

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

Quarterly Report under Section 13 or 15(d) of
The Securities Exchange Act of 1934

For Quarter Ended March 31, 2000

Commission file no. 0-10546

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2229304

(State or other jurisdiction of
incorporation or organization)

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

1666 East Touhy Avenue, Des Plaines, Illinois

60018

(Address of principal executive offices)

(Zip Code)

Registrant's telephone no., including area code: (847) 827-9666

Not applicable

Former name, former address and former fiscal year,
if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 10,001,922 Shares, \$1 par value, as of April 17, 2000.

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LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	March 31, 2000	December 31, 1999
	-----	-----
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,527	\$ 11,975
Marketable securities	12,244	12,282
Accounts receivable, less allowance for doubtful accounts	40,491	41,108
Inventories (Note B)	53,770	55,485
Miscellaneous receivables and prepaid expenses	8,487	8,029
Deferred income taxes	1,405	1,389
	-----	-----
Total Current Assets	129,924	130,268

Marketable securities	4,887	4,695
Property, plant and equipment, less allowances for depreciation and amortization	41,437	41,989
Investments in real estate	4,288	4,108
Deferred income taxes	9,055	8,784
Other assets	27,589	26,147
	-----	-----
Total Assets	\$ 217,180	\$ 215,991
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,616	\$ 8,249
Accrued expenses and other liabilities	23,724	25,845
Income taxes	7,002	4,332
	-----	-----
Total Current Liabilities	38,342	38,426
	-----	-----
Accrued liability under security bonus plans	16,992	16,494
Other	11,390	11,031
	-----	-----
	28,382	27,525
	-----	-----
Stockholders' Equity:		
Preferred Stock, \$1 par value:		
Authorized - 500,000 shares		
Issued and outstanding - None		
	--	--
Common Stock, \$1 par value:		
Authorized - 35,000,000 shares		
Issued and outstanding - (2000- 10,016,922 shares; 1999 - 10,203,922 shares)		
	10,017	10,204
Capital in excess of par value	704	717
Retained earnings	140,940	140,201
Accumulated other comprehensive income	(1,205)	(1,082)
	-----	-----
Total Stockholders' Equity	150,456	150,040
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 217,180	\$ 215,991
	=====	=====

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands, except per share data)

	For the Three Months Ended March 31,	
	2000	1999
	-----	-----
Net sales	\$83,710	\$74,148
Cost of goods sold (Note B)	29,914	25,837
	-----	-----
Gross Profit	53,796	48,311
Selling, general and administrative expenses	43,454	39,925
	-----	-----
Operating income	10,342	8,386
Investment and other income	566	606
	-----	-----
Income before income taxes	10,908	8,992
Provision for income taxes	4,463	3,715
	-----	-----
Net income	<u>\$ 6,445</u>	<u>\$ 5,277</u>
Net income per share of common stock:		
Basic	<u>\$ 0.64</u>	<u>\$ 0.50</u>
Diluted	<u>\$ 0.64</u>	<u>\$ 0.50</u>
Cash dividends declared per share of common stock	<u>\$ 0.15</u>	<u>\$ 0.14</u>
Weighted average shares outstanding:		
Basic	<u>10,093</u>	<u>10,651</u>
Diluted	<u>10,098</u>	<u>10,651</u>

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands)

	For the Three Months Ended March 31,	
	2000	1999
Operating activities:		
Net income	\$ 6,445	\$ 5,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,560	1,594
Changes in operating assets and liabilities	(37)	26
Other	553	325
	8,521	7,222
Investing activities:		
Additions to property, plant and equipment	(871)	(2,546)
Purchases of marketable securities	(14,460)	(36,355)
Proceeds from sale of marketable securities	14,298	36,617
Other	--	15
	(1,033)	(2,269)
Financing activities:		
Purchases of treasury stock	(4,404)	(841)
Dividends paid	(1,532)	(1,493)
	(5,936)	(2,334)
Increase in Cash and Cash Equivalents	1,552	2,619
Cash and Cash Equivalents at Beginning of Period	11,975	13,872
Cash and Cash Equivalents at End of Period	\$ 13,527	\$ 16,491

See notes to condensed consolidated financial statements.

Part I

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the Company's Annual Report on Form 10-K for the year ended December 31, 1999. The Condensed Consolidated Balance Sheet as of March 31, 2000, the Condensed Consolidated Statements of Income for the three month periods ended March 31, 2000 and 1999 and the Condensed Consolidated Statements of Cash Flows for the three month periods ended March 31, 2000 and 1999 are unaudited. In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) have been made, which are necessary to present fairly the results of operations for the interim periods. Operating results for the quarter ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

B) Inventories (consisting of primarily finished goods) at March 31, 2000 and cost of goods sold for the three month periods ended March 31, 2000 and 1999 were determined through the use of estimated gross profit rates. The difference between actual and estimated gross profit is adjusted in the fourth quarter. In 1999, this adjustment increased net income by approximately \$1,689,000.

C) Total comprehensive income and its components, net of related tax, for the first quarter of 2000 and 1999 are as follows (in thousands):

	2000	1999
	----	----
Net income	\$ 6,445	\$ 5,277
Unrealized losses on securities	(4)	(54)
Foreign currency translation adjustments	(119)	30
	-----	-----
Comprehensive income	\$ 6,322	\$ 5,253
	=====	=====

The components of accumulated other comprehensive income, net of related tax, at March 31, 2000 and December 31, 1999 are as follows (in thousands):

	2000	1999
	----	----
Unrealized loss on securities	\$ (32)	\$ (28)
Foreign currency translation adjustments	(1,173)	(1,054)
	-----	-----
Accumulated other comprehensive income	\$(1,205)	\$(1,082)
	=====	=====

D) Earnings per Share

The calculation of dilutive weighted average shares outstanding at March 31, 2000 and 1999 are as follows (in thousands):

	2000	1999
	----	----
Basic weighted average shares outstanding	10,093	10,651
Dilutive impact of options outstanding	5	---
	-----	-----
Dilutive weighted average shares outstanding	<u>10,098</u>	<u>10,651</u>
	=====	=====

E) On July 1, 1999, the Company purchased substantially all of the assets and liabilities of SunSource Inventory Management Company, Inc. (SunSource) and Hillman Industrial Division (Hillman), at a cost of approximately \$10.5 million with certain contingent purchase price adjustment features based on future operating results. This all-cash transaction was accounted for as a purchase; accordingly, the accounts and transactions of the acquired company have been included in the consolidated financial statements since the date of acquisition. The purchase price exceeded tangible net assets acquired by approximately \$3.7 million. This goodwill will be amortized over 15 years using the straight-line method. SunSource and Hillman are distributors of fasteners in the original equipment marketplace. The former business operations of SunSource and Hillman are being conducted through the Company's new subsidiary, ACS/SIMCO.

Independent Accountants' Review Report

Board of Directors and Stockholders
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of March 31, 2000 and the related condensed consolidated statements of income and cash flows for the three month periods ended March 31, 2000 and 1999. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Lawson Products, Inc. as of December 31, 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, not presented herein, and in our report dated February 25, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

April 17, 2000

This Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, contains certain forward-looking statements. These statements are subject to uncertainties and other factors which could cause actual events or results to vary materially from those anticipated.

CONDITION AND RESULTS OF OPERATIONS

Net sales for the three month period ended March 31, 2000 increased 12.9% to \$83,710,000 relative to the similar period of 1999. The sales gain reflects increased contribution from substantially all Lawson operations and from our new subsidiary, ACS/SIMCO. See Note E to Notes to Condensed Consolidated Financial Statements.

Net income advanced 22.1% to \$6,445,000 (\$.64 per diluted share) for the three months ended March 31, 2000 from \$5,277,000 (\$.50 per share) for the comparable period of 1999. This gain is attributable to higher gross margins, cost containment efforts and the increase in net sales noted above. Per share net income for 2000 and 1999 was positively impacted by the Company's share repurchase program.

Cash flows provided by operations for the three months ended March 31, 2000 increased to \$8,521,000 from \$7,222,000 in the similar period of the prior year. This gain was due primarily to the advance in net income noted above. Current investments and cash flows from operations are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures. Additions to property, plant and equipment were \$871,000 and \$2,546,000, respectively, for the three months ended March 31, 2000 and 1999. Capital expenditures during 2000 primarily reflect purchases of computer related equipment, while in 1999 additions to property, plant and equipment primarily reflect costs incurred relative to the construction of a new Lawson outbound facility in Suwanee, Georgia and purchases of computer related equipment. This new facility was substantially completed in the third quarter of 1999 at a cost of approximately \$7,000,000, and will be used in place of the Norcross, Georgia facility, which was disposed of in a tax-free exchange as a component of the purchase price of the new facility.

In the third quarter of 1999, the Company purchased substantially all of the assets and liabilities of SunSource Inventory Management Company, Inc. (SunSource) and Hillman Industrial Division (Hillman), at a cost of approximately \$10.5 million with certain contingent purchase price adjustment features based on future operating results. This all-cash transaction was accounted for as a purchase; accordingly, the accounts and transactions of the acquired company have been included in the consolidated financial statements since the date of acquisition. SunSource and Hillman are distributors of fasteners in the original equipment marketplace. The former business operations of SunSource and Hillman are being conducted through the Company's new subsidiary, ACS/SIMCO.

During the first quarter of 2000, the Company purchased 187,000 shares of its own common stock for approximately \$4,404,000. Of these purchases, 98,400 shares were acquired relative to the 1999 Board authorization of 500,000 shares and 88,600 shares represented the remaining shares relative to a 1998 stock

repurchase authorization of 500,000 shares. In the first quarter of 1999, the Company purchased 40,000 shares of its own common stock for approximately \$841,000, relative to the Board's 1996 authorization to repurchase 1,000,000 shares. All shares purchased as of March 31, 2000 have been retired. Funds to purchase these shares were provided by investments and cash flows from operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at March 31, 2000 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

Part II

OTHER INFORMATION

Items 1, 2, 3, 4 and 5 are inapplicable and have been omitted from this report.

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

(a) 15 Letter from Ernst & Young LLP regarding Unaudited Interim
Financial Information

27 Financial Data Schedule

(b) The registrant was not required to file a Current Report on Form
8-K for the most recently completed quarter.

SIGNATURES

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 17, 2000

/s/ Robert J. Washlow

Robert J. Washlow
Chairman of the Board

Dated April 17, 2000

/s/ Joseph L. Pawlick

Joseph L. Pawlick
Chief Financial Officer

April 17, 2000

Board of Directors
Lawson Products, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-17912 dated November 4, 1987) of Lawson Products, Inc. of our report dated April 17, 2000 relating to the unaudited condensed consolidated interim financial statements of Lawson Products, Inc. which are included in its Form 10-Q for the quarter ended March 31, 2000.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

/s/ ERNST & YOUNG LLP

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DEC-31-2000		
MAR-31-2000		
		13,527
	17,131	
	42,185	
	1,694	
	53,770	
	129,924	
		79,329
	37,892	
	217,180	
38,342		
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0		
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	10,017	
	140,439	
217,180		
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	83,710	
		29,914
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	10,908	
	4,463	
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	6,445	
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