397	\$ 8,453

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

The Maintenance, Repair and Operations ("MRO") distribution industry is highly fragmented. We compete for business with several national distributors as well as a large number of regional and local distributors. The MRO business is significantly impacted by the overall strength of the manufacturing sector of the U.S. economy. One measure used to evaluate the strength of the industrial products market is the PMI index published by the Institute for Supply Management, which is considered by many economists to be a reliable near-term economic barometer of the manufacturing sector. A measure above 50 generally indicates expansion of the manufacturing sector while a measure below 50 generally represents contraction. The average monthly PMI was 58.7 in the second quarter of 2018 compared to 55.8 in the second quarter of 2017, indicating a strong U.S. manufacturing economy.

Our sales are also affected by the number of sales representatives and their productivity. Our sales force consisted of an average of 966 and 981 sales representatives during the second quarters of 2018 and 2017, respectively. Our Lawson segment sales rep productivity, measured as sales per rep per day, increased 9.1% to \$1,304 in the second quarter of 2018 from \$1,195 in the second quarter of 2017. We anticipate moderate growth in the size of our sales force for the remainder of 2018 as we concentrate our efforts on providing training and support to continue to increase the productivity of our existing sales representatives.

In the fourth quarter of 2017 the Company acquired The Bolt Supply House, Ltd. ("Bolt Supply") which affects the comparison of operating results between the second quarter of 2018 compared to 2017. Additionally, the Company adopted ASC 606 on a modified retrospective basis as of January 1, 2018. Accordingly, 2017 amounts are not restated.

Quarter ended June 30, 2018 compared to quarter ended June 30, 2017

(Dollars in thousands)	2018		2017	
	Amount	% of Net Sales	Amount	% of Net Sales
Revenue	\$ 90,382	100.0 %	\$ 75,006	100.0 %
Cost of goods sold	41,251	45.6 %	29,865	39.8 %
Gross profit	49,131	54.4 %	45,141	60.2 %
Operating expenses:				
Selling expenses	22,004	24.3 %	23,806	31.7 %
General and administrative expenses	21,573	24.0 %	18,866	25.2 %
Total SG&A	43,577	48.3 %	42,672	56.9 %
Gain on sale of property	—	— %	(5,422)	(7.2)%
Operating expenses	43,577	48.3 %	37,250	49.7 %
Operating income	5,554	6.1 %	7,891	10.5 %
Interest expense	(264)	(0.2)%	(166)	(0.2)%
Other expense, net	(777)	(0.9)%	(115)	(0.2)%
Income before income taxes	4,513	5.0 %	7,610	10.1 %
Income tax expense	1,319	1.5 %	337	0.4 %
Net income	\$ 3,194	3.5 %	\$ 7,273	9.7 %

Revenue and Gross Profits

(Dollars in thousands)	Three Months Ended June 30,		Increase	
	2018	2017	Amount	%
Revenue				
Lawson	\$ 80,617	\$ 75,006	\$ 5,611	7.5%
Bolt Supply	9,765	—	9,765	
Consolidated	<u>\$ 90,382</u>	<u>\$ 75,006</u>	<u>\$ 15,376</u>	20.5%
Gross profit				
Lawson	\$ 45,297	\$ 45,141	\$ 156	0.3%
Bolt Supply	3,834	—	3,834	
Consolidated	<u>\$ 49,131</u>	<u>\$ 45,141</u>	<u>\$ 3,990</u>	8.8%
Gross profit margin				
Lawson	56.2%	60.2%		
Bolt Supply	39.3%			
Consolidated	54.4%	60.2%		

Total sales increased 20.5% to \$90.4 million in the second quarter of 2018 compared to \$75.0 million in the second quarter of 2017. There were 64 selling days in both periods. Average daily sales grew to \$1.412 million in the second quarter of 2018 compared to \$1.172 million in the prior year quarter. The Lawson segment total sales were positively impacted by a 9.1% improvement in sales productivity of sales representatives and a strong MRO marketplace, partially offset by a \$0.3 million negative effect from a lower Canadian exchange rate. The second quarter of 2018 revenue was also positively impacted by \$9.8 million from the acquisition of Bolt Supply in the fourth quarter of 2017.

Gross Profit

Gross profit increased \$4.0 million to \$49.1 million in the second quarter of 2018 compared to \$45.1 million in the second quarter of 2017, primarily due to increased sales and the acquisition of The Bolt Supply House, partially offset by \$3.4 million due to the adoption of ASC 606. Consolidated gross profit as a percent of sales decreased to 54.4% from 60.2% a year ago primarily due to the selling expense reclassification related to the separately identified vendor managed inventory services performance obligation costs that had historically been classified as selling expenses and the inclusion of Bolt Supply. Prior to the reclassification, the Lawson segment gross profit increased slightly to 60.4% from 60.2% a year ago due to lower bin and cabinet expenses and the leveraging of fixed costs partially offset by increased freight costs and higher sales to our strategic customers who typically have lower gross margins.

Selling, General and Administrative Expenses

(Dollars in thousands)	Three Months Ended June 30,		Increase (Decrease)	
	2018	2017	Amount	%
Selling expenses				
Lawson	\$ 21,199	\$ 23,806	\$ (2,607)	(11.0)%
Bolt Supply	805	—	805	
Consolidated	<u>\$ 22,004</u>	<u>\$ 23,806</u>	<u>\$ (1,802)</u>	(7.6)%
General and administrative expenses				
Lawson	\$ 19,438	\$ 18,866	\$ 572	3.0%
Bolt Supply	2,135	—	2,135	
Consolidated	<u>\$ 21,573</u>	<u>\$ 18,866</u>	<u>\$ 2,707</u>	14.3%

Selling expenses consist of compensation and support for our sales representatives. Selling expenses decreased to \$22.0 million in the second quarter of 2018 from \$23.8 million in the prior year quarter and, as a percent of sales, decreased to 24.3% from 31.7% in the second quarter of 2017. The \$1.8 million decrease is primarily due to the \$3.1 million reclassification of services expense related to the separately identified vendor managed inventory services performance obligation to cost of revenues, partially offset by the inclusion of Bolt Supply in the quarter. As a percent of sales, selling expenses decreased to 24.3% from 31.7% due primarily to the reclassification of expenses to cost of sales and the proportionately lower selling expense structure in Bolt Supply's operations.

General and administrative expenses consist of expenses to operate our distribution network and overhead expenses to manage the business. General and administrative expenses increased to \$21.6 million in the second quarter of 2018 from \$18.9 million in the prior year quarter. The increase was primarily driven by the inclusion of Bolt Supply expenses and an increase in an accrual for a discontinued operation.

Gain on sale of property

In the second quarter of 2017, we received net cash proceeds of \$6.2 million and recognized a gain of \$5.4 million from the sale of our Fairfield, New Jersey distribution center.

Interest Expense and Other (Expenses) Income, Net

Interest expense increased \$0.1 million over the prior year quarter, due primarily to increased borrowings related to the Bolt Supply acquisition. Other expense, net increased \$0.7 million over the prior year quarter due primarily to the negative effect of changes in the Canadian currency exchange rate.

Income Tax Expense

Income tax expenses were \$1.3 million, resulting in a 29.2% effective tax rate for the three months ended June 30, 2018. Our effective tax rate is higher than the U.S. statutory rate due mainly to state taxes, income in higher tax jurisdictions, and a Global Intangible Low Taxed Income Inclusion as a result of the 2017 Tax Cuts and Jobs Act. In the fourth quarter of 2017, the Company eliminated substantially all of its U.S. reserves against its deferred tax assets as the Company was in a three year cumulative income position in the U.S. and we had reached a point of increased confidence in our ability to sustain profit levels. An income tax expense of \$0.3 million was recorded for the three months ended June 30, 2017 as substantially all deferred tax assets were still subject to a tax valuation allowance at that time.

Six months ended June 30, 2018 compared to June 30, 2017

(\$ in thousands)	2018		2017	
	Amount	% of Net Sales	Amount	% of Net Sales
Revenue	\$ 174,841	100.0 %	\$ 149,623	100.0 %
Cost of goods sold	79,492	45.5 %	59,603	39.8 %
Gross profit	95,349	54.5 %	90,020	60.2 %
Operating expenses:				
Selling expenses	43,944	25.1 %	48,610	32.5 %
General and administrative expenses	44,014	25.2 %	38,229	25.5 %
Total S,G&A	87,958	50.3 %	86,839	58.0 %
Gain on sale of property	—	— %	(5,422)	(3.5)%
Operating expenses	87,958	50.3 %	81,417	54.5 %
Operating income	7,391	4.2 %	8,603	5.7 %
Interest expense	(504)	(0.3)%	(260)	(0.2)%
Other (expense) income, net	(490)	(0.2)%	110	0.1 %
Income before income taxes	6,397	3.7 %	8,453	5.6 %
Income tax expense	1,967	1.2 %	323	0.2 %
Net income	\$ 4,430	2.5 %	\$ 8,130	5.4 %

Revenue and Gross Profit

(Dollars in thousands)	Six Months Ended June 30,		Increase	
	2018	2017	Amount	%
Revenue				
Lawson	\$ 157,043	\$ 149,623	\$ 7,420	5.0%
Bolt Supply	17,798	—	17,798	
Consolidated	\$ 174,841	\$ 149,623	\$ 25,218	16.9%
Gross profit				
Lawson	\$ 88,219	\$ 90,020	\$ (1,801)	(2.0)%
Bolt Supply	7,130	—	7,130	
Consolidated	\$ 95,349	\$ 90,020	\$ 5,329	5.9%
Gross profit margin				
Lawson	56.2%	60.2%		
Bolt Supply	40.1%			
Consolidated	54.5%	60.2%		

Revenue

Revenue for the six months ended June 30, 2018 increased 16.9% to \$174.8 million from \$149.6 million for the six months ended June 30, 2017. Average daily sales improved 17.8% to \$1.377 million in the first six months of 2018 compared to \$1.169 million in the prior year period. The first six months of 2018 and 2017 had 127 and 128 selling days, respectively. Sales in the first six months of 2018 were positively impacted by increased sales per rep per day productivity and the effect of the Bolt acquisition and a strong MRO marketplace partially offset by the \$0.7 million effect from a lower Canadian exchange rate.

Gross Profit

Gross profit increased to \$95.3 million in the first six months of 2018 compared to \$90.0 million in the first six months of 2017 and decreased as a percent of sales to 54.5% from 60.2% a year ago. The decline in the gross profit margin percentage from a year ago was primarily driven by a \$6.8 million selling expense reclassification related to the separately identified vendor managed inventory services performance obligation costs that had historically been classified as selling expenses, the inclusion of Bolt Supply and higher sales to large national customers who typically have lower product margins.

Selling, General and Administrative Expenses

(Dollars in thousands)	Six Months Ended June 30,		Increase (Decrease)	
	2018	2017	Amount	%
Selling expenses				
Lawson	\$ 42,498	\$ 48,610	\$ (6,112)	(12.6)%
Bolt Supply	1,446	—	1,446	
Consolidated	<u>\$ 43,944</u>	<u>\$ 48,610</u>	<u>\$ (4,666)</u>	<u>(9.6)%</u>
General and administrative expenses				
Lawson	\$ 39,704	\$ 38,229	\$ 1,475	3.9%
Bolt Supply	4,310	—	4,310	
Consolidated	<u>\$ 44,014</u>	<u>\$ 38,229</u>	<u>\$ 5,785</u>	<u>15.1%</u>

Selling Expenses

Selling expenses decreased to \$43.9 million for the first six months of 2018 from \$48.6 million in the first six months of 2017. The decrease is primarily due to the \$6.8 million reclassification of services expense related to the separately identified vendor managed inventory services obligation to cost of revenues, partially offset by the inclusion of Bolt Supply and increased compensation costs on higher sales.

General and Administrative Expenses

General and administrative expenses increased to \$44.0 million in the first six months of 2017 from \$38.2 million in the prior year period primarily driven by the inclusion of Bolt Supply expenses, an increase in an accrual for a discontinued operation and additional stock-based compensation of which a portion varies with the company stock price.

Gain on sale of property

In the second quarter of 2017, we received net cash proceeds of \$6.2 million and recognized a gain of \$5.4 million from the sale of our Fairfield, New Jersey distribution center.

Interest Expense

Interest expenses increased \$0.2 million in the first six months of 2018, over the prior year, due primarily to higher average borrowings outstanding.

Other (expense) Income, Net

Other expense, net increased \$0.6 million in the first six months of 2018, primarily due to the effect of changes in the Canadian currency exchange rate.

Income Tax Expense

Income tax expenses were \$2.0 million resulting in a 30.7% effective tax rate for the six months ended June 30, 2018. Our effective tax rate is higher than the U.S. statutory rate due mainly to state taxes, income in higher tax jurisdictions, and a Global Intangible Low Taxed Income Inclusion as a result of the 2017 Tax Cuts and Jobs Act. In the fourth quarter of 2017, the Company eliminated substantially all of its U.S. reserves against its deferred tax assets as the Company was in a three year cumulative income position in the U.S. and we had reached a point of increased confidence in our ability to sustain profit levels. Income tax expense of \$0.3 million was recorded for the six months ended June 30, 2017 as substantially all deferred tax assets were still subject to a tax valuation allowance at that time.

Liquidity and Capital Resources

Available cash and cash equivalents were \$6.0 million and \$4.4 million on June 30, 2018 and 2017, respectively. Net cash provided by operations for the six months ended June 30, 2018 was \$1.8 million as cash generated by operating earnings was partially offset by cash invested in working capital, primarily to support the increase in sales. Net cash used in operations for the six months ended June 30, 2017 was \$4.5 million as cash invested in working capital, primarily to support increased sales, was partially offset by operating earnings.

Capital expenditures, primarily for improvements to our distribution centers and information technology, were \$1.4 million and \$0.5 million for the six month periods ended June 30, 2018 and 2017, respectively. In the second quarter of 2017, we completed the sale of our distribution center located in Fairfield, New Jersey, receiving net cash proceeds of \$6.2 million.

We believe cash provided by operations and funds available under our Loan Agreements are sufficient to fund our operating requirements, strategic initiatives and capital improvements for the next 12 months.

Lawson Loan Agreement

On June 30, 2018, we had \$13.8 million of borrowings under our Lawson revolving line of credit facility and we had additional borrowing availability of \$21.7 million. Dividends are currently restricted under the Lawson Loan Agreement to amounts not to exceed \$7.0 million annually and no dividends were paid to shareholders in the six months ended June 30, 2018 and 2017.

In addition to other customary representations, warranties and covenants, if the excess borrowing capacity under our revolving line of credit facility is below \$10.0 million, we are required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the amended Loan Agreement. On June 30, 2018, our borrowing capacity exceeded \$10.0 million, therefore, we were not subject to this financial covenant. However, for informational purposes we have provided the result of the financial covenant below:

Quarterly Financial Covenant	Requirement	Actual
EBITDA to fixed charges ratio	1.10 : 1.00	3.10 : 1.00

While we were in compliance with the financial covenant for the quarter ended June 30, 2018, failure to meet this covenant requirement in future quarters could lead to higher financing costs, increased restrictions, or reduce or eliminate our ability to borrow funds and could have a material adverse effect on our business, financial condition and results of operations.

Bolt Commitment Letter

At June 30, 2018, Bolt had \$2.9 million Canadian dollars of outstanding borrowings and remaining borrowing availability of \$2.6 million Canadian dollars under a Commitment Letter. The Commitment Letter is subject to a working capital ratio of 1.35:1, a maximum ratio of debt to tangible net worth of 2.5:1 of the Bolt assets and Debt Service Coverage Ratio 1.25:1 as defined in the Commitment Letter. At June 30, 2018, Bolt was in compliance with all covenants which are subject to periodic review, at least annually, with the next review due by August 31, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at June 30, 2018 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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 the information relating to Lawson, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) includes, 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.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEMS 1, 1A, 2, 3, 4 and 5 of Part II are inapplicable and have been omitted from this report.

ITEM 6. EXHIBITS

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

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: July 26, 2018

/s/ Michael G. DeCata

Michael G. DeCata
President and Chief Executive Officer
(principal executive officer)

Dated: July 26, 2018

/s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial Officer, Treasurer and
Controller
(principal financial and accounting officer)

CERTIFICATION

I, Michael G. DeCata, 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 nine months (the registrant’s fourth fiscal nine months 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: July 26, 2018

/s/ Michael G. DeCata

Michael G. DeCata
President and Chief Executive Officer
(principal executive officer)

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 nine months (the registrant’s fourth fiscal nine months 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: July 26, 2018

/s/ Ronald J. Knutson

Ronald J. Knutson

Executive Vice President, Chief Financial Officer, Treasurer and Controller

(principal financial and accounting officer)

**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 June 30, 2018 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.

July 26, 2018

/s/ Michael G. DeCata
Michael G. DeCata
Lawson Products, Inc.
President and Chief Executive Officer
(principal executive officer)

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