

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1998

OR
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

Commission file number: 0-10546

LAWSON PRODUCTS, INC.

(Exact Name of Registrant as Specified in 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)

Registrant's telephone number, including area code: (847) 827-9666

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

Title of Each Class -----	Name of each exchange on which registered -----
None	None

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

Common Stock, \$1.00 Par Value

(Title of class)

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

As of March 1, 1999, 10,648,822 shares of Common Stock were outstanding.

The aggregate market value of the Registrant's Common Stock held by nonaffiliates on March 1, 1999 was approximately \$120,745,000.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The following documents are incorporated into this Form 10-K by reference:

Proxy Statement for Annual Meeting of Stockholders to be held on May 11, 1999
Part III

PART I

Item 1. Business.

Lawson Products, Inc. was incorporated in Illinois in 1952 and reincorporated in Delaware in 1982.

Products

The Company is a distributor of approximately 66,000

expendable maintenance, repair and replacement products. In addition, the Company distributes 12,000 production components (mostly fasteners) to the O.E.M. marketplace. It manufactures approximately 1,000 of these items. These products may be divided into three broad categories: Fasteners, Fittings and Related Parts, such as screws, nuts, rivets and other fasteners; Industrial Supplies, such as hoses and hose fittings, lubricants, cleansers, adhesives and other chemicals, as well as files, drills, welding products and other shop supplies; and Automotive and Equipment Maintenance Parts, such as primary wiring, connectors and other electrical supplies, exhaust and other automotive parts. The Company estimates that these categories of products accounted for the indicated percentages of its total consolidated net sales for 1998, 1997 and 1996 respectively:

	Percentage of Consolidated Net Sales		
	1998	1997	1996
Fasteners, Fittings and Related Parts.....	45%	46%	45%
Industrial Supplies.....	51	49	50
Automotive and Equipment Maintenance Parts.....	4	5	5
	100%	100%	100%

All of the Company's maintenance and repair products are manufactured by others and must meet the Company's specifications. Approximately 90% of the Company's products are sold under the Company label. Substantially all maintenance and repair items which the Company distributes are purchased by the Company in bulk and subsequently repackaged in smaller quantities. The Company regularly uses a large number of suppliers but has no long-term or fixed price contracts with any of them. Most maintenance and repair items which the Company distributes are purchased from several sources, and the Company believes that the loss of any single supplier would not significantly affect its operations. No single supplier accounted for more than 4.6% of the Company's purchases in 1998.

Production components sold to the O.E.M. marketplace may be manufactured to customers' specification or purchased from other sources.

Marketing
- - - - -

The Company's principal markets are as follows:

Heavy Duty Equipment Maintenance. Customers in this market include operators of trucks, buses, agricultural implements, construction and road building equipment, mining, logging and drilling equipment and other off-the-road equipment. The Company estimates that approximately 35% of 1998 sales were made to customers in this market.

In-Plant and Building Maintenance. This market includes plants engaged in a broad range of manufacturing and processing activities, as well as institutions such as hospitals, universities, school districts and government units. The Company estimates that approximately 42% of 1998 sales were made to customers in this market.

Passenger Car Maintenance. Customers in this market include automobile service center chains, independent garages, automobile dealers, car rental agencies and other fleet operators. The Company estimates that approximately 12% of 1998 sales were made to customers in this market.

Original Equipment Manufacturers. This market includes plants engaged in a broad range of manufacturing and processing activities. The Company estimates that approximately 11% of 1998 sales were made to customers in this market.

The Company has approximately 216,000 customers, the largest of which accounted for less than one percent of net sales during 1998. Sales are made through a force of approximately 1,850 independent sales representatives of which 84 serve the O.E.M. marketplace. Included in this group are 224 district and zone managers, each of whom, in addition to his own sales activities, acts in an advisory capacity to other sales representatives in a designated area. The Company employs 43 regional managers to coordinate regional marketing efforts. Most sales representatives, including district and zone managers, are compensated on a commission basis and are responsible for repayment of commissions on their respective uncollectible accounts. In addition to the sales representatives and district, zone and regional managers discussed above, the Company has approximately 1,110 employees.

The Company's products are sold in all 50 states, Mexico, Puerto Rico, the District of Columbia, Canada and England. The Company believes that an important factor in its success is its ability to service customers promptly. During the past five years, more than 99.5% of all items were shipped to the customer within 24 hours after an order was received by the Company. This rapid delivery is facilitated by computer controlled order entry and inventory control systems in each general distribution center. In addition, the receipt of customer orders at Lawson distribution facilities has been accelerated by portable facsimile transmission equipment and personal computer systems used by sales representatives. Customer orders are delivered by common carriers.

The Company is required to carry significant amounts of inventory in order to meet its high standards of rapid processing of customer orders. The Company funds its working capital requirements internally.

Distribution and Manufacturing Facilities

Substantially all of the Company's maintenance products are stocked in and distributed from each of its seven general distribution centers in; Addison, Illinois; Reno, Nevada; Farmers Branch, Texas; Norcross, Georgia; Fairfield, New Jersey; Mississauga, Ontario, Canada and Bradley Stoke (Bristol) England. Chemical products are distributed from a facility in Vernon Hills, Illinois and welding products are distributed from a facility in Charlotte, North Carolina. Production components are stocked in and distributed from six centers located in Decatur, Alabama; Conway, Arkansas; Cairo, Georgia; Burr Ridge, Illinois; Tupelo, Mississippi; and Memphis, Tennessee. Production components are manufactured in Decatur, Alabama. In the opinion of the Company, all existing facilities are in good condition and are well maintained. All are being used substantially to capacity on a single shift basis, except the manufacturing facility in Decatur, Alabama which operates three shifts and the inbound facility in Des Plaines, Illinois, which operates two shifts. Further expansion of warehousing capacity may require new warehouses, some of which may be located in new geographical areas.

Canadian Operations

Canadian operations are conducted at the Company's 40,000 square foot general distribution center in Mississauga, Ontario, a suburb of Toronto. These operations constituted less than 3% of the Company's net sales during 1998.

United Kingdom Operations

Operations in the United Kingdom are conducted under the name of Lawson Products Limited from a 19,000 square foot general distribution center in Bradley Stoke (Bristol) England. These operations constituted approximately 1% of the Company's net sales during 1998.

Mexican Operations

Operations in Mexico are conducted under the name of Lawson Products de Mexico S.A. de C.V. from a 10,000 square foot facility in Guadalajara, Mexico. These operations constituted less than 1% of the Company's net sales during 1998.

Competition

The Company encounters intense competition from several national distributors and manufacturers and a large number of regional and local distributors. Due to the nature of its business and the absence of reliable trade statistics, the Company cannot estimate its position in relation to its competitors. However, the Company recognizes that some competitors may have greater financial and personnel resources, handle more extensive lines of merchandise, operate larger facilities and price some merchandise more competitively than the Company. Although the Company believes that the prices of its products are competitive, it endeavors to meet competition primarily through the quality of its product line, its response time and its delivery systems.

Item 2. Properties.

The Company owns two facilities located in Des Plaines, Illinois, (152,600 and 27,000 square feet, respectively). These buildings contain the Company's main administrative activities and an inbound warehouse facility that principally supports the Addison, Illinois facility and other distribution facilities to a lesser degree. Additional administrative, warehouse and distribution facilities owned by the Company are located in Addison, Illinois (90,000 square feet); Fairfield, New Jersey (61,000 square feet); Reno, Nevada (97,000 square feet); Norcross, Georgia (61,300 square feet); Farmers Branch, Texas (54,500 square feet); and Mississauga, Ontario, Canada (40,000 square feet). Chemical products are distributed from a 105,400 square foot owned facility in Vernon Hills, Illinois and welding products are distributed from a 40,000 square foot owned facility located in Charlotte, North Carolina. Administrative, warehouse and distribution facilities in Bradley Stoke (Bristol) England (19,000 square feet) are leased by the Company. Administrative and distribution facilities in Guadalajara, Mexico (10,000 square feet) are leased by the Company. Production components are distributed from facilities leased in Conway, Arkansas (6,500 sq. ft.) Burr Ridge, Illinois (24,000 sq. ft.) Tupelo, Mississippi, (10,000 sq. ft.) and Memphis, Tennessee, (40,000 sq. ft.). The Company owns a 54,000 square foot facility in Decatur, Alabama which manufactures and distributes production components. From time to time, the Company leases additional warehouse space near its present facilities. See Item 1, "Business - Distribution Facilities" for further information regarding the Company's properties.

The Company is constructing a new warehouse in Georgia and has estimated the cost of land and buildings at \$4 million. The Norcross, Georgia facility will be sold in conjunction with occupancy of the new facility.

Item 3. Legal Proceedings.

There is no material pending litigation to which the Company, or any of its subsidiaries, is a party or to which any of their property is subject.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

 The Company's Common Stock is traded on the NASDAQ National Market System under the symbol of "LAWS." The approximate number of stockholders of record at December 31, 1998 was 1,052. The following table sets forth the high and low closing sale prices as reported on the NASDAQ National Market System during the last two years. The table also indicates the cash dividends paid by the Company during such periods.

	1998			1997		
	High	Low	Cash Dividends	High	Low	Cash Dividends
	----	---	-----	----	---	-----
First Quarter	\$31 1/4	\$24 1/2	\$.14	\$22 5/8	\$21 1/8	\$.13
Second Quarter	28 1/4	25 1/4	.14	27 1/8	22 1/8	.13
Third Quarter	27 1/4	20 9/16	.14	30 1/8	25 3/8	.13
Fourth Quarter	24 3/4	21 1/2	.14	31 1/2	27 5/16	.14

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with the Financial Statements of the Company and notes thereto included elsewhere in this Report. The income statement data and balance sheet data is for and as of the end of each of the years in the five-year period ended December 31, 1998, are derived from the audited Financial Statements of the Company.

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Net Sales	\$292,523,475	\$278,144,321	\$250,289,124	\$223,537,182	\$213,097,143
Income Before Income Taxes	33,590,229	35,723,277	33,884,637	34,815,029	34,031,074
Net Income	19,474,229	21,350,277	19,994,637	21,120,029	20,524,074
Total Assets	198,982,290	188,974,415	175,161,839	160,613,798	168,130,848
Noncurrent Liabilities	25,246,269	24,577,547	22,065,583	19,292,794	17,084,617
Stockholders' Equity	142,934,735	139,925,387	128,746,212	122,810,577	131,230,469
Return on Equity (percent)	13.5%	16.0%	15.8%	16.9%	14.7%
Per Share of Common Stock:					
Basic Net Income	\$1.77	\$1.91	\$1.73	\$1.75	\$1.55
Diluted Net Income	1.76	1.91	1.73	1.75	1.55
Stockholders' Equity*	12.97	12.55	11.13	10.17	9.91
Cash Dividends Declared*	.56	.54	.52	.51	.48
Basic Weighted Average					
Shares Outstanding	11,023,934	11,153,091	11,563,052	12,072,668	13,237,181
Diluted Weighted Average					
Shares Outstanding	11,041,819	11,175,232	11,563,715	12,074,647	13,240,024

* These per share amounts were computed using basic weighted average shares outstanding for all periods presented.

Item 7. Management's Discussion and Analysis of
Results of Operation and Financial Condition .

RESULTS OF OPERATIONS

Net sales for 1998 and 1997 advanced 5.2% and 11.1%, respectively, over the immediately preceding years. The sales gains for 1998 and 1997 reflect increased contribution from substantially all Lawson operations with our specialty chemical subsidiary spearheading the 1998 increase. Our subsidiary, Assembly Component Systems, Inc. ("ACS"), the business and assets of which were acquired in April 1996, contributed significantly to the sales improvement in 1997.

Net income in 1998 declined 8.8% from 1997 to \$19,474,229, while diluted net income per share in 1998 decreased 7.9% to \$1.76 from \$1.91 in 1997. The decline in net income from 1997 is primarily due to a \$1,520,000 non-recurring charge, net of taxes, for compensation arrangements related to management personnel reductions. Costs arising from the realignment of management in Lawson's domestic sales organization, as well as increased losses from our foreign operations and a higher effective tax rate also contributed to the decline in net income. These items more than offset the sales gains and gross profit improvements in 1998. Excluding the effect of the non-recurring charge, 1998 net income was approximately \$20,994,000 (\$1.90 per diluted share), a decline of 1.7% from 1997. Sales gains, partially offset by a decrease in gross margins, were primarily responsible for the increase in net income in 1997 over 1996. Per share net income for 1998, 1997 and 1996 was positively affected by the Company's share repurchases discussed below.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operations for 1998, 1997 and 1996 were \$16,070,908, \$16,979,646 and \$24,552,774, respectively. The decline in 1998 resulted principally from the decrease in net income noted above, and payments made under deferred compensation and security bonus plans which more than offset the positive impact from higher operating liabilities, resulting from the non-recurring charge noted above. The decrease in 1997 was due primarily to increases in operating assets over 1996 levels, which more than offset the advance in net income noted above. Current investments and cash flows from operations have continued to be sufficient to fund operating requirements, cash dividends and capital improvements. Such internally generated funds are also expected to finance the Company's future growth.

Capital expenditures for 1998, 1997, and 1996, respectively, were \$5,378,660, \$5,894,656 and \$4,820,724. Consistent with prior years, capital expenditures were incurred primarily for new facilities, improvement of existing facilities, and for the purchase of related equipment. During the first quarter of 1998, the Company purchased land in Suwanee, Georgia. The Company is constructing a new Lawson outbound facility on the site. This facility will be used in place of the Norcross, Georgia, facility which will be sold. The cost of land and buildings is estimated at \$4,000,000. Also, construction was completed relative to the facilities expansion of the Company's specialty chemical subsidiary, at a cost of approximately \$3,000,000.

During the third quarter of 1998, the Board of Directors authorized the purchase of up to 500,000 shares of the Company's common stock. No shares have been purchased relative to this authorization. In 1996, the Board of Directors authorized the purchase of up to 1,000,000 shares of the Company's common stock, of which 472,000 shares were purchased for approximately \$10,348,000 during 1998, 187,500 shares were purchased for approximately \$4,062,000 during 1997 and 292,000 shares were purchased for approximately \$6,386,000 in 1996. As of December 31, 1998, 951,500 shares have been repurchased relative to the 1996 stock repurchase authorization. Also, during 1996, the remaining 86,000 shares relative to the 1994 authorization of 1,500,000 shares, were purchased for \$2,095,000. Funds to purchase these shares were provided by investments and cash flows from operations.

IMPACT OF THE YEAR 2000

The Company has developed a plan to modify its information technology to recognize the Year 2000 Issue. The Year 2000 Issue involves computer programs being written using two digits rather than four to define the applicable year. Computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a system failure or miscalculations causing disruptions in the processing of normal business transactions.

Based on the Company's assessment of the Year 2000 Issue, it has been determined that it will be required to modify or replace portions of its software and certain hardware to insure the proper recognition of dates beyond December 31, 1999. The Company presently believes that with modifications or replacements of certain existing software and hardware, the Year 2000 Issue can be mitigated.

The Company's plan to resolve the Year 2000 Issue involves the following four phases: assessment, remediation, testing, and implementation. The Company has fully completed its assessment of all systems that could be significantly impacted by the Year 2000 and is currently converting its critical data processing systems.

Based on a review of its product line, the Company has determined that the products it has sold and will continue to sell do not require remediation to be Year 2000 compliant. Accordingly, the Company does not believe that the Year 2000 presents exposure as it relates to the Company's products.

The Company has contacted all of its suppliers and has gathered information about their Year 2000 compliance status. To date, the Company is not aware of any supplier with a Year 2000 issue that would have a material impact on the operations of the Company. However, the Company does not have the means to ensure that third parties will be Year 2000 ready. The inability of third parties to complete their Year 2000 resolution process in a timely fashion could materially impact the Company. The effect of non-compliance by third parties is not determinable.

The Company will utilize both internal and external resources to reprogram, or replace, test, and implement the software and operating equipment for Year 2000

modifications. This project remains on schedule, including testing and implementation. The Company presently believes all phases of the conversion will be completed by the second quarter of 1999 at a total cost of approximately \$500,000, of which \$375,000 of expense has been incurred as of December 31, 1998. These costs are primarily for modifying code and testing computer software programs. This project is not expected to have a significant effect on operations.

If the Company is unsuccessful in its remediation efforts or if the remediation efforts of its key suppliers or customers are unsuccessful, there may be a material adverse impact on the Company's results of operations and financial position. If the Year 2000 Issue project is unsuccessful, the worst case scenario is that the Company will be unable to distribute its products. As the Company cannot predict the magnitude or time length of Year 2000 business interruptions, the Company is unable to estimate the financial impact of Year 2000 issues. The Company does not currently have a contingency plan although one is under development.

Although the project is not yet complete, the management of the Company believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner. The Company is committed to providing the necessary resources, including additional funding and manpower, as required, until such time that all phases of the Year 2000 project are completed.

IMPACT OF INFLATION AND CHANGING PRICES

The Company has continued to pass most increases in product costs on to its customers and, accordingly, gross margins have not been materially impacted. The impact from inflation has been more significant on the Company's fixed and semi-variable operating expenses, primarily wages and benefits, although to a lesser degree in recent years due to moderate inflation levels.

Although the Company expects that future costs of replacing warehouse and distribution facilities will rise due to inflation, such higher costs are not anticipated to have a material effect on future earnings.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company, through its foreign subsidiaries, distributes products in the United Kingdom, Canada and Mexico. As a result, the Company is from time to time exposed to market risk relating to the impact of foreign currency exchange rates; however, this exposure is minimal.

In addition, the Company maintains a portfolio of marketable securities, the majority of which are debt securities. As a result, the Company is exposed to market risk relating to interest rate movements; however, a hypothetical 10% adverse movement in interest rates would have no material impact on net income of the Company.

Item 8. Financial Statements and Supplementary Data.

The following information is presented in this report:

Report of Independent Auditors

Consolidated Balance Sheets as of December 31, 1998 and 1997.

Consolidated Statements of Income for the Years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for the Years ended December 31, 1998, 1997 and 1996.

Notes to Consolidated Financial Statements.

Schedule II

Report of Independent Auditors

To the Shareholders and Board of Directors
Lawson Products, Inc.

We have audited the accompanying consolidated balance sheets of Lawson Products, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and related schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lawson Products, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/Ernst & Young LLP

Chicago, Illinois
February 26, 1999

LAWSON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1998	1997
	----	----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,871,720	\$ 10,247,568
Marketable securities	13,815,692	11,637,521
Accounts receivable, less allowance for doubtful accounts (1998-\$1,450,067; 1997-\$1,423,902)	35,255,226	33,714,165
Inventories	46,670,162	41,788,322
Miscellaneous receivables	2,894,636	2,972,544
Prepaid expenses	4,638,406	2,788,143
Deferred income taxes	1,256,000	836,000
	-----	-----
Total Current Assets	118,401,842	103,984,263
	-----	-----
Property, plant and equipment, at cost, less allowances for depreciation and amortization (1998-\$32,450,023; 1997-\$27,862,855)	41,142,497	40,963,035
	-----	-----
Other assets:		
Marketable securities	11,019,945	21,713,267
Investments in real estate	4,053,664	3,730,664
Cash value of life insurance	12,876,120	12,054,380
Deferred income taxes	6,747,000	4,447,000
Other	4,741,222	2,081,806
	-----	-----
	39,437,951	44,027,117
	-----	-----
	\$ 198,982,290	\$ 188,974,415
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,112,982	\$ 4,928,689
Accrued expenses and other liabilities	22,405,504	17,901,997
Income taxes	3,282,800	1,640,795
	-----	-----
Total Current Liabilities	30,801,286	24,471,481
	-----	-----
Non-current liabilities and deferred credits:		
Accrued liability under security bonus plans	15,314,813	14,000,016
Deferred compensation and other liabilities	9,931,456	10,577,531
	-----	-----
	25,246,269	24,577,547
	-----	-----
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-1998-10,663,822 shares; 1997-11,135,233 shares	10,663,822	11,135,233
Capital in excess of par value	749,320	769,738
Retained earnings	132,208,664	128,708,111
	-----	-----
	143,621,806	140,613,082
	-----	-----
Foreign currency translation adjustment	(1,355,071)	(1,250,695)
Unrealized gain on marketable securities	668,000	563,000
	-----	-----
Accumulated other comprehensive income	(687,071)	(687,695)
	-----	-----
	142,934,735	139,925,387
	-----	-----
	\$ 198,982,290	\$ 188,974,415
	=====	=====

See notes to consolidated financial statements

LAWSON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
Net sales	\$ 292,523,475	\$ 278,144,321	\$ 250,289,124
Cost of goods sold	99,554,363	95,985,602	81,116,518
Gross profit	----- 192,969,112	----- 182,158,719	----- 169,172,606
Selling, general and administrative expenses	158,433,648	147,235,497	136,265,322
Non-recurring charge	2,621,124	-	-
Provision for doubtful accounts	983,367	1,028,221	859,326
Operating Income	----- 30,930,973	----- 33,895,001	----- 32,047,958
Interest and dividend income	1,458,548	1,285,809	1,499,993
Interest expense	(47,957)	(31,280)	(25,596)
Other income - net	1,248,665	573,747	362,282
	----- 2,659,256	----- 1,828,276	----- 1,836,679
Income Before Income Taxes	----- 33,590,229	----- 35,723,277	----- 33,884,637
Federal and state income taxes (benefit):			
Current	16,034,000	15,306,000	14,610,000
Deferred	(1,918,000)	(933,000)	(720,000)
	----- 14,116,000	----- 14,373,000	----- 13,890,000
Net Income	\$ 19,474,229 =====	\$ 21,350,277 =====	\$ 19,994,637 =====
Net Income Per share of Common Stock			
Basic	\$ 1.77 =====	\$ 1.91 =====	\$ 1.73 =====
Diluted	\$ 1.76 =====	\$ 1.91 =====	\$ 1.73 =====

See notes to consolidated financial statements

Lawson Products, Inc.
Consolidated Statements of
Changes in Stockholders' Equity

	Common Stock, \$1 par value -----	Capital in excess of par value -----	Retained Earnings -----	Accumulated Other Comprehensive Income -----	Comprehensive Income -----
Balance at January 1, 1996	\$ 11,686,614	\$ 493,783	\$ 111,320,907	\$ (690,727)	\$
Net income			19,994,637		19,994,637
Other comprehensive income, net of tax:				38,000	38,000
Unrealized gain on marketable securities				341,238	341,238
Adjustment for foreign currency translation					379,238
Other comprehensive income for the year					20,373,875
Comprehensive income for the year					20,373,875
Cash dividends declared			(5,994,808)		
Stock issued under employee stock plans	2,850	34,718			
Purchase and retirement of common stock	(378,000)	(16,493)	(8,086,507)		
Balance at December 31, 1996	11,311,464	512,008	117,234,229	(311,489)	
Net income			21,350,277		21,350,277
Other comprehensive income, net of tax:				55,000	55,000
Unrealized gain on marketable securities				(431,206)	(431,206)
Adjustment for foreign currency translation					(376,206)
Other comprehensive income for the year					20,974,071
Comprehensive income for the year					20,974,071
Cash dividends declared			(6,010,507)		
Stock issued under employee stock plans	11,269	266,217			
Purchase and retirement of common stock	(187,500)	(8,487)	(3,865,888)		
Balance at December 31, 1997	11,135,233	769,738	128,708,111	(687,695)	
Net income			19,474,229		19,474,229
Other comprehensive income, net of tax:				105,000	105,000
Unrealized gain on marketable securities				(104,376)	(104,376)
Adjustment for foreign currency translation					624
Other comprehensive income for the year					\$19,474,853
Comprehensive income for the year					\$19,474,853
Cash dividends declared			(6,130,363)		
Stock issued under employee stock plans	589	12,738			
Purchase and retirement of common stock	(472,000)	(33,156)	(9,843,313)		
Balance at December 31, 1998	\$ 10,663,822 =====	\$ 749,320 =====	\$ 132,208,664 =====	\$ (687,071) =====	

See notes to consolidated financial statements

LAWSON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
Operating activities:			
Net income	\$ 19,474,229	\$ 21,350,277	\$ 19,994,637
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,498,385	5,019,437	4,014,251
Provision for allowance for doubtful accounts	983,367	1,028,221	859,326
Deferred income taxes	(1,918,000)	(933,000)	(720,000)
Deferred compensation and security bonus plans	4,190,541	4,214,100	3,734,727
Payments under deferred compensation and security bonus plans	(3,414,210)	(1,604,352)	(1,068,542)
Losses from sale of property, plant and equipment	627	108,079	274,717
Income from investments in real estate	(763,000)	(506,000)	(232,500)
Changes in operating assets and liabilities (Exclusive of effect of acquisition):			
Accounts receivable	(2,524,428)	(4,416,319)	(864,397)
Inventories	(4,881,840)	(4,741,208)	(3,965,081)
Prepaid expenses and other assets	(6,121,144)	(2,224,583)	(2,265,095)
Accounts payable and accrued expenses	4,753,798	886,109	2,751,842
Income taxes payable	1,642,005	(852,139)	1,531,104
Other	(849,422)	(348,976)	507,785
	-----	-----	-----
Net Cash Provided by Operating Activities	16,070,908	16,979,646	24,552,774
	-----	-----	-----
Investing activities:			
Additions to property, plant and equipment	(5,378,660)	(5,894,656)	(4,820,724)
Purchases of marketable securities	(196,265,030)	(143,028,547)	(367,665,946)
Proceeds from sale of marketable securities	204,848,618	137,301,088	376,705,975
Proceeds from sale of property, plant and equipment	1,000	2,308	94,421
Proceeds from life insurance policies	438,819	-	130,000
Acquisition of Automatic Screw Machine			
Products, net of cash acquired of \$240,545	-	-	(10,506,472)
Other	440,000	80,000	80,000
	-----	-----	-----
Net Cash Provided by (Used In) Investing Activities	4,084,747	(11,539,807)	(5,982,746)
	-----	-----	-----
Financing Activities:			
Purchases of common stock	(10,348,469)	(4,061,875)	(8,481,000)
Proceeds from exercise of stock options	13,327	277,486	37,568
Dividends paid	(6,196,361)	(5,923,040)	(6,043,577)
	-----	-----	-----
Net Cash Used in Financing Activities	(16,531,503)	(9,707,429)	(14,487,009)
	-----	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	3,624,152	(4,267,590)	4,083,019
Cash and Cash Equivalents at Beginning of Year	10,247,568	14,515,158	10,432,139
	-----	-----	-----
Cash and Cash Equivalents at End of Year	\$ 13,871,720	\$ 10,247,568	\$ 14,515,158
	=====	=====	=====

See notes to consolidated financial statements

LAWSON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A-DESCRIPTION OF BUSINESS

Lawson Products, Inc. and subsidiaries principally are distributors of expendable parts and supplies for maintenance, repair and operation of equipment. The Company has six operating units with which it conducts its business, however these units have been aggregated into one reportable segment. The Company's principle operations are in the United States, however the Company does have foreign operations as follows:

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
<hr style="border-top: 1px dashed black;"/>			
Revenues:			
Canada	\$6,324	\$6,212	\$5,323
United Kingdom	2,872	3,018	2,711
Mexico	2,276	1,912	1,382
Long-lived Assets:			
Canada	2,273	2,553	2,680
United Kingdom	693	714	608
Mexico	135	220	74

NOTE B-SUMMARY OF MAJOR ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, each of which is wholly owned. All inter-company accounts and transactions have been eliminated in consolidation.

Revenue Recognition: Sales and associated cost of goods sold are recognized when products are shipped to customers.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Investments in Real Estate: The Company's investments in real estate representing limited partnership interests are carried on the basis of the equity method.

Marketable Securities: Marketable equity securities and debt securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains and losses, declines in value judged to be other-than-temporary, and interest and dividends are included in investment income. The cost of securities sold is based on the specific identification method.

Inventories: Inventories (principally finished goods) are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment: Provisions for depreciation and amortization are computed by the straight-line method for buildings using useful lives of 20 to 30 years and by the double declining balance method for machinery and equipment, furniture and fixtures and vehicles using useful lives of 4 to 10 years.

Investment Tax Credits: Investment tax credits on assets leased to others (see Investments in Real Estate) are deferred and amortized over the useful life of the related asset.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Stock Options: Stock options are accounted for under Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees." Under APB 25, no compensation expense is recognized because the exercise price of the stock options granted equals the market price of the underlying stock at the date of grant.

Foreign Currency Translation: The financial statements of foreign entities have been translated in accordance with Statement of Financial Accounting Standards No. 52 and, accordingly, unrealized foreign currency translation adjustments are reflected as a component of stockholders' equity. Realized foreign currency transaction gains and losses were not significant for the years ended December 31, 1998, 1997 and 1996.

Income Per Share: Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options.

Comprehensive Income: In 1998, the Company adopted FASB Statement No. 130, "Reporting Comprehensive Income." Statement 130 establishes new rules for the reporting and displaying of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or equity. Statement 130 requires unrealized gains on the Company's available-for-sale securities and foreign currency translation adjustments to be included in accumulated other comprehensive income, which prior to adoption were reported separately in stockholders' equity. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

Reclassifications: Certain amounts have been reclassified in the 1996 and 1997 financial statements to conform with the 1998 presentation.

NOTE C-NON-RECURRING CHARGE

In the fourth quarter of 1998, the Company recorded non-recurring charges of \$2.6 million representing severance and early retirement benefits to five members of management. At December 31, 1998, no amount had yet been expended.

NOTE D-MARKETABLE SECURITIES

The following is a summary of the Company's investments at December 31 which are all classified as available-for-sale:

(In thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1998				
Obligations of states and political subdivisions	\$ 16,723	\$ 90	\$ 4	\$ 16,809
Foreign government securities	7,007	-	-	7,007
Other debt securities	73	-	-	73
Total debt securities	23,803	90	4	23,889
Equity securities	6	947	6	947
	<u>\$ 23,809</u>	<u>\$ 1,037</u>	<u>\$ 10</u>	<u>\$ 24,836</u>
1997				
Obligations of states and political subdivisions	\$ 28,343	\$ 56	\$ 1	\$ 28,398
Foreign government securities	4,092	-	-	4,092
Other debt securities	44	-	-	44
Total debt securities	32,479	56	1	32,534
Equity securities	6	817	6	817
	<u>\$ 32,485</u>	<u>\$ 873</u>	<u>\$ 7</u>	<u>\$ 33,351</u>

The gross realized gains on sales of marketable securities totaled: \$52,000, \$52,000 and \$128,000 in 1998, 1997 and 1996, respectively, and the gross realized losses totaled \$1,000, \$7,000 and \$28,000, respectively. The net adjustment to unrealized holding gains included as a separate component of stockholders' equity, net of taxes, totaled \$105,000, \$55,000 and 38,000 in 1998, 1997 and 1996, respectively.

In 1996, the Company received equity shares on the conversion of certain mutual insurance companies, from which the Company held policies, to stock companies. These shares carry no cost.

The amortized cost and estimated fair value of marketable securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of certain securities have the right to prepay obligations without prepayment penalties.

(In thousands)	Cost	Estimated Fair Value
Due in one year or less	\$ 13,779	\$ 13,816
Due after one year through five years	10,024	10,073
Total debt securities	23,803	23,889
Equity securities	6	947
	<u>\$ 23,809</u>	<u>\$ 24,836</u>

NOTE E-PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment consists of:

	1998	1997
Land	\$ 6,011,531	\$ 6,072,718
Buildings and improvements	38,290,080	34,162,854
Machinery and equipment	22,216,024	19,855,003
Furniture and fixtures	5,014,995	5,053,931
Vehicles	272,829	239,740
Construction in Progress	1,787,061	3,441,644
	<u>\$ 73,592,520</u>	<u>\$ 68,825,890</u>

NOTE F-INVESTMENTS IN REAL ESTATE

The Company is a limited partner in two real estate limited partnerships. An officer and member of the Board of Directors of the Company has a 1.5% interest and 5.5% interest, respectively, as a general partner in these partnerships, which interests are subordinated to the Company's interests in distributable cash.

NOTE G-ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	1998	1997
	-----	-----
Salaries, commissions and other compensation	\$ 10,188,449	\$ 7,051,691
Accrued and withheld taxes, other than income taxes	2,080,204	2,002,092
Accrued profit sharing contributions	2,443,289	2,337,319
Accrued self-insured health benefits	1,318,356	1,300,000
Cash dividends payable	1,492,935	1,558,933
Other	4,882,271	3,651,962
	-----	-----
	\$ 22,405,504	\$ 17,901,997
	=====	=====

NOTE H-STOCK PLAN

The Company's Incentive Stock Plan, As Amended ("Plan"), provides for the issuance of shares of Common Stock to officers and key employees pursuant to stock options, stock appreciation rights, stock purchase agreements and stock awards. At December 31, 1998, 647,777 shares of Common Stock were available for issuance under the Plan.

The Plan permits the grant of incentive stock options, subject to certain limitations, with substantially the same terms as non-qualified stock options. Stock options are not exercisable within six months from date of grant and may not be granted at prices less than the fair market value of the shares at the dates of grant.

Benefits may be granted under the Plan through December 16, 2006.

Additional information with respect to the Plan is summarized as follows:

	Average Price	Option Shares

Outstanding January 1, 1996	\$27.06	126,131
Granted	22.57	187,004
Exercised	16.27	(2,850)

Outstanding December 31, 1996	24.48	310,285
Granted	27.00	1,000
Exercised	24.62	(11,269)
Canceled or expired	27.07	(9,737)

Outstanding December 31, 1997	24.40	290,279
Granted	26.75	9,000
Exercised	24.19	(889)
Canceled or expired	26.89	(27,500)

Outstanding December 31, 1998	23.34	270,890

Exercisable options at		
December 31, 1998	\$24.97	169,488
December 31, 1997	26.10	149,026
December 31, 1996	27.38	123,281

As of December 31, 1998, the Company had the following outstanding options:

Exercise Price	\$22.50-\$23.25	\$27.00-\$29.75	\$26.75
	-----	-----	-----
Options Outstanding	177,940	83,950	9,000
Weighted Average Exercise Price	\$22.55	\$27.49	\$26.75
Weighted Average Remaining Life	7.4	1.5	9.4
Options Exercisable	86,288	83,200	-
Weighted Average Exercise Price	\$22.54	\$27.50	-

Disclosure of pro forma information regarding net income and net income per share is required by FASB Statement No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes options pricing model.

The Company's weighted average fair value of options granted and assumptions used were as follows:

	1998	1997	1996
	----	----	----
Risk-free interest rate	4.97%	5.81%	6.61%
Dividend yield	2.00%	2.00%	2.00%
Stock price volatility factor	.18	.19	.21
Weighted-average expected life (years)	8	8	8
Weighted-average fair value of options granted	\$6.80	\$7.77	\$7.26

For purposes of pro forma disclosures, the estimated fair value of options granted is amortized to expense over the option's vesting period. The pro forma effect on net income is not representative of the pro forma effect on net income in future years because grants made in 1996 and later years have an increasing vesting period.

The Company's pro forma information consisted of the following:

	1998	1997	1996
	----	----	----
Net income as reported	\$19,474,229	\$21,350,277	\$19,994,650

Net income - pro forma	19,123,000	21,010,000	19,779,000
Basic earnings per share - as reported	1.77	1.91	1.73
Diluted earnings per share - as reported	1.76	1.91	1.73
Basic earnings per share - pro forma	1.73	1.88	1.71
Diluted earnings per share - pro forma	1.73	1.88	1.71

NOTE I-PROFIT SHARING AND SECURITY BONUS PLANS

The Company and certain subsidiaries have a profit sharing plan for office and warehouse personnel. The amounts of the companies' annual contributions are determined by the respective boards of directors subject to limitations based upon current operating profits (as defined) or participants' compensation (as defined).

The Company and its subsidiaries also have in effect security bonus plans for the benefit of their regional managers and independent sales representatives, under the terms of which participants are credited with a percentage of their yearly earnings (as defined). Of the aggregate amounts credited to participants' accounts, 25% vests after five years and an additional 5% vests each year thereafter. For financial reporting purposes, amounts are charged to operations over the vesting period.

Provisions for profit sharing and security bonus plans aggregated \$4,845,399, \$4,387,000 and \$3,946,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company sponsors a 401(k) defined contribution savings plan. The plan, which is available to all employees, was provided to give employees a pre-tax investment vehicle to save for retirement. All contributions to the plan are made by plan participants.

NOTE J-INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In addition, deferred income taxes include net operating loss carryforwards of a foreign subsidiary which do not expire. The valuation allowance has been provided since there is no assurance that the benefit of the net operating loss carryforwards will be realized. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

Deferred Tax Assets:	1998	1997
	-----	-----
Compensation and benefits	\$ 10,850,000	\$ 9,399,000
Inventory	1,037,000	642,000
Net operating loss carryforwards of subsidiary	3,877,000	3,270,000
Accounts receivable	446,000	428,000
Other	730,000	-
	-----	-----
Total Deferred Tax Assets	16,940,000	13,739,000
Valuation allowance for deferred tax assets	(3,877,000)	(3,270,000)
	-----	-----
Net Deferred Tax Assets	13,063,000	10,469,000
	-----	-----
Deferred Tax Liabilities:		
Property, plant & equipment	1,318,000	1,489,000
Investments in real estate	3,169,000	3,163,000
Marketable securities	359,000	303,000
Other	214,000	231,000
	-----	-----
Total Deferred Tax Liabilities	5,060,000	5,186,000
	-----	-----
Total Net Deferred Tax Assets	\$ 8,003,000	\$ 5,283,000
	=====	=====

Income before income taxes consisted of the following:

	1998	1997	1996
	----	----	----
United States	\$36,288,309	\$37,303,959	\$35,969,862
Foreign	(2,698,080)	(1,580,682)	(2,085,225)
	-----	-----	-----
	\$33,590,229	\$35,723,277	\$33,884,637
	=====	=====	=====

The provisions for income taxes for the years ended December 31, consisted of the following:

	1998	1997	1996
	-----	-----	-----
Current:			
Federal	\$ 13,136,000	\$ 12,568,000	\$ 11,733,000
State	2,898,000	2,738,000	2,877,000
	-----	-----	-----
Deferred benefit	16,034,000 (1,918,000)	15,306,000 (933,000)	14,610,000 (720,000)
	-----	-----	-----
	\$ 14,116,000	\$ 14,373,000	\$ 13,890,000
	=====	=====	=====

The reconciliation between the effective income tax rate and the statutory federal rate is as follows:

	1998	1997	1996
	----	----	----
Statutory federal rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State income taxes, net of federal income tax benefit	5.6	5.0	5.5
Non-taxable dividend and interest income	(.7)	(1.6)	(1.1)
Foreign losses	2.7	1.9	2.2
Other items	(.6)	(.1)	(.6)
	-----	-----	-----
Provision for income taxes	42.0%	40.2%	41.0%
	=====	=====	=====

Income taxes paid for the years ended December 31, 1998, 1997 and 1996 amounted to \$14,359,000, \$16,078,000 and \$12,944,000, respectively.

NOTE K-COMMITMENTS

The Company's minimum rental commitments, principally for equipment, under noncancelable leases in effect at December 31, 1998 amounted to approximately \$3,331,000. Such rentals are payable as follows: 1999-\$1,494,000; 2000-\$1,142,000; 2001-\$475,000 and 2002 and thereafter-\$220,000.

Total rental expense for the years ended December 31, 1998, 1997 and 1996 amounted to \$1,655,000, \$1,647,000 and \$1,402,000.

NOTE L - INCOME PER SHARE

The computation of basic and diluted income per share consisted of the following:

(In thousands, except per share data)	1998 ----	Year ended December 31 1997 ----	1996 ----
NUMERATOR:			
Net income	\$ 19,474 =====	\$ 21,350 =====	\$ 19,995 =====
DENOMINATOR:			
Denominator for basic income per share - Weighted average shares	11,024	11,153	11,563
Effect of dilutive securities:	18 -----	22 -----	1 -----
Stock option plans			
Denominator for diluted income per share - Adjusted weighted average shares	11,042 =====	11,175 =====	11,564 =====
Basic income per share	\$ 1.77 =====	\$ 1.91 =====	\$ 1.73 =====
Diluted income per share	\$ 1.76 =====	\$ 1.91 =====	\$ 1.73 =====

LAWSON PRODUCTS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Description -----	Balance at Beginning of Period -----	Charged to Costs and Expenses -----	Deductions- Describe (A) -----	Balance at End of Period -----
Allowance deducted from assets to which it applies:				
Allowance for doubtful accounts:				
Year ended December 31, 1998	\$1,423,902	\$983,367	\$957,202	\$1,450,067
Year ended December 31, 1997	1,357,662	1,028,221	961,981	1,423,902
Year ended December 31, 1996	1,111,337	859,326	613,001	1,357,662

Note A - Uncollected receivables written off, net of recoveries.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

a. Directors

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1999, under the caption "Election of Directors," which information is incorporated herein by reference.

b. Executive Officers

The executive officers of the Company, all of whose terms of office expire on May 11, 1999, are as follows:

Name and Present Position with Company	Age	Year First Elected to Present Office	Other Offices Held During the Past Five Years
Sidney L. Port, Chairman of the Executive Committee and Director	88	1977	*
Bernard Kalish, Chief Executive Officer, Chairman of the Board and Director	61	1989	*
Peter G. Smith(1) President, Chief Operating Officer and Director	60	1989	*

(1) Mr. Smith retired as President and Chief Operating Officer of the Company on December 31, 1998.

Jeffrey B. Belford(2) Executive Vice President--Operations Chief Operating Officer (Office of the President)	52	1989	*
Robert J. Washlow(3) Executive Vice President Corporate Affairs, Secretary and Director (Office of the President)	54	1985	*
Roger Cannon Executive Vice President - Sales/Marketing (Office of the President)	50	1997	Mr. Cannon has been a member of the Office of the President since January 1, 1999. Vice President - - Central Field Sales from 1991 to 1997.
James Smith, Vice President-- Human Resources	58	1996	Mr. Smith was Vice President, Personnel from 1995 to 1996. Prior to 1995, Mr. Smith was Manager, Human Resources since he joined the Company in 1993.
Jerome Shaffer, Vice President, Treasurer and Director	71	1987	*
Joseph L. Pawlick, Vice President and Controller and Assistant Secretary	56	1987	*

- - - - -

(2) Mr. Belford became Chief Operating Officer and a member of the Office of the President effective January 1, 1999.

(3) Mr. Washlow has been Executive Vice President-Corporate Affairs since 1998, Secretary since 1985 and a member of the Office of the President since January 1, 1999.

* These persons have held the indicated positions for at least five years.

Item 11. Executive Compensation.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1999, under the caption "Remuneration of Executive Officers," which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1999 under the caption "Securities Beneficially Owned by Principal Stockholders and Management," which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of stockholders to be held on May 11, 1999 under the caption "Election of Directors," which information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) (1) Financial Statements

The following information is presented in this report:

Consolidated Balance Sheets as of December 31, 1998 and 1997.

Consolidated Statements of Income for the Years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for the Years ended December 31, 1998, 1997 and 1996.

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedule

The following consolidated financial statement schedule of Lawson Products, Inc. and subsidiaries is included in Item 14(d):

Schedule II - Valuation and Qualifying Accounts is submitted with this report.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not submitted because they are not applicable or are not required under Regulation S-X or because the required information is included in the financial statements or notes thereto.

(a) (3) Exhibits.

- 2 Purchase Agreement dated April 30, 1996 among Assembly Component Systems, Inc., Automatic Screw Machine Products Company, David E. Norman and James C. Norman, incorporated herein by reference from Exhibit (2)(a) to the Company's Current Report on Form 8-K dated April 30, 1996.
- 3(a) Certificate of Incorporation of the Company, as amended, incorporated herein by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
- 3(b) By-laws of the Company, as amended.
- *10(c)(1) Lawson Products, Inc. Incentive Stock Plan, incorporated herein by reference to Exhibit A to the Company's Proxy Statement for the Annual Meeting of Stockholders held on May 28, 1997.
- *10(c)(2) Salary Continuation Agreement between the Company and Mr. Sidney L. Port dated January 7, 1980 incorporated herein by reference from Exhibit 10(c)(2) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.
- *10(c)(3) Employment Agreement between the Company and Mr. Peter G. Smith dated July 17, 1972 incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the year ended December 31, 1981.
- *10(c)(4) Employment Agreement between the Company and Mr. Bernard Kalish, incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1985; First Amendment to Employment Agreement dated as of May 27, 1988 incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
- *10(C)(4.1) Second Amendment to Employment Agreement dated as of August 1, 1996, incorporated herein by reference to Exhibit 10(c)(4.1) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

*Indicates management employment contracts or compensatory plans or arrangements.

- *10(c)(5) Employment Agreement between the Company and Mr. Jerome Shaffer, incorporated herein by reference from Exhibit 10(c)(9) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1985.
- *10(c)(5.1) First Amendment to Employment Agreement dated as of August 1, 1996, incorporated herein by reference from Exhibit 10(c)(6.1) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
- *10(c)(6) Amended and Restated Executive Deferral Plan, incorporated herein by reference from Exhibit 10(c)(7) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.
- *10(c)(7) Agreement of Early Retirement dated December 23, 1998, between Peter G. Smith and the Company.
- *10(c)(8) Employment Agreement dated July 21, 1994 between the Company and Roger F. Cannon.
- 21 Subsidiaries of the Company.
- 23 Consent of Ernst & Young LLP.
- 27 Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of the fiscal year covered by this Report.

(c) Exhibits

See item 14(a)(3) above for a list of exhibits to this report.

(d) Schedules

See item 14(a)(2) above for a list of schedules filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 24, 1999

By /s/ Bernard Kalish

Bernard Kalish, Chairman
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Bernard Kalish	Chairman, Chief Executive Officer and Director (principal executive officer)	
/s/ Jerome Shaffer ----- Jerome Shaffer	Vice President, Treasurer and Director (principal financial officer)	
/s/ Joseph L. Pawlick ----- Joseph L. Pawlick	Vice President and Controller (principal accounting officer)	
/s/ James T. Brophy ----- James T. Brophy	Director	March 24, 1999
/s/ Ronald B. Port, M.D. ----- Ronald B. Port, M.D.	Director	
/s/ Sidney L. Port ----- Sidney L. Port	Director	
/s/ Robert G. Rettig ----- Robert G. Rettig	Director	
/s/ Mitchell H. Saranow ----- Mitchell H. Saranow	Director	
/s/ Peter G. Smith ----- Peter G. Smith	Director	
/s/ Robert J. Washlow ----- Robert J. Washlow	Director	

EXHIBIT INDEX

Exhibit Number -----	Description of Exhibit -----
2	Purchase Agreement dated April 30, 1996 among Assembly Component Systems, Inc., Automatic Screw Machine Products Company, David E. Norman and James C. Norman, incorporated herein by reference from Exhibit (2)(a) to the Company's Current Report on Form 8-K dated April 30, 1996.
3(a)	Certificate of Incorporation of the Company, as amended, incorporated herein by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
3(b)	By-laws of the Company, as amended.
10(c)(1)	Lawson Products, Inc. Incentive Stock Plan, incorporated herein by reference to Exhibit A to the Company's Proxy Statement for the Annual Meeting of Stockholders held on May 28, 1997.
10(c)(2)	Salary Continuation Agreement between the Company and Mr. Sidney L. Port, dated January 7, 1980, incorporated herein by reference from Exhibit 10(c)(2) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.
10(c)(3)	Employment Agreement between the Company and Mr. Peter G. Smith, dated January 17, 1972 incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the year ended December 31, 1981.
10(c)(4)	Employment Agreement between the Company and Mr. Bernard Kalish, incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1985; First Amendment to Employment Agreement dated as of May 27, 1988 incorporated herein by reference from Exhibit 10(c)(6) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.
10(c)(4.1)	Second Amendment to Employment Agreement dated as of August 1, 1996, incorporated herein by reference to Exhibit 10(c)(4.1) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
10(c)(5)	Employment Agreement between the Company and Mr. Jerome Shaffer, incorporated herein by reference from Exhibit 10(c)(9) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1985.
10(c)(5.1)	First Amendment to Employment Agreement dated as of August 1, 1996, incorporated herein by reference from Exhibit 10(c)(6.1) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

Exhibit
Number

Description of Exhibit

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| 10(c)(6) | Amended and Restated Executive Deferral Plan, incorporated herein by reference from Exhibit 10(c)(7) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995. |
| 10(c)(7) | Agreement of Early Retirement dated December 23, 1998 between Peter G. Smith and the Company. |
| 10(c)(8) | Employment Agreement dated July 21, 1994 between the Company and Roger F. Cannon. |
| 21 | Subsidiaries of the Company. |
| 23 | Consent of Ernst & Young LLP. |
| 27 | Financial Data Schedule |

LAWSON-PRODUCTS, INC.

BY-LAWS

* * *

ARTICLE I

OFFICES

Section 1.1 Registered Office. The registered office of the Corporation shall be maintained in the City of Dover, State of Delaware, and the registered agent in charge thereof is United States Corporation Company.

Section 1.2 Other Offices. The Corporation may also have an office in the City of Des Plaines, State of Illinois and at such other places as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS MEETINGS

Section 2.1 Place of Meetings. All meetings of the stockholders, whether annual or special, shall be held at the offices of the Corporation in Des Plaines, Illinois, or at such other place as may be fixed from time to time by the Board of Directors.

Section 2.2 Annual Meetings. An annual meeting of the stockholders shall be held in May in each year on such date and at such time as may from time to time be determined by the Board of Directors, at which the stockholders shall elect directors, and transact such other business as may properly be brought before the meeting.

Section 2.3 Notice of Meeting. Written notice of the annual meeting stating the place, date and hour of the meeting, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 2.4 Stockholder Nominations and Proposals. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before an annual meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) otherwise properly brought before the meeting by a

stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Section, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation at the principal executive office of the Corporation. To be timely, a stockholder's notice shall be delivered not less than 90 days nor more than 110 days prior to the first anniversary of the preceding year's meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder, to be timely, must be so delivered not later than the 10th day following the day on which public announcement (as defined herein) of the date of such meeting is first made.

Such stockholder's notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and any interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (A) the name and address of such stockholder, as they appear on the Corporation's books, and the name and address of such beneficial owner, (B) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder

and such beneficial owner as of the date such notice is given, and (C) a representation that such stockholder intends to appear in person or by proxy at the meeting to propose such business; (iii) in the event that such business includes a proposal to amend either the Certificate of Incorporation or the Bylaws of the Corporation, the language of the proposed amendment and (iv) if the stockholder intends to solicit proxies in support of such stockholder's proposal, a representation to that effect. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such stockholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that if such stockholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such a meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with this paragraph, and the Chairman of the Board or other person presiding at an annual meeting of stockholders, may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the stockholder solicits proxies in support of such stockholder's proposal without such stockholder having made the representation required by clause (iv) of the second preceding sentence. For the purposes of this paragraph "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition to the provisions of this paragraph, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth herein. Nothing in these Bylaws shall be deemed to affect any

rights of the stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.5 Stockholders List. At least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared, or caused to be prepared, by the Secretary. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.6 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chairman of the Executive Committee, if any, the Chairman of the Board or by the President and shall be called by the Secretary at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting. Unless otherwise prescribed by statute or by the Certificate of Incorporation, stockholders of this Corporation shall not be entitled to request a special meeting of stockholders.

Section 2.7 Notice of Special Meetings. Except as otherwise provided by statute, written notice of a special meeting, stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 2.8 Quorum. The holders of a majority of the total voting power of all outstanding shares of capital stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute, by the Certificate of Incorporation or by these By-Laws. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, of the place, date and hour of the adjourned meeting, until a quorum shall again be present or represented by proxy. At the adjourned meeting at which a quorum shall be present or represented by proxy, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.9 Voting. When a quorum is present at any meeting, and subject to the provisions of the General Corporation Law of the State of Delaware, the Certificate of Incorporation or by these By-Laws in respect of the

vote that shall be required for a specified action, the vote of the holders of a majority of the total voting power of all outstanding shares of capital stock of the Corporation, present in person or represented by proxy, shall be determinative of any question brought before such meeting, unless the question is one upon which, by express provision of the statutes or of the Certificate of Incorporation or of these By-Laws, a different vote is required in which case such express provision shall govern and control the decision of such question. Each stockholder shall have one vote for each share of stock having voting power registered in his name on the books of the Corporation, except as otherwise provided in the Certificate of Incorporation.

Section 2.10 Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may in writing authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period not to exceed ten years.

Without limiting the manner in which a stockholder may authorize another person or persons to act for him as proxy, a stockholder may validly authorize another person or persons to act for him as proxy by: (a) executing a writing to that effect, which execution may be accomplished by the stockholder or his authorized officer, director, employee or agent signing the writing or causing his signature to be affixed to the writing by any reasonable means including, but not limited to, by facsimile signature; or (b) transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that any telegram, cablegram or other electronic transmission submitted pursuant to clause (b) above is valid, the inspectors shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 2.11 Elimination of Right to Act by Consent. No action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

Section 2.12 Voting Procedures and Inspectors of Elections.

(a) The Corporation, by action of the Secretary, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting of stockholders and make a written report

thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist them in the performance of their duties.

(c) The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with clause (b) of Section 2.10 of these By-Laws, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors, at the time they make their certification pursuant to subsection (b)(v) of this Section, shall specify the specific information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors belief that the information is accurate and reliable.

ARTICLE III

DIRECTORS

Section 3.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may

exercise all such powers of the Corporation and do all such acts and things as are not by the General Corporation Law of the State of Delaware nor by the Certificate of Incorporation nor by these By-Laws directed or required to be exercised or done by the stockholders.

Section 3.2 Number of Directors, Classes, Terms and Election; Vacancies. The number of directors shall not be less than five nor more than nine, the exact number of directors to be determined from time to time by resolution adopted by a majority of the whole Board, and such exact number shall be nine until otherwise determined by resolution adopted by a majority of the whole Board. As used in this Article, a whole Board means the total number of directors which at the time are to constitute the Board of Directors, either as designated in this Section or as determined by the Board of Directors in accordance herewith, as the case may be. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

The Board of Directors shall be divided into three classes as nearly equal in number as possible, with the term of office of Class I expiring at the annual meeting of stockholders in 1983, of Class II expiring at the annual meeting of stockholders in 1984, and of Class III expiring at the annual meeting of stockholders in 1985. At each annual meeting of stockholders, directors chosen to succeed those whose terms then expire shall be elected for a term of office expiring at the third succeeding annual meeting of stockholders after their election.

If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, or a new directorship is created, a majority of the remaining directors, though less than a quorum, shall choose a successor or successors, or a director to fill the newly created directorship. Directors elected to fill a vacancy shall hold office for a term expiring at the annual meeting at which the term of the class to which they shall have been elected expires.

Section 3.3 Removal of Directors. Subject to the rights of the holders of any series of Preferred Stock then outstanding, (a) any director, or the entire Board of Directors may be removed at any time, but only for cause; and (b) the affirmative vote of the holders of not less than 75% of the total voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) outstanding at the time a determination is made shall be required to remove a director from office.

Section 3.4 Place of Meetings. The Board of Directors may hold its meetings outside of the State of Delaware, at the office of the Corporation or at such other places as they may from time to time determine, or as shall be fixed in the respective notices or waivers of notice of such meetings.

Section 3.5 Committees of Directors. The Board of Directors may, by resolution or resolutions passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate Members of any committee, who may replace any absent or disqualified member at

any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amendment to the By-Laws of the Corporation; and, unless the resolution, By-Laws, or Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. The committees shall keep regular minutes of their proceedings and report the same to the Board of Directors when required.

Section 3.6 Compensation of Directors. Directors, as such, may receive such stated salary for their services and/or such fixed sums and expenses of attendance for attendance at each regular or special meeting of the Board of Directors as may be established by resolution of the Board; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.7 Annual Meeting. The annual meeting of the Board of Directors shall be held within ten days after the annual meeting of the stockholders in each year. Notice of such meeting, unless waived, shall be given by mail or telegram to each director elected at such annual meeting, at his address as the same may appear on the records of the Corporation, or in the absence of such address, at his residence or usual place of business, at least three days before the day on which such meeting is to be held. Said meeting may be held at such place as the Board may fix from time to time or as may be specified or fixed in such notice or waiver thereof.

Section 3.8 Special Meetings. Special meetings of the Board of Directors may be held at any time on the call of the Chairman of the Executive Committee (if any), the Chairman of the Board or President or at the request in writing made to either of said Chairman or the President of any three directors. Notice of any such meeting, unless waived, shall be given by mail or telegram to each director at his address as the same appears on the records of the Corporation not less than one day prior to the day on which such meeting is to be held if such notice is by telegram, and not less than three days prior to the day on which the meeting is to be held if such notice is by mail. If the Secretary shall fail or refuse to give such notice, then the notice may be given by the officer to whom the request is made or by any one of the directors making the call. Any such meeting may be held at such place as the Board may fix from time to time or as may be specified or fixed in such notice or waiver thereof. Any meeting of the Board of Directors shall be a legal meeting without any notice thereof having been given, if all the directors shall be present thereat, and no notice of a meeting shall be required to be given to any director who shall attend such meeting.

Section 3.9 Action Without Meeting; Participation at Meeting by Telephone. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors.

Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

Section 3.10 Quorum and Manner of Acting. Except as otherwise provided in these By-Laws, a majority of the total number of directors as at the time specified by the By-Laws shall constitute a quorum at any regular or special meeting of the Board of Directors. Except as otherwise provided by statute, by the Certificate of Incorporation, or by these By-Laws, the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In case of an equality of votes on any question before the Board of Directors of the Corporation, the Director who holds the office of Chairman of the Executive Committee, if any, Chairman of the Board, or the President (if a director), in that order if present, shall have a second and deciding vote. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given, except that notice shall be given to all directors if the adjournment is for more than thirty days.

ARTICLE IV

OFFICERS

Section 4.1 Executive Officers. The executive officers of the Corporation shall be a Chairman of the Executive Committee (if such a committee is established in the manner prescribed by Section 3.5 of these By-Laws) , a Chairman of the Board, President or Office of the President established in the manner prescribed by Section 4.17 of these by-laws, one or more Executive Vice Presidents, one or more Senior Vice Presidents, such number of Vice Presidents, if any, as the Board of Directors may determine, a Secretary and a Treasurer. One person may hold any number of said offices, except that the office of President and Secretary shall not be held by the same person.

Section 4.2 Election, Term of Office and Eligibility. The executive officers of the Corporation shall be elected annually by the Board of Directors at its annual meeting or at a special meeting held in lieu thereof. Each officer, except such officers as may be appointed in accordance with the provisions of Section 4.3, shall hold office until his successor shall have been

duly elected or appointed and qualified or until his death, resignation or removal. The Chairman of the Board shall be and remain a member of the Board of Directors. None of the other officers need be members of the Board.

Section 4.3 Subordinate Officers. The Board of Directors may appoint such Assistant Secretaries, Assistant Treasurers, Controller and other officers, and such agents as the Board may determine, to hold office for such period and with such authority and to perform such duties as the Board may from time to time determine. The Board may, by specific resolution, empower the chief executive officer of the Corporation or the Executive Committee to appoint any such subordinate officers or agents.

Section 4.4 Removal. The Chairman of the Executive Committee, the Chairman of the Board, the President, any Vice President, the Secretary and/or the Treasurer may be removed at any time, either with or without cause, but only by the affirmative vote of the majority of the total number of directors as at the time specified by the By-Laws. Any subordinate officer appointed pursuant to Section 4.3 may be removed at any time, either with or without cause, by the majority vote of the directors present at any meeting of the Board or by any committee or officer empowered to appoint such subordinate officers.

Section 4.5 The Chairman of the Executive Committee. The Chairman of the Executive Committee shall, subject to the control of the Board of Directors and to such limitations as are imposed by statute, the Articles of Incorporation, and these By-Laws, be responsible for planning the future course and direction of the business of this Corporation and developing a program for the implementation thereof. Such responsibilities may include, but shall not be limited to, initiating programs for the development of new executive positions within this Corporation, the establishment of requirements and qualifications of personnel to fill such positions, determining potential new product categories, and exploring the utilization of new and more sophisticated operating and general business techniques. In the absence of the Chairman of the Board, the Chairman of the Executive Committee shall act as Chief Executive Officer of the Company and shall administer and be responsible for the management of the business and affairs of this Corporation.

Section 4.6 The Chairman of the Board. The Chairman of the Board shall be the chief executive officer of the Corporation. Subject to the control vested in the Board of Directors by statute, by the Certificate of Incorporation, or by these By-Laws, shall administer and be responsible for the overall management of the business and affairs of the Corporation. He shall preside at all meetings of the stockholders and the Board of Directors; and in general, shall perform all duties incident to the office of the Chairman of the Board and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.7 The President. The President shall have authority to see that all resolutions of the Board of Directors and of the Executive Committee are carried into effect, shall perform such duties as are incident to the office of President or as may from time to time be assigned by the Chairman of the Executive Committee, the Chairman of the Board, or the Board of Directors, and, if the President is a director, in the absence or disability of the Chairman of the Board, shall perform the duties of the Chairman of the Board.

Section 4.8 The Executive Vice Presidents. In the absence of the Chairman of the Executive Committee, the Chairman of the Board and the President, or in the event of their inability or refusal to act, the Executive Vice President (or in the event there be more than one Executive Vice President, Executive Vice Presidents in the order designated, or in the absence of any designation, in the order elected) shall perform the duties of the Chairman of the Executive Committee, the Chairman of the Board and the President. Each Executive Vice President shall perform such other duties as from time to time may be assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or by the Board of Directors.

Section 4.9 The Vice Presidents. In the event of the absence or disability of the Chairman of the Executive Committee, the Chairman of the Board, the President and/or all Executive Vice Presidents, each senior Vice President, in the order of his seniority, which shall be in the order of his election, and then each Vice President, in the order of his seniority, shall perform the duties of such officers. The Vice Presidents shall also perform such other duties as from time to time may be assigned to them by the Chairman of the Executive Committee, the Chairman of the Board, the President, Executive Vice Presidents or by the Board of Directors of the Corporation.

Section 4.10 The Secretary. The Secretary shall:

(a) Keep the minutes of the meetings of the stockholders and of the Board of Directors;

(b) See that all notices are duly given in accordance with the provisions of these By-Laws or as required by law;

(c) Be custodian of the records and of the seal of the Corporation and see that the seal or a facsimile or equivalent thereof is affixed to or reproduced on all documents, the execution of which on behalf of the Corporation under its seal is duly authorized;

(d) Have charge of the stock record books of the Corporation, unless the same shall be entrusted by the Board of Directors to a registrar or transfer agent, in which case the registrar or transfer agent shall have charge of same;

(e) In general, perform all duties incident to the office of Secretary, and such other duties as are provided by these By-Laws and as from time to time are assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or the Board of Directors of the Corporation.

Section 4.11 The Assistant Secretaries. If one or more Assistant Secretaries shall be appointed pursuant to the provisions of Section 4.3 respecting subordinate officers, then, at the request of the Secretary, or in his absence or disability, the Assistant Secretary designated by the Secretary (or in the absence of such designations, then any one of such Assistant

Secretaries) shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 4.12 The Treasurer. The Treasurer shall:

(a) Receive and be responsible for all funds of and securities owned or held by the Corporation and, in connection therewith, among other things: keep or cause to be kept full and accurate records and accounts for the Corporation; deposit or cause to be deposited to the credit of the Corporation all moneys, funds and securities so received in such bank or other depository as the Board of Directors or an officer designated by the Board may from time to time establish; and disburse or supervise the disbursement of the funds of the Corporation as may be properly authorized;

(b) Render to the Board of Directors at any meeting thereof, or from time to time whenever the Board of Directors or the chief executive officer of the Corporation may require, financial and other appropriate reports on the condition of the Corporation;

(c) In general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Chairman of the Executive Committee, the Chairman of the Board, the President or the Board of Directors of the Corporation.

Section 4.13 The Assistant Treasurers. If one or more Assistant Treasurers shall be appointed pursuant to the provisions of Section 4.3 respecting subordinate officers, then, at the request of the Treasurer, or in his absence or disability, the Assistant Treasurer designated by the Treasurer (or in the absence of such designation, then any one of such Assistant Treasurers) shall perform all the duties of the Treasurer and when so acting shall have all the powers of and be subject to all the restrictions upon the Treasurer.

Section 4.14 Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

Section 4.15 Bonds. If the Board of Directors or the chief executive officer shall so require, any officer or agent of the Corporation shall give bond to the Corporation in such amount and with such surety as the Board of Directors or the chief executive officer, as the case may be, may deem sufficient, conditioned upon the faithful performance of their respective duties and offices.

Section 4.16 Delegation of Duties. In case of the absence of any officer of the Corporation or for any other reason which may seem sufficient to the Board of Directors, the Board of Directors may, for the time being, delegate his powers and duties, or any of them, to any other officer or to any director.

Section 4.17 Office of the President. Notwithstanding anything herein to the contrary, the Board of Directors of the Corporation may at any time, and from time to time, (i) designate, in lieu of a President, an Office of the President or (ii) disband such Office of the President in favor of a President. The Office of the President shall consist of at least two, but not more than three employees of the Corporation, elected by the Board of Directors. Each member of the Office of the President shall perform such duties as may be prescribed by the Chairman of the Board or the Board of Directors and shall have the same duties and powers as a President of the Corporation hereunder; provided, however, that (i) the Board of Directors of the Corporation may, by resolution, designate only certain members of the Office of the President who may exercise certain authority of a President hereunder, and (ii) the approval of at least two members of the Office of the President shall be required for all actions of the Office of the President including, but not limited to, the following:

- (a) Calling for a special meeting of stockholders pursuant to Section 2.6 hereof;
- (b) Calling for a special meeting of the Board of Directors of the Corporation pursuant to Section 3.8 hereof;
- (c) Casting the deciding vote on any question before the Board of Directors of the Corporation pursuant to Section 3.10 if and only if all such members of the Office of the President are also directors of the Corporation. If only one member of the Office of the President is a director, such member shall have authority to cast the deciding vote pursuant to Section 3.10 hereof; and
- (d) Assign duties to any Executive Vice President, any Vice President, the Secretary or the Treasurer.

ARTICLE V

SHARES OF STOCK

Section 5.1 Regulation. Subject to the terms of any contract of the Corporation, the Board of Directors may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation, including the issue of new certificates for lost, stolen or destroyed certificates, and including the appointment of transfer agents and registrars.

Section 5.2 Stock Certificates. Certificates for shares of the stock of the Corporation shall be respectively numbered serially for each class of stock, or series thereof, as they are issued, shall be impressed with the corporate seal or a facsimile thereof, and shall be signed by the Chairman of the Board, the President or an Executive Vice President, and by the Secretary or Treasurer, or an Assistant Secretary or an Assistant Treasurer, provided that such signatures may be facsimiles on any certificate countersigned by a transfer

agent other than the Corporation or its employee. Each certificate shall exhibit the name of the Corporation, the class (or series of any class) and number of shares represented thereby, the name of the holder, the par value of the shares represented thereby, or that such shares are without par value. The powers, designations, preferences, and relative, participating, optional or other special rights of each class of stock and series of any class and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificates which the Corporation shall issue, or such certificate shall contain a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Each certificate shall be otherwise in such form as may be prescribed by the Board of Directors.

Section 5.3 Transfer of Shares. Shares of the capital stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his duly authorized attorney, upon the surrender or cancellation of a certificate or certificates for a like number of shares. Upon presentation and surrender of a certificate properly endorsed and payment of all taxes therefor, the transferee shall be entitled to a new certificate or certificates in lieu thereof. As against the Corporation, a transfer of shares can be made only on the books of the Corporation and in the manner hereinabove provided, and the Corporation shall be entitled to treat the registered holder of any share as the owner thereof and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the statutes of the State of Delaware.

Section 5.4 Fixing Date for Determination Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 5.5 Lost Certificate. Any stockholder claiming that a certificate representing shares of stock has been lost, stolen or destroyed may make an affidavit or affirmation of the fact and, if the Board of Directors so requires, advertise the same in a manner designated by the Board, and give the Corporation a bond of indemnity in form and with security for an amount satisfactory to the Board (or an officer or officers designated by the Board), whereupon a new certificate may be issued of the same tenor and representing the same number, class and/or series of shares as were represented by the certificate alleged to have been lost, stolen or destroyed.

ARTICLE VI

BOOKS AND RECORDS

Section 6.1 Location. The books, accounts and records of the Corporation may be kept at such place or places within or without the State of Delaware as the Board of Directors may from time to time determine.

Section 6.2 Inspection. The books, accounts and records of the Corporation shall be open to inspection by any member of the Board of Directors at all times; and open to inspection by the stockholders at such times, and subject to such regulations as the Board of Directors may prescribe, except as otherwise provided by statute.

Section 6.3 Corporate Seal. The corporate seal shall contain two concentric circles between which shall be the name of the Corporation and the word Delaware and in the center shall be inscribed the words Corporate Seal.

ARTICLE VII

DIVIDENDS AND RESERVES

Section 7.1 Dividends. Dividends upon the outstanding shares of capital stock of the Corporation (other than liquidating dividends) shall be declared only from the earned surplus or net profits of the Corporation. Subject to the provisions of the Certificate of Incorporation, and to any other lawful commitments of the Corporation, and subject to applicable law, dividends may be declared and made payable at such times and in such amounts as the Board of Directors may from time to time determine. Dividends may be declared at any regular or special meeting of the Board and may be paid in cash or other property or in the form of a stock dividend.

Section 7.2 Reserves. The Board of Directors of the Corporation may set apart, out of any of the funds of the Corporation available for dividends, a reserve or reserves for any proper purpose and may increase, reduce or abolish any such reserve.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.1 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 8.2 Depositories. The Board of Directors or an officer designated by the Board shall appoint banks, trust companies, or other depositories in which shall be deposited from time to time the money or securities of the Corporation.

Section 8.3 Checks, Drafts and Notes. All checks, drafts, or other orders for the payment of money and all notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or

officers or agent or agents as shall from time to time be designated by resolution of the Board of Directors or by an officer appointed by the Board.

Section 8.4 Contracts and Other Instruments. The Board of Directors may authorize any officer, agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation and such authority may be general or confided to specific instances.

Section 8.5 Notices. Whenever under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in a post office or letter box, in a postpaid sealed wrapper or by delivery to a telegraph company, addressed to such director or stockholder at such address as appears on the records of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus mailed or delivered to a telegraph company.

Section 8.6 Waivers of Notice. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice.

Section 8.7 Stock in Other Corporations. Any shares of stock in any other Corporation which may from time to time be held by this Corporation may be represented and voted at any meeting of shareholders of such Corporation by the Chairman of the Executive Committee, if any, the Chairman of the Board, or the President or an Executive Vice President, or by any other person or persons thereunto authorized by the Board of Directors, or by any proxy designated by written instrument of appointment executed in the name of this Corporation by its Chairman of the Executive Committee, if any, the Chairman of the Board, the President or an Executive Vice President. Shares of stock belonging to the Corporation need not stand in the name of the Corporation, but may be held for the benefit of the Corporation in the individual name of the Treasurer or of any other nominee designated for the purpose by the Board of Directors. Certificates for shares so held for the benefit of the Corporation shall be endorsed in blank or have proper stock powers attached so that said certificates are at all times in due form for transfer, and shall be held for safekeeping in such manner as shall be determined from time to time by the Board of Directors.

Section 8.8 Indemnification. (a) Each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he, or a person of whom

he is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the laws of Delaware as the same now or may hereafter exist (but, in the case of any change, only to the extent that such change authorizes the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such change) against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his heirs, executors and administrators. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that the director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(b) If a claim under subsection (a) of this Section is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he has met such standard of conduct, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct, nor the termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall be a defense to the action or create a presumption that the claimant has failed to meet the required standard of conduct.

(c) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Law, agreement, vote of stockholders or disinterested directors or otherwise.

(d) The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another Corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(e) To the extent that any director, officer, employee or agent of the Corporation is by reason of such position, or a position with another entity at the request of the Corporation, a witness in any proceeding, he shall be indemnified against all costs and expenses actually and reasonably incurred by him or on his behalf in connection therewith.

(e) Any amendment, repeal or modification of any provision of this Section by the stockholders or the directors of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment, repeal or modification.

Section 8.9 Amendment of By-Laws.

The stockholders, by the affirmative vote of holders of not less than 75% of the total voting power of all outstanding shares of capital stock of the Corporation may, at any annual or special meeting if notice of such alteration or amendment of the By-Laws is contained in the notice of such meeting, alter, amend, or repeal these By-Laws, and alterations or amendments of By-Laws made by the stockholders shall not be altered or amended by the Board of Directors.

The Board of Directors, by the affirmative vote of a majority of the whole Board, may make, alter, amend, or repeal these By-Laws at any meeting, except as provided in the above paragraph. By-Laws made, altered, amended or repealed by the Board of Directors may be altered or repealed by the stockholders.

AGREEMENT OF EARLY RETIREMENT

This Agreement made this 23rd day of December, 1998 between Peter G. Smith ("Smith") and Lawson Products, Inc., a Delaware corporation ("Company") at Des Plaines, Illinois.

The Company has proposed and Smith desires to accept the proposal for early retirement effective with the close of business on December 31, 1998 on the terms, conditions and in accordance with the provisions as set forth herein. Smith has since December, 1971 served the Company in various capacities including, but not limited to, Director, corporate officer and President and has been directly involved in the creation, acquisition and operation of many aspects of the business of the Company and of its subsidiaries within the United States and in foreign countries.

In consideration of the premises hereof and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereby agree as follows:

1. Effective January 1, 1999, Smith will relinquish his duties and responsibilities and retire from the offices of President and Chief Operating Officer of Lawson Products, Inc. (Delaware), as a member of the Executive Committee of Lawson Products, Inc. (Delaware), and as an officer of those of its subsidiaries of which he is an officer and as a director of those subsidiaries of which he is a director. Smith will continue to serve as a member of the Board of Directors of Company until otherwise determined by himself, the Board of Directors or the shareholders of Company.

2. Salary. Smith's current annualized salary of Three Hundred Seven Thousand One Hundred Nine Dollars (\$307,109) per year will continue to be paid until June 30, 2003 (Salary Continuation Period).

3. During the Salary Continuation Period and at all times thereafter, Smith will not disclose to any person, firm or entity whatsoever any information relating to the Company or its or their customers or any trade secrets of any of them of which he became or may become aware during his employment with the Company or at any time thereafter.

4. Smith covenants that until two years after the later to occur of (a) the expiration of the Salary Continuation Period, and (b) the date on which Smith is no longer a member of the Board of Directors of the Company ("Prohibited Period"), Smith will not, without the written permission of the Board of Directors of Company, which may be withheld for any reason, directly or indirectly, individually or in combination with others with respect to any other company or entity carrying on a business similar to that of the Company or any of its subsidiaries as it or they may exist during the Prohibited Period:

(a) hold or deal in the share or other interest of any such company or entity which is privately owned; or

(b) hold or deal in (except for investment purposes only, and in such event, not to exceed 1% of the outstanding shares of such company or entity) the shares or other interest of any such company or entity which is publicly owned.

5. Smith covenants that until two years after the later to occur of (a) the expiration of the Salary Continuation Period, and (b) the date on which Smith is no longer a member of the Board of Directors of the Company ("Prohibited Period"), he will not, directly or indirectly, carry on for himself or be associated in any capacity with any business, company or entity, the business of which competes with that of the Company or any of its subsidiaries (as it or they may exist during the Prohibited Period) with respect to the products handled or the customers sold or both and he will not engage in any activities which will be detrimental or contrary to the best interest of the Company or any of its subsidiaries. Inasmuch as the Company and certain of its subsidiaries operate their respective businesses throughout the United States and in certain foreign countries, the restriction herein contained shall apply throughout the United States and in such foreign countries in which the Company or its subsidiaries or affiliates are or may from time to time during the Prohibited Period be seeking orders for or selling merchandise, whether directly or through its agents or representatives.

6. Smith further covenants and agrees that in the event of a breach or violation on his part of any of the above covenants that (a) any monies due or to become due to Smith from Company hereunder or otherwise shall thereupon be no longer due or payable and all obligations of Company to make such payments shall be void; (b) all benefits to be provided to Smith by Company hereunder shall cease; and (c) a suit in equity may be instituted to obtain an injunction and

that a temporary restraining order may be granted immediately upon the commencement of any such suit without notice. This remedy is in addition to any other remedies, legal or equitable, which may be available to the Company.

7. Health Insurance. During the Salary Continuation Period, Smith shall be entitled to continue his participation in the group health insurance program under which he was covered immediately prior to the Retirement Date if in effect and if not, he may participate in any such plan then in effect in accordance with its terms; provided, however, that to continue his participation in any such program, Smith shall be responsible throughout the Salary Continuation Period for paying the same monthly premiums and costs as he would otherwise have been responsible for had he remained in Lawson's employ during such period.

8. Medicare Coverage. On June 22, 2003, Smith will become Medicare eligible and all coverage under the Company's medical plan (as may be in force from time to time) will cease. Effective that date, Smith will have the option of enrolling in the Medicare Supplement and Prescription Plan as may then be in effect and in accordance with its terms. If Smith enrolls in the Medicare Supplement and Prescription Plan, Smith will pay the premium cost to the insurance company as long as he participates in the Plan.

9. Dental Insurance. During the Salary Continuation Period, Smith shall be entitled to continue his participation in the dental insurance program under which he was covered immediately prior to the Retirement Date if in effect and if not, he may participate in any such plan then in effect in accordance with its terms; provided, however, that to continue his participation in such program, Smith shall be responsible throughout the Salary Continuation Period for paying the same monthly premiums and costs as he would otherwise have been responsible for had he remained in the Company's employ during such period.

10. Retiree Spouse Coverage. During the Salary Continuation Period, Smith's spouse will be permitted to participate in the health and dental insurance programs under which she was covered immediately prior to Smith's Retirement Date if in effect and if not, in any such programs as may then be in effect in accordance with the terms of any such plan. On the date Smith reaches the age of 65 and is Medicare eligible, his spouse, if not yet 65, will be entitled to participate in continued coverage of any such plan then in effect, if any, until the earlier of (a) the expiration of a period of five (5) years or (b) until she attains the age of 65. The Company will contribute its portion (as provided in such program then in effect, if any) of the cost of the premium at the rate in effect at the time coverage is elected. Smith will have the election of adding his spouse to the medicare supplement insurance, at his cost, when his spouse attains the age of sixty-five (65) to the extent permitted by such insurance, if any.

11. Executive Deferral Plan. During the Salary Continuation Period, Smith may continue, at his election, to remain a participant in the Company's Executive Salary Deferral Plan. If Smith elects not to continue as a plan participant during the Salary Continuation Period, the distribution of benefits will begin at the time of such election; otherwise, the distribution of benefits will commence after June 30, 2003 in accordance with the payment options permitted by this Plan as they may exist at such time.

12. Profit Sharing. Smith will be considered an active plan participant for the 1998 Profit Sharing Plan Year. From and after January 1, 1999, he will not be considered an active plan participant for any purpose and any amounts remaining in his Profit Sharing Plan Account will be treated as provided in the Profit Sharing Plan, as amended from time to time. Distributions of funds from Smith's Profit Sharing Plan Account shall be in conformance with IRS regulations and the provisions of the Profit Sharing Plan, as amended from time to time.

13. Airline Travel. The Company presently has a contract with American Airlines and until the earlier of (a) the expiration of the period the contract remains in force, (b) the expiration of the Salary Continuation Period, or (c) the date Smith is no longer a member of the Board of Directors of the Company, Smith will continue to receive his current level of benefits to the extent permitted by the said contract, if any: (1) "Platinum" status for Smith; (2) "Admirals Club" Membership; and (3) Smith will be allowed to purchase airline tickets through the Company which will be charged to his personal credit card.

14. Life Insurance. Subject to the last sentence of this paragraph, during the Salary Continuation Period, Smith will be entitled to the Company paid Life Insurance benefit of \$50,000 and the Travel & Accident Insurance benefit of \$300,000 limited to the extent such benefits are offered by the Company from time to time. Additionally and subject to the last sentence of this paragraph,

Smith may continue participation in the Supplemental Life Insurance and Spouse Life Insurance benefit programs limited to the extent such benefits are offered by the Company from time to time. Smith shall be responsible throughout the Salary Continuation Period for paying the same monthly premiums for himself and his wife as he would otherwise have been responsible for had he remained in the Company's employ during such period.

15. Executive Physical. Until the earlier of (a) the expiration of the Salary Continuation Period, or (b) the date Smith is no longer a member of the Board of Directors of the Company, Smith will be entitled to the Company paid Executive Physical, annually until June 30, 2003.

16. This Agreement supersedes that certain Employment Agreement dated July 17, 1972 by and between Smith and Lawson Products, Inc. and is intended to survive any management change or any sale or divestiture of the Company.

LAWSON PRODUCTS, INC.
a Delaware corporation

By: /s/ Bernard Kalish
Its Chairman & CEO

/s/ Peter G. Smith
Peter G. Smith

EMPLOYMENT AGREEMENT

This Agreement made this 21st day of July, 1994, by and between Lawson Products, Inc., a corporation organized and existing under the Laws of the state of Delaware hereinafter called the "Company" of one part, and of Roger F. Cannon of Rolling Meadows, Illinois hereinafter called "Cannon" of the other part.

WITNESSETH:

Whereas, due to the uncertainty of life and understandable desire of Cannon to provide as best he can for the future security of himself and his family and, therefore, to put into writing for the permanent record various matters which heretofore have been unwritten but understood between the Company and Cannon.

Now, therefore, it is agreed that:

- A. Whereas Cannon has been affiliated with the Company since March 17, 1975 in various capacities, and now occupies the position of Vice President of Field Sales Central, encompassing but not limited to Western, Central, Southeastern States, Southwestern States, Hawaii, Alaska and Puerto Rico, with all the rights and privileges appertaining to such position and it is agreed that Cannon shall report directly to Hugh Allen, Executive Vice President of Sales/Marketing, and that all areas involved shall be subject to change at any time the Company may so require as warranted by conditions.
- B. During his employment Cannon shall actively devote the whole of his time, as required by the Company, to the business of the Company, and shall use his best efforts and endeavor to promote the interest and welfare of the Company at all times.
- C. Cannon shall at all times conduct himself in a manner reflecting credit upon himself and the Company and he will refrain from any conduct which would cause disparagement of himself or the Company.
- D. He will not during his employment, and for a period of one (1) year, after the termination of his employment, discuss with any person whatsoever, any information relating to the Company or its customers or any trade secrets of which he shall become possessed while acting for the Company in any capacity.
- E. He will not, during the period referred to in D, without the written permission of the Board of Directors, directly or indirectly, individually or in a combination with others with respect to any other company carrying on a business similar to

that of the Company or its parent or any direct or indirect subsidiary of the parent ("Affiliated Company"):

- (a) Hold or deal in the shares of any such company which is privately owned, or
- (b) Hold or deal in (except for investment purposes only, and not to the extent in the aggregate of a controlling interest) the shares of any such company which is publicly owned.
- F. The basis of compensation shall be \$163,100.00 annually as of this writing, and thereafter as determined by the Company subject to such increases being permissible under the existing laws and regulations.
- G. Cannon covenants that during and within one (1) year following termination of his employment for whatever reason he will not directly or indirectly, carry on for himself or be associated in any capacity with any business, whether it be corporation, partnership, or individual operation, which business competes with that of the Company or any Affiliated Company, with respect to the products handled or the customers sold or both and he will not engage in any activities which will be detrimental or contrary to the best interests of the Company or any Affiliated Company.

These hereinabove covenants (A through G, inclusive) are of the essence of this Agreement and the breach of any or all shall give rise to a cause of action or defense, either in law or equity, for the aggrieved party, and for

immediate termination of employment.

Cannon further covenants and agrees that, in the event of a break or violation of his part of the above covenants, a suit in equity may be instituted to obtain an injunction and that a temporary restraining order or injunction may be granted immediately upon the commencement of any such suit without notice. The remedy is in addition to any other remedies, legal or equitable, available to the Company.

Each party shall be entitled to two (2) years notice by registered or certified mail directed to the regular mailing address in the event termination shall be required by either party, except that in the event of breach by Cannon of any of the covenants, A to G, inclusive, advance notice of termination by the Company shall not be required.

In addition, Cannon is to receive a paid vacation of four weeks annually, plus the following additional benefits as presently in effect; Hospitalization and Major Medical, Long Term Disability, Profit Sharing and a Life Insurance Policy in the amount of \$50,000 with Double Indemnity. He will continue to be a participant under the Employee's Profit Sharing Plan and also he shall participate in the stock option program in the future. In addition, an Accidental Death Policy is carried by the Company whereby the sum of \$300,000.00

is paid to the family of Cannon in the event of accidental death. This coverage will continue as long as this Accident Policy is carried by the Company.

This is a contract for personal services and in the event Cannon shall become incapacitated, in accordance with the terms of his Long Term Disability Policy provided by the Company, and unable to perform his normal duties and it becomes necessary to have another man act in the place of Cannon, Cannon shall be paid 100% of his salary for a period not to exceed six (6) months and one-half of his salary for the ensuing two and one-half (2 1/2) years. In every instance, under this Agreement, the amounts payable under the Long Term Disability Policy are to be applied as credits for the Company against the amounts to be received by Cannon whether for a short term or a long term incapacity.

In the event Cannon should suffer a premature demise while in the employ of the Company, and prior to his having given notice of termination of services, as provided above, Lawson Products, Inc. will continue to pay his designated beneficiary, or if none, to the personal representative of his estate, an amount equal to one-half (1/2) his annual salary for a period of one (1) year, in equal semi-monthly installments, payable on the 10th and 25th respectively. This additional payment is agreed to in consideration of the services rendered over and above that which is called for in the ordinary performance of one's duties, and for which Cannon has not been and will not be compensated for during his lifetime, and the Company makes this provision for payment covering such services.

The Agreement constitutes and expresses the whole agreement of said parties hereto in reference to any employment of Cannon by the Company and in reference to any of the matters or things herein provided for or hereinabove discussed or mentioned, in reference to such employment - - all representations and understandings relative hereto having been merged herein.

This Agreement is to be construed in accordance with the Laws of the State of Illinois and severable; and, in the event any portion of it is or shall be deemed invalid or unenforceable in any State, such invalidity or lack of enforceability shall not render the remaining portion of this Agreement invalid or unenforceable in said State or elsewhere.

In witness whereof the parties have hereto set their hands and seals the day and year first herein above written.

LAWSON PRODUCTS, INC.

By: /s/Hugh L. Allen

/s/Roger F. Cannon
Roger F. Cannon

ATTEST:

EXHIBIT 21

Subsidiaries of the Company

Name	Jurisdiction of Incorporation
-----	-----
Lawson Products, Inc.	New Jersey
Lawson Products, Inc.	Texas
Lawson Products, Inc.	Georgia
Lawson Products, Inc.	Nevada
Lawson Products, Inc. (Ontario)	Ontario, Canada
Lawson Products Limited	England
LPI Holdings, Inc.	Illinois
Lawson Products de Mexico S.A. de C.V.	Mexico
Drummond American Corporation	Illinois
Cronatron Welding Systems, Inc.	North Carolina
Assembly Component Systems, Inc.	Illinois
Automatic Screw Machine Products Company, Inc.*	Alabama
LP Service Co.	Illinois
C.B. Lynn Company	Illinois

*subsidiary of Assembly Component Systems, Inc.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-17912) pertaining to the Lawson Products, Inc. Employees' Profit Sharing Trust, and in the related Prospectus of our report dated February 26, 1999, with respect to the consolidated financial statements and schedule of Lawson Products, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 1998.

/s/ Ernst & Young LLP

Chicago, Illinois
March 25, 1999

1,000

12-MOS	
Dec-31-1998	
Jan-1-1998	
Dec-31-1998	
	13,872
	24,836
	36,705
	1,450
	46,670
118,402	
	73,592
	32,450
198,982	
30,801	
	0
0	
	0
	10,664
	132,271
198,982	
	292,523
295,231	
	99,554
	99,554
	0
	983
	48
	33,590
	14,116
19,474	
	0
	0
	0
	19,474
	1.77
	1.76