# 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 March 31, 2020**

**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** | **36-2229304** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **8770 W. Bryn Mawr Avenue, Suite 900, Chicago, Illinois** | **60631** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(773) 304-5050**
**(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common stock, $1.00 par value | LAWS | NASDAQ Global Select Market |

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 | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | 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 April 15, 2020 was 8,996,267 .

## TABLE OF CONTENTS

**“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 the COVID-19 virus on the overall economy, demand for our products, our workforce, our supply chain and operating results;
- 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 lines 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 costs, tariffs and the cost of raw materials, including 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;
- Luther King Capital's significant influence over the Company given its ownership percentage; 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, 2019 and in this Quarterly Report on Form 10-Q for the period ended March 31, 2020 .

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)**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 4,095 | $ 5,495 |
| Restricted cash | 802 | 802 |
| Accounts receivable, less allowance for doubtful accounts of $793 and $593, respectively | 41,406 | 38,843 |
| Inventories, net | 56,182 | 55,905 |
| Miscellaneous receivables and prepaid expenses | 6,674 | 5,377 |
| **Total current assets** | 109,159 | 106,422 |
| | | |
| Property, plant and equipment, net | 15,662 | 16,546 |
| Deferred income taxes | 18,525 | 21,711 |
| Goodwill | 19,555 | 20,923 |
| Cash value of life insurance | 13,808 | 14,969 |
| Intangible assets, net | 11,276 | 12,335 |
| Right of use assets | 10,178 | 11,246 |
| Other assets | 252 | 277 |
| **Total assets** | $ 198,415 | $ 204,429 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 13,730 | $ 13,789 |
| Lease obligation | 3,825 | 3,830 |
| Accrued expenses and other liabilities | 18,960 | 39,311 |
| **Total current liabilities** | 36,515 | 56,930 |
| | | |
| Revolving line of credit | 10,460 | 2,271 |
| Security bonus plan | 11,677 | 11,840 |
| Lease obligation | 8,331 | 9,504 |
| Deferred compensation | 5,327 | 6,370 |
| Deferred tax liability | 5,994 | 6,188 |
| Other liabilities | 3,376 | 3,325 |
| **Total liabilities** | 81,680 | 96,428 |
| | | |
| **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<br>Issued - 9,190,171 shares<br>Outstanding - 8,996,267 and 9,043,771 shares, respectively | 9,190 | 9,190 |
| Capital in excess of par value | 18,528 | 18,077 |
| Retained earnings | 99,029 | 86,496 |
| Treasury stock – 193,904 and 146,400 shares, respectively | (7,517) | (5,761) |
| Accumulated other comprehensive loss | (2,495) | (1) |
| **Total stockholders' equity** | 116,735 | 108,001 |
| **Total liabilities and stockholders' equity** | $ 198,415 | $ 204,429 |

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 March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| Product revenue | $ 81,335 | $ 81,915 |
| Service revenue | 9,700 | 9,428 |
| **Total revenue** | 91,035 | 91,343 |
| | | |
| Product cost of goods sold | 37,805 | 38,007 |
| Service costs | 4,309 | 4,413 |
| **Gross profit** | 48,921 | 48,923 |
| | | |
| **Operating expenses:** | | |
| Selling expenses | 19,984 | 21,742 |
| General and administrative expenses | 10,299 | 21,637 |
| Operating expenses | 30,283 | 43,379 |
| **Operating income** | 18,638 | 5,544 |
| | | |
| Interest expense | (115) | (197) |
| Other income (expense), net | (1,111) | 472 |
| | | |
| **Income before income taxes** | 17,412 | 5,819 |
| Income tax expense | 4,879 | 1,673 |
| | | |
| **Net income** | $ 12,533 | $ 4,146 |
| | | |
| **Basic income per share of common stock** | $ 1.39 | $ 0.46 |
| | | |
| **Diluted income per share of common stock** | $ 1.34 | $ 0.44 |
| | | |
| **Weighted average shares outstanding:** | | |
| Basic weighted average shares outstanding | 9,032 | 8,962 |
| Effect of dilutive securities outstanding | 302 | 355 |
| Diluted weighted average shares outstanding | 9,334 | 9,317 |
| | | |
| **Comprehensive income:** | | |
| Net income | $ 12,533 | $ 4,146 |
| Other comprehensive income (expense), net of tax | | |
| Adjustment for foreign currency translation | (2,494) | 675 |
| Net comprehensive income | $ 10,039 | $ 4,821 |

See notes to condensed consolidated financial statements.

**Lawson Products, Inc.**
**Condensed Consolidated Statements of Changes in Stockholders' Equity**
**(Dollars in thousands)**
**(Unaudited)**

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | Outstanding Shares | $1 Par Value | | | | | |
| Balance at January 1, 2020 | 9,043,771 | $ 9,190 | $ 18,077 | $ 86,496 | $ (5,761) | $ (1) | $ 108,001 |
| Net income | — | — | — | 12,533 | — | — | 12,533 |
| Treasury shares repurchased | (47,504) | — | — | — | (1,756) | — | (1,756) |
| Adjustment for foreign currency translation | — | — | — | — | — | (2,494) | (2,494) |
| Stock-based compensation | — | — | 451 | — | — | — | 451 |
| Balance at March 31, 2020 | 8,996,267 | $ 9,190 | $ 18,528 | $ 99,029 | $ (7,517) | $ (2,495) | $ 116,735 |

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | Outstanding Shares | $1 Par Value | | | | | |
| Balance at January 1, 2019 | 8,955,930 | $ 9,006 | $ 15,623 | $ 77,338 | $ (1,234) | $ (1,560) | $ 99,173 |
| Change in accounting principle (1) | — | — | — | 1,937 | — | — | 1,937 |
| Net income | — | — | — | 4,146 | — | — | 4,146 |
| Adjustment for foreign currency translation | — | — | — | — | — | 675 | 675 |
| Stock-based compensation | — | — | 666 | — | — | — | 666 |
| Shares issued | 6,520 | 6 | (6) | — | — | — | — |
| Balance at March 31, 2019 | 8,962,450 | $ 9,012 | $ 16,283 | $ 83,421 | $ (1,234) | $ (885) | $ 106,597 |

(1) The Company adopted the ASC No.842, Leases (ASC 842) on January 1, 2019 using the modified retrospective approach.

See notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating activities:** | | |
| Net income | $ 12,533 | $ 4,146 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 1,509 | 1,478 |
| Stock-based compensation | (10,700) | 408 |
| Deferred income taxes | 3,196 | 1,427 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,528) | (6,273) |
| Inventories | (1,500) | (643) |
| Prepaid expenses and other assets | (223) | (2,314) |
| Accounts payable and other liabilities | (8,486) | (8,863) |
| Other | 311 | 133 |
| **Net cash used in operating activities** | $ (6,888) | $ (10,501) |
| **Investing activities:** | | |
| Purchases of property, plant and equipment | $ (551) | $ (248) |
| **Net cash used in investing activities** | $ (551) | $ (248) |
| **Financing activities:** | | |
| Net proceeds from the revolving line of credit | $ 8,189 | $ 2,308 |
| Repurchase treasury shares | (1,756) | — |
| Payment of financing lease principal | (67) | (52) |
| **Net cash provided by financing activities** | $ 6,366 | $ 2,256 |
| **Effect of exchange rate changes on cash and cash equivalents** | $ (327) | $ 213 |
| **Decrease in cash, cash equivalents and restricted cash** | (1,400) | (8,280) |
| Cash, cash equivalents and restricted cash at beginning of period | 6,297 | 12,683 |
| **Cash, cash equivalents and restricted cash at end of period** | $ 4,897 | $ 4,403 |
| Cash and cash equivalents | $ 4,095 | $ 3,603 |
| Restricted cash | 802 | 800 |
| Cash, cash equivalents and restricted cash | $ 4,897 | $ 4,403 |
| Supplemental disclosure of cash flow information | | |
| Net cash paid for income taxes | $ 198 | $ 99 |
| Net cash paid for interest | 147 | 167 |

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, 2019 . 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 month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020 .

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 House Ltd. ("Bolt Supply") operating segment, distributes MRO products primarily through its branches located in Western Canada. Bolt Supply had 14 branches in operation at the end of the first quarter 2020.

### Note 2 - Revenue Recognition

As part of the Company's revenue recognition analysis, it concluded that it has two separate performance obligations, and accordingly, two separate revenue streams: products and services. As a result, the Company reports two separate revenue streams and two separate costs of revenues. Under the definition of a contract as defined by ASC 606, 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.

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. 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 vendor managed inventory ("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 treats 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.

*Certain Judgments*

The Company employs certain 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 the estimated time spent on such activities applied to the expenses directly related to sales representatives that provide VMI services to the customer.

At March 31, 2020 , the Company had a deferred revenue liability of $0.7 million and a deferred expense of $0.3 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.

Disaggregated revenue by geographic area follows:

| | (Dollars in thousands) Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| United States | $ 73,584 | $ 74,048 |
| Canada | 17,451 | 17,295 |
| Consolidated total | $ 91,035 | $ 91,343 |

Disaggregated revenue by product type follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Fastening Systems | 22.8% | 23.5% |
| Fluid Power | 14.2% | 15.2% |
| Cutting Tools and Abrasives | 13.3% | 13.3% |
| Specialty Chemicals | 11.2% | 11.3% |
| Electrical | 10.8% | 11.5% |
| Aftermarket Automotive Supplies | 8.2% | 8.4% |
| Safety | 6.3% | 4.6% |
| Welding and Metal Repair | 1.4% | 1.7% |
| Other | 11.8% | 10.5% |
| Consolidated Total | 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) | |
|---|---|---|
| | March 31, 2020 | December 31, 2019 |
| Inventories, gross | $ 60,668 | $ 60,500 |
| Reserve for obsolete and excess inventory | (4,486) | (4,595) |
| Inventories, net | $ 56,182 | $ 55,905 |

**Note 5 - Goodwill**

Goodwill activity for the first three months of 2020 and 2019 is included in the table below:

| | (Dollars in thousands) Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Beginning balance | $ 20,923 | $ 20,079 |
| Impact of foreign exchange | (1,368) | 372 |
| Ending balance | $ 19,555 | $ 20,451 |

The Company identified an impairment "trigger event" for both the Lawson and Bolt reporting units as of March 31, 2020 due to adverse changes in the business climate related to COVID-19.

The quantitative impairment test determined that the Bolt reporting unit's fair value exceeded its carrying value by less than 10% . As of March 31, 2020 goodwill allocated to the Bolt reporting unit was $12.4 million .

Although the Company believes the projected future operating results and cash flows and related estimates regarding fair values were based on reasonable assumptions, it is reasonably possible that estimates made may be materially and adversely impacted in the near term as a result of the COVID-19 pandemic, including impairment losses related to goodwill.

**Note 6 - Intangible Assets**

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

| | (Dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | December 31, 2019 | | |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Trade names | $ 7,890 | $ (2,067) | $ 5,823 | $ 8,422 | $ (2,020) | $ 6,402 |
| Customer relationships | 6,980 | (1,527) | 5,453 | 7,337 | (1,404) | 5,933 |
| | $ 14,870 | $ (3,594) | $ 11,276 | $ 15,759 | $ (3,424) | $ 12,335 |

Amortization expense of $0.3 million related to intangible assets was recorded in General and administrative expenses for the three months ended March 31, 2020 and 2019 , respectively.

The Company identified an impairment "trigger event" as of March 31, 2020 due to adverse changes in the business climate related to COVID-19. In accordance with ASC 350, the Company tested the definite life intangible assets and determined that the undiscounted future cash flows exceeded the net carrying value of the intangible assets.

**Note 7 - Leases**

The Company leases property used for distribution centers, office space, and Bolt branch locations throughout the US and Canada, along with various equipment located in distribution centers and corporate headquarters. The Company is also a lessor of its Decatur, Alabama property previously used in conjunction with a discontinued operation.

*Lawson Operating Leases*

Lawson MRO primarily has two types of leases: leases for real estate and leases for equipment. Operating real estate leases that have a material impact on the operations of the Company are related to the Company's distribution network and headquarters. The Company possesses several additional property leases that are month to month basis and are not material in nature. Lawson MRO does not possess any leases that have residual value guarantees. Several property leases include renewal clauses which vary in length and may not include specific rent renewal amounts. The Company will revise the value of the right of use assets and associated lease liabilities when the Company is reasonably certain it will renew a lease.

The value of the Right Of Use ("ROU") assets and associated lease liabilities is calculated using the total cash payments over the course of the lease, discounted to the present value using the appropriate incremental borrowing rate. The right of use asset will be amortized over its useful life. The lease liability is reduced in conjunction with the lease payments made, with adjustments made to the lease liability in order to account for non-straight line cash payments through the life of the lease.

Bolt primarily leases the real estate for its branch locations as well as its distribution center in Calgary, Alberta. Bolt possesses additional property leases that are month to month and not material in nature. Bolt property leases include renewal clauses which vary in length and may not include specific rent renewal amounts. The Company will revise the value of the right of use asset and associated lease liability when the Company is reasonably certain it will renew a lease.

*Significant Assumptions*

The Company is required to determine a discount rate for the present value of lease payments. If the rate is not included in the lease or cannot be readily determined, the Company must estimate the incremental borrowing rate to be used for the discount rate. The discount rate of Lawson MRO and Bolt will be reviewed on a periodic basis and updated as needed.

The expenses and income generated by the leasing activity of Lawson as lessee for the three months ending March 31, 2020 and 2019 are as follows (Dollars in thousands):

| | | Three Months Ended March 31, | |
|---|---|---|---|
| Lease Type | Classification | 2020 | 2019 |
| Consolidated Operating Lease Expense [1] | Operating expenses | $ 1,187 | $ 1,195 |
| Consolidated Financing Lease Amortization | Operating expenses | 52 | 48 |
| Consolidated Financing Lease Interest | Interest expense | 7 | 6 |
| Consolidated Financing Lease Expense | | 59 | 54 |
| Sublease Income [2] | Operating expenses | — | (80) |
| Net Lease Cost | | $ 1,246 | $ 1,169 |

[1] Includes short term lease expense, which is immaterial
[2] Sublease income from sublease of a portion of the Company headquarters. The sublease was terminated in June 2019 and the Company has no other subleases.

The value of the net assets and liabilities generated by the leasing activity of Lawson as lessee as of March 31, 2020 and December 31, 2019 are as follows (Dollars in thousands):

| Lease Type | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Total ROU operating lease assets [1] | $ 9,573 | $ 10,592 |
| Total ROU financing lease assets [2] | 605 | 654 |
| Total lease assets | $ 10,178 | $ 11,246 |
| | | |
| Total current operating lease obligation | $ 3,580 | $ 3,591 |
| Total current financing lease obligation | 245 | 239 |
| Total current lease obligations | $ 3,825 | $ 3,830 |
| | | |
| Total long term operating lease obligation | $ 8,021 | $ 9,133 |
| Total long term financing lease obligation | 310 | 371 |
| Total long term lease obligation | $ 8,331 | $ 9,504 |

[1] Operating lease assets are recorded net of accumulated amortization of $3.9 million and $2.8 million as of March 31, 2020 and December 31, 2019, respectively
[2] Financing lease assets are recorded net of accumulated amortization of $0.3 million and $0.2 million as of March 31, 2020 and December 31, 2019, respectively

The value of the lease liabilities generated by the leasing activities of Lawson as lessee as of March 31, 2020 were as follows (Dollars in thousands):

| Maturity Date of Lease Liabilities | Operating Leases | Financing Leases | Total |
|---|---|---|---|
| Year one | $ 4,069 | $ 268 | $ 4,337 |
| Year two | 4,081 | 174 | 4,255 |
| Year three | 2,612 | 110 | 2,722 |
| Year four | 1,055 | 43 | 1,098 |
| Year five | 240 | — | 240 |
| Subsequent years | 517 | — | 517 |
| Total lease payments | 12,574 | 595 | 13,169 |
| Less: Interest | 973 | 40 | 1,013 |
| Present value of lease liabilities | $ 11,601 | $ 555 | $ 12,156 |

(1) Minimum lease payments exclude payments to landlord for real estate taxes and common area maintenance of $0.2 million

The weighted average lease terms and interest rates of the leases held by Lawson as of March 31, 2020 are as follows:

| Lease Type | Weighted Average Term in Years | Weighted Average Interest Rate |
|---|---|---|
| Operating Leases | 3.5 | 5.1% |
| Financing Leases | 2.7 | 5.4% |

The cash outflows of the leasing activity of Lawson as lessee for the three months ending March 31, 2020 are as follows (Dollars in thousands):

| Cash Flow Source | Classification | Amount |
|---|---|---|
| Operating cash flows from operating leases | Operating activities | $ 992 |
| Operating cash flows from financing leases | Operating activities | 7 |
| Financing cash flows from financing leases | Financing activities | 67 |

**Note 8 — Credit Agreement**

In the fourth quarter of 2019, the Company entered into a five-year credit agreement led by J.P. Morgan Chase Bank N.A, as administrative agent, and including CIBC Bank USA and Bank of America, N.A. as other lenders. The credit agreement matures on October 11, 2024 and provides for $100.0 million of revolving commitments. The credit agreement allows borrowing capacity to increase to $150.0 million subject to meeting certain criteria and additional commitments from its lenders.

The Credit Agreement consists of borrowings as alternate base rate loans, Canadian prime rate loans, Eurodollar loans, and Canadian dollar offered rate loans as the Company requests. The applicable interest rate spread is determined by the type of borrowing used and the Total Net Leverage Ratio as of the most recent fiscal quarter as defined in the Credit Agreement.

At March 31, 2020 , the Company had $10.5 million of borrowings and had $87.5 million of credit availability remaining, net of outstanding letters of credit. The weighted average interest rate was 4.04% for the three months ended March 31, 2020 .

The covenants associated with the Credit Agreement restrict the ability of the Company to, among other things: incur additional indebtedness and liens, make certain investments, merge or consolidate, engage in certain transactions such as the disposition of assets and sales-leaseback transactions, and make certain restricted cash payments such as dividends in excess of defined amounts contained within the Credit Agreement. In addition to these items and other customary terms and conditions, the Credit Agreement requires the Company to comply with certain financial covenants as follows:

a) The Company is required to maintain an EBITDA to Fixed Charge Coverage Ratio of at least 1.15 to 1.00 for any period of four consecutive fiscal quarters ending on the last day of any fiscal quarter; and

b) The Company is required to maintain a Total Net Leverage Ratio of no more than 3.25 to 1.00 on the last day of any fiscal quarter. The maximum Total Net Leverage Ratio will be allowed to increase to 3.75 to 1.00 after certain permitted acquisitions.

The Credit Agreement also includes events of default for, among others, non-payment of obligations under the Credit Agreement, change of control, cross default to other indebtedness in an aggregate amount in excess of $5.0 million , failure to comply with covenants, and insolvency.

In addition to other customary representations, warranties and covenants, the results of the financial covenants are provided below:

| Quarterly Financial Covenants | Requirement | Actual |
|---|---|---|
| EBITDA to fixed charges ratio | 1.15 : 1.00 | 7.13 : 1.00 |
| Total net leverage ratio | 3.25 : 1.00 | 0.19 : 1.00 |

As of March 31, 2020 , the Company was in compliance with its required debt covenants.

**Note 9 - Stock Repurchase Program**

In the second quarter of 2019, the Board of Directors authorized a program in which the Company may repurchase up to $7.5 million of the Company's common stock from time to time in open market transactions, privately negotiated transactions or by other methods. In the first quarter of 2020 the Company purchased 47,504 shares of common stock at an average purchase price of $36.93 under the repurchase program.

**Note 10 — Severance Reserve**

Changes in the Company’s reserve for severance as of March 31, 2020 and 2019 were as follows:

| | (Dollars in thousands) Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Balance at beginning of period | $ 909 | $ 359 |
| Charged to earnings | 7 | 27 |
| Payments | (365) | (123) |
| Balance at end of period | $ 551 | $ 263 |

**Note 11 — Stock-Based Compensation**

The Company recorded a stock-based compensation benefit of $10.7 million and expense of $0.4 million for the first three months of 2020 and 2019, respectively. The majority of the stock-based compensation benefit is related to the change in the market value of the Company's common stock. The accrued liability for previously issued Stock Performance Rights ("SPRs") decreased from $14.9 million on December 31, 2019 to $3.7 million on March 31, 2020 primarily due to the change in the market value of the Company's common stock. A summary of stock-based awards issued during the three months ended March 31, 2020 follows:

*Restricted Stock Units ("RSUs")*

The Company issued 6,847 RSUs to key employees that cliff vest on December 31, 2022. The Company issued 2,500 RSUs to an executive that cliff vest on March 2, 2023 and 3,000 RSUs that cliff vest of March 9, 2023. Each RSU 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 22,284 MSUs to key employees that cliff vest on December 31, 2022. MSUs 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 33,426 shares, will be determined based upon the trailing sixty-day average closing price of the Company's common stock on December 31, 2022.

*Performance Awards ("PAs")*

The Company issued 10,852 PAs to key employees that cliff vest on December 31, 2022. PAs are exchangeable for the Company's common stock ranging from zero to 16,278 shares, or the equivalent amount in cash, based upon the achievement of certain financial performance metrics.

**Note 12 — Income Taxes**

The Company recorded income tax expense of $4.9 million , a 28.0% effective tax rate, for the three months ended March 31, 2020 . The effective tax rate is higher than the U.S. statutory rate due primarily to state taxes and the recording of reserves for uncertain tax positions. Income tax expense of $1.7 million , a 28.8% effective tax rate, was recorded for the three months ended March 31, 2019 , which also was higher than the U.S. Statutory rate due primarily to state taxes, income in higher tax jurisdictions and an inclusion for global intangible low taxed income. Cash paid for income taxes was $0.2 million and $0.1 million in the first three months of 2020 and 2019, respectively.

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 March 31, 2020 , the Company is subject to U.S. Federal income tax examinations for the years 2016 through 2018 and income tax examinations from various other jurisdictions for the years 2012 through 2018.

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 13 — 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.

The remediation plan was approved by ADEM in 2018. The plan consists of chemical injections throughout the affected area, as well as subsequent monitoring of the area for three consecutive periods. The injection process was completed in the first quarter of 2019 and the environmental consulting firm is monitoring the affected area. The Company believes the minimal remaining environmental remediation liability, classified within Accrued expenses and other liabilities on the accompanying Consolidated Balance Sheet, will be sufficient to cover the remaining cost of the plan.

**Note 14 – Segment Information**

The Company operates in two reportable segments. The businesses have been 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 branch locations. Bolt Supply had 14 branches in operation at the end of the first quarter of 2020.

Financial information for the Company's reportable segments follows:

| | (Dollars in thousands) Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Revenue | | |
| Lawson product revenue | $ 71,791 | $ 73,039 |
| Lawson service revenue | 9,700 | 9,428 |
| Total Lawson revenue | 81,491 | 82,467 |
| Bolt Supply | 9,544 | 8,876 |
| Consolidated total | $ 91,035 | $ 91,343 |
| Gross profit | | |
| Lawson product gross profit | $ 39,729 | $ 40,604 |
| Lawson service gross profit | 5,391 | 5,015 |
| Total Lawson gross profit | 45,120 | 45,619 |
| Bolt Supply | 3,801 | 3,304 |
| Consolidated total | $ 48,921 | $ 48,923 |
| Operating income | | |
| Lawson | $ 18,094 | $ 5,458 |
| Bolt Supply | 544 | 86 |
| Consolidated total | 18,638 | 5,544 |
| Interest expense | (115) | (197) |
| Other income (expense), net | (1,111) | 472 |
| Income before income taxes | $ 17,412 | $ 5,819 |

**Note 15 - COVID-19 Risks and Uncertainties**

In March 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 pandemic has yet to be realized as of the date of this report. There is substantial uncertainty as to the overall effect the pandemic will have on the results of the Company for the rest of 2020 and beyond. Various events related to COVID-19 have resulted in lost revenue to our Company, limitations on our ability to source high demand products, limitations on our sales force to perform certain functions due to state or federal stay-at-home orders, slow-down of customer demand for our products and limitations of some customers to pay us on a timely basis.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide certain relief as a result of the COVID-19 outbreak. The Company has elected to defer the employer side social security payments in accordance with the CARES Act. The Company is currently evaluating how these provisions in the CARES Act will impact its financial position, results of operations and cash flows.

In the first quarter of 2020, the government of the state of Illinois defined essential businesses, allowing Lawson to operate during the pandemic. A change in this status could result in the temporary closure of our business. Additionally the COVID-19 pandemic could result in a temporary closure of any or all of our distribution facilities or the Bolt branch locations, which would negatively impact our operations. Other disruptions to our supply chain such as reduced capacity or temporary shutdowns of freight carriers could also negatively impact Company performance. The pandemic is negatively impacting sales and operations currently and may negatively impact future financial results, liquidity and overall performance of the Company. Additionally, it is reasonably possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions, including delay in payment of receivables, impairment losses related to goodwill and other long-lived assets, and inability to utilize deferred tax assets.

The Lawson MRO business model relies upon customer interaction as well as a consistent schedule of onsite visits by our sales reps to customer locations. The Bolt business model relies on foot traffic in its branch locations. The onset of the COVID-19 pandemic, as well as social distancing guidelines and government mandated shelter in place orders, have negatively impacted our business.

The Company has taken several steps to mitigate the potential negative impacts of COVID-19. Lawson sales representatives continue to reach out to all customers with a portion via phone, fax and internet-based communications. Bolt branches remain open and are offering curbside pickup for customer orders to maintain social distancing. Our sales team and finance team continue to monitor our customers' liquidity and receivables balances, as well as monitor customers who have reduced hours of operation or have shut down temporarily. Management continues to be in contact with current suppliers and is reaching out to additional suppliers to ensure that orders for inventory are fulfilled in a timely manner.

The Company continues to monitor its balance sheet and liquidity position and is taking actions to protect cash flows from operations. At March 31, 2020, the Company had $4.1 million of cash and cash equivalents and an additional $87.5 million of borrowing capacity under its committed credit facility and a similar amount available as of the date of this report. During April 2020, the Company has taken numerous actions, including, but not limited to furloughing approximately 100 employees, reducing salaries, canceling travel and award trips, consolidating its Suwanee distribution center operations into the McCook facility, and eliminating non-critical capital expenditures.

The Company is closely monitoring the operating environment and will take all necessary actions to ensure safety for our employees, customers and suppliers while continuing to meet its working capital needs and remain in compliance with its debt covenants.

## 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 50.0 in the first quarter of 2020 compared to 55.4 in the first quarter of 2019 , indicating a flat rate of growth in the U.S. manufacturing economy in the first quarter of 2020 compared to an expansion in the U.S. manufacturing economy a year ago.

Our sales are also affected by the number of sales representatives and their productivity. Our sales force increased to an average of 998 sales representatives in the first quarter of 2020 from 991 sales representatives during the first quarter of 2019. Our Lawson segment sales representative productivity, measured as sales per rep per day, decreased 3.1% to $1,268 in the first quarter of 2020 from $1,308 in the first quarter of 2019.

### COVID-19 Pandemic

In March 2020, the World Health Organization declared a new strain of coronavirus ("COVID-19") a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility in financial markets. There is substantial uncertainty as to the overall effect the pandemic will have on the results of the Company for the rest of 2020 and beyond. Various events related to COVID-19 have resulted in lost revenue to our Company, limitations on our ability to source high demand products, limitations on our sales force to perform certain functions due to state or federal stay-at-home orders, slow-down of customer demand for our products and limitations of some customers to pay us on a timely basis.

In the first quarter of 2020, the government of the state of Illinois defined essential businesses, allowing Lawson to operate during the pandemic. A change in this status could result in the temporary closure of our business. Additionally the COVID-19 pandemic could result in a temporary closure of any or all of our distribution facilities or the Bolt branch locations, which would negatively impact our operations. Other disruptions to our supply chain such as reduced capacity or temporary shutdowns of freight carriers could also negatively impact Company performance. The pandemic is negatively impacting sales and operations currently and may negatively impact future financial results, liquidity and overall performance of the Company.

Our MRO business model relies upon customer interaction as well as a consistent schedule of onsite visits by our sales reps to customer locations in order to generate sales, provide vendor managed inventory services and maintain relationships with customers. Our Bolt Supply business model relies on foot traffic in its branch locations and the ability of customers to visit these locations. The onset of the COVID-19 pandemic, as well as social distancing guidelines and government mandated shelter in place orders, have negatively impacted our business. It is unknown at this time how long these circumstances will exist, when the restrictions will be relaxed, and if these restrictions will be reintroduced at a future date. The pandemic is negatively impacting sales and operations currently and may negatively impact our future financial results, liquidity and overall operating performance.

We have undertaken a number of steps in order to mitigate the effects of COVID-19. Our MRO sales reps continue to reach out to all customers with a portion via phone, fax and internet-based communications. Some of the normal customer service provided by our sales reps has been affected by social distancing guidelines and shelter in place orders. Certain customers have also temporarily reduced business hours or shut down entirely. All 14 Bolt branches have remained open and have introduced curbside pickup for customers. Bolt also ships to customers who order product over the phone. We continue to keep in contact with our current suppliers and we have reached out to additional suppliers to ensure that orders for inventory are fulfilled in a timely manner and our supply chain will remain intact.

We are closely monitoring the Company's balance sheet and liquidity position and are taking actions to protect cash flows from operations. We remain in contact with our lending institutions to ensure that we will continue to have proper liquidity to fund working capital requirements. At March 31, 2020, the Company had $4.1 million of cash and cash equivalents and an additional $87.5 million of borrowing capacity under its committed credit facility and a similar amount available as of the date of this report. Sales reps and our finance group are working in concert to ensure that any customer liquidity issues are quickly identified and credit is carefully extended to customers who are able to pay.

The Company has taken various actions, including, but not limited to furloughing approximately 100 employees, reducing salaries, canceling of travel and award trips, consolidating its Suwanee distribution center operations into the McCook facility, and eliminating non-critical capital expenditures. Looking ahead, we will take all necessary actions that ensure safety for our employees, customers and suppliers to meet our working capital requirements and remain in compliance with our debt covenants.

**Quarter ended March 31, 2020 compared to quarter ended March 31, 2019**

| (Dollars in thousands) | 2020 Amount | 2020 % of Net Sales | 2019 Amount | 2019 % of Net Sales |
|---|---|---|---|---|
| Revenue | $ 91,035 | 100.0 % | $ 91,343 | 100.0 % |
| Cost of goods sold | 42,114 | 46.3 % | 42,420 | 46.4 % |
| Gross profit | 48,921 | 53.7 % | 48,923 | 53.6 % |
| Operating expenses: | | | | |
| Selling expenses | 19,984 | 22.0 % | 21,742 | 23.8 % |
| General and administrative expenses | 10,299 | 11.3 % | 21,637 | 23.7 % |
| Total operating expenses | 30,283 | 33.3 % | 43,379 | 47.5 % |
| Operating income | 18,638 | 20.5 % | 5,544 | 6.1 % |
| Interest expense | (115) | (0.1)% | (197) | (0.2)% |
| Other (expense) income, net | (1,111) | (1.3)% | 472 | 0.5 % |
| Income before income taxes | 17,412 | 19.1 % | 5,819 | 6.4 % |
| Income tax expense | 4,879 | 5.3 % | 1,673 | 1.9 % |
| Net income | $ 12,533 | 13.8 % | $ 4,146 | 4.5 % |

***Non-GAAP Financial Measure - Adjusted Operating Income***

We believe that certain non-GAAP financial measures may provide users of this financial information with additional meaningful comparisons between current results and results in prior operating periods. We believe that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain infrequently occurring, seasonal or non-operational items that impact the overall comparability. These non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

Adjusted operating income is defined by us as GAAP operating income excluding stock-based compensation and severance expense items in the period in which these items are incurred.

Operating income was $18.6 million for 2020 inclusive of a $10.7 million benefit from stock-based compensation compared to $5.5 million in 2019 which included $0.4 million of stock-based compensation expense. Excluding stock-based compensation and severance, adjusted operating income increased to $7.9 million in 2020 from $6.0 million in 2019 on improved sales margins and leveraging operating costs.

**Reconciliation of GAAP Operating Income to Adjusted Non-GAAP Operating Income (Unaudited)**

| (Dollars in Thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| Operating income as reported per GAAP | $ 18,638 | $ 5,544 |
| Stock-based compensation [(1)] | (10,700) | 408 |
| Severance expense | 7 | 27 |
| Adjusted non-GAAP operating Income | $ 7,945 | $ 5,979 |

(1) Expense for stock-based compensation, of which a portion varies with the Company's stock price

*Revenue and Gross Profits*

| (Dollars in thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Increase Amount | Increase % |
|---|---|---|---|---|
| Revenue | | | | |
| Lawson | $ 81,491 | $ 82,467 | $ (976) | (1.2)% |
| Bolt Supply | 9,544 | 8,876 | 668 | 7.5% |
| Consolidated | $ 91,035 | $ 91,343 | $ (308) | (0.3)% |
| | | | | |
| Gross profit | | | | |
| Lawson | $ 45,120 | $ 45,619 | $ (499) | (1.1)% |
| Bolt Supply | 3,801 | 3,304 | 497 | 15.0% |
| Consolidated | $ 48,921 | $ 48,923 | $ (2) | —% |
| | | | | |
| Gross profit margin | | | | |
| Lawson | 55.4% | 55.3% | | |
| Bolt Supply | 39.8% | 37.2% | | |
| Consolidated | 53.7% | 53.6% | | |

Total sales were $91.0 million in the first quarter of 2020 , which were essentially flat compared to the first quarter of 2019 . Sales were negatively impacted by the overall effect of the onset of the COVID-19 pandemic in the middle of March 2020 as well as decreases in sales to our Government customers during the quarter.

The Lawson segment total sales were negatively impacted by a 3.1% decline in sales productivity of Lawson sales representatives, which was partially offset by a 7.5% improvement in Bolt Supply sales. Average daily sales declined to $1.422 million in the first quarter of 2020 compared to $1.450 million in the prior year quarter. The first quarter 2020 had one more selling day compared to the first quarter 2019. Excluding the impact of currency fluctuations, consolidated sales increased 0.2% for the quarter.

*Gross Profit*

Gross profit was $48.9 million in the first quarter of 2020 , essentially flat compared to the first quarter of 2019 . This was primarily due to a slight decrease in sales, offset by an increase of service-related costs. Consolidated gross profit as a percent of sales was 53.7% compared to 53.6% a year ago. The organic Lawson MRO segment gross margin, before reclassification of service-related costs, as a percent of sales of 60.8% in the first quarter 2020, was flat compared to a year ago quarter before giving effect to the prior year service-related costs.

.

*Selling, General and Administrative Expenses*

| (Dollars in thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Increase (Decrease) Amount | Increase (Decrease) % |
|---|---|---|---|---|
| Selling expenses | | | | |
| Lawson | $ 19,187 | $ 20,953 | $ (1,766) | (8.4)% |
| Bolt Supply | 797 | 789 | 8 | 1.0% |
| Consolidated | $ 19,984 | $ 21,742 | $ (1,758) | (8.1)% |
| | | | | |
| General and administrative expenses | | | | |
| Lawson | $ 7,839 | $ 19,208 | $ (11,369) | (59.2)% |
| Bolt Supply | 2,460 | 2,429 | 31 | 1.3% |
| Consolidated | $ 10,299 | $ 21,637 | $ (11,338) | (52.4)% |

Selling expenses consist of compensation and support for our sales representatives. Selling expenses were $20.0 million in the first quarter of 2020 compared to $21.7 million in the prior year quarter and, as a percent of sales, decreased to 22.0% from 23.8% in the first quarter of 2019 . The decrease in selling expense as a percent of sales compared to the prior year quarter is primarily due to lower incentives, travel, and commission due to the impact of COVID-19 in the second half of March and better leveraging our fixed selling expenses.

General and administrative expenses consist of expenses to operate our distribution network and overhead expenses to manage the business. General and administrative expenses decreased to $10.3 million in the first quarter of 2020 from $21.6 million in the prior year quarter. The lower general and administrative expense was primarily driven by $10.7 of stock based compensation benefit, of which a portion fluctuates with the Company's stock price, compared to the prior year quarter.

Additionally, expenses decreased in the first quarter of 2020 due to reduced accruals in response to the onset of COVID-19, which were partially offset by higher bad debt expense and administrative costs.

*Interest Expense*

Interest expense decreased to $0.1 million compared to $0.2 million in the first quarter of 2020 and 2019 primarily, as a result of lower outstanding borrowing levels.

*Other Income (Expense), Net*

Other income (expense), net increased $1.6 million in the first quarter of 2020 over the prior year quarter primarily due to the effect of a change in the Canadian currency exchange rate.

*Income Tax Expense*

Income tax expense was $4.9 million , resulting in a 28.0% effective tax rate for the three months ended March 31, 2020 compared to income tax expense of $1.7 million and an effective tax rate of 28.8% for the three months ended March 31, 2019 .

**Liquidity and Capital Resources**

Available cash and cash equivalents were $4.1 million on March 31, 2020 compared to $5.5 million on December 31, 2019. Net cash used by operations were $6.9 million and $10.5 million for the three months ended March 31, 2020 and 2019, respectively. Cash generated from operating earnings were more than offset by an increase in accounts receivable, primarily to support the sequential increase in sales over the fourth quarter of 2019, and payments primarily for incentives and other accruals that existed at December 31, 2019.

Capital expenditures, primarily for improvements to our distribution centers and information technology, were $0.6 million and $0.2 million for the three month periods ended March 31, 2020 and 2019, respectively.

The Company generated $6.4 million of cash from financing activities in the first three months of 2020 primarily through borrowings on its revolving lines of credit offset by the repurchase of its shares.

In the second quarter of 2019, our Board of Directors authorized a program in which we may repurchase up to $7.5 million of our common stock from time to time in open market transactions, privately negotiated transactions or by other methods. In the first quarter of 2020 the Company purchased 47,504 shares of its common stock at an average purchase price of $36.93 under the repurchase program. At March 31, 2020 the Company had $4.5 million remaining availability under the program to purchase its common stock in the future

*Lawson Loan Agreements*

On March 31, 2020 , we had $10.5 million of borrowings under our Credit Agreement and we had $87.5 million of credit availability remaining, net of outstanding letters of credit. No dividends were paid to shareholders in the three months ended March 31, 2020 and 2019.

Along with certain standard terms and conditions of our Credit Agreement, we are able to borrow up to a maximum ratio of our EBITDA to net borrowings of 3.25 times, as defined, and a minimum fixed charge ratio, as defined, of 1.15 . As of March 31, 2020 , we were in compliance with all covenants.

We believe cash provided by operations and funds available under our Credit Agreement are sufficient to fund our operating requirements, strategic initiatives and capital improvements, including the potential impact of COVID-19 on our operations over the next 12 months although we cannot assure you the events beyond our control will not have an adverse impact on our liquidity.

. While we were in compliance with the financial covenant for the quarter ended March 31, 2020 , failure to meet the covenant requirements of the new credit agreement 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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3 of Part I is inapplicable and has been omitted from this report.

## 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 March 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II
# OTHER INFORMATION

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

## ITEM 1A. RISK FACTORS

Other than the risk factor related to COVID-19 as set forth below, there have been no material changes from the risk factors disclosed in our Annual Report in Part I, Item 1A of the Form 10-K filed on February 27, 2020.

### COVID-19

In March 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The impact of the COVID-19 pandemic on our operational and financial performance includes affecting our ability to execute our business strategies and initiatives in the expected time frame. The extent of the effect will depend on future developments, including the duration and spread of the pandemic and related restrictions on travel, transports and person to person contact, all of which are uncertain and cannot be predicted at the present time. An extended period of global supply chain and economic disruption could materially affect our sales, workforce, supply chains, results of operations, and our ability to access our Credit Agreement to fund operations.

In the first quarter of 2020, the government of the state of Illinois defined essential businesses, allowing us to operate during the pandemic. A change in this status could result in the temporary closure of our business. Additionally the COVID-19 pandemic could result in a temporary closure of any or all of our distribution facilities or the Bolt branch locations, which would negatively impact our operations. Other disruptions to our supply chain such as reduced capacity or temporary shutdowns of freight carriers could also negatively impact Company performance.

Our sales results could be negatively impacted by social distancing guidelines and government mandated shelter in place orders that would prevent our sales representatives in our MRO business segment from visiting customers in person. Shelter in place orders would also reduce customer visits to our Bolt branch locations. Customers who have reduced operations or temporarily shut down in response to COVID-19 would also negatively impact sales and our ability to collect on existing credit balances. Vendors who are negatively impacted by COVID-19 may temporarily shut down operations or have difficulty obtaining inventory, which could negatively impact our ability to fulfill customer orders.

Certain items on our balance sheet require judgments on their valuation, including intangible assets and goodwill. These valuations are based on assumptions that take future financial performance into account. COVID-19 may have a detrimental impact to our future financial performance that would require us to revise assumptions about future financial performance and impair the value of these assets.

All Lawson employees have been encouraged to follow the recommended social distancing guidelines and work remotely whenever possible to reduce the spread of COVID-19 during the pandemic. The increased number of employees working remotely can exacerbate the risks previously mentioned in regards to internal controls and cybersecurity.

Table of Contents

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the repurchases of the Company's common stock for the three months ended March 31, 2020 .

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1 to January 31, 2020 | — | $ — | — | $ 6,266,000 |
| February 1 to February 29, 2020 | — | — | — | 6,266,000 |
| March 1 to March 31, 2020 (1) | 47,504 | 36.93 | 47,504 | 4,512,000 |
| Total | 47,504 | | 47,504 | |

(1) Shares were purchased on the open market under the Company's stock repurchase program approved in the second quarter of 2019 which authorized the Company to purchase $7.5 million of the Company's common stock.

## ITEM 6. EXHIBITS

| Exhibit # | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.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: April 30, 2020 | /s/ Michael G. DeCata |
| | Michael G. DeCata<br>President and Chief Executive Officer<br>(principal executive officer) |
| Dated: April 30, 2020 | /s/ Ronald J. Knutson |
| | Ronald J. Knutson<br>Executive Vice President, Chief Financial Officer, Treasurer and Controller<br>(principal financial and accounting officer) |

**Exhibit 31.1**

**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: April 30, 2020

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

**Exhibit 31.2**

**CERTIFICATION**

I, Ronald J. Knutson, certify that:

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

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal 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: April 30, 2020

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

**Exhibit 32**

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

In connection with the Quarterly Report of Lawson Products, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2020 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.

April 30, 2020

/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)