

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

FORM 10-Q

(Mark One)

Quarterly Report under Section 13 OR 15(d) of the Securities Exchange Act of 1934
For quarterly period ended **March 31, 2016**
or

Transition Report under Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission file Number: **0-10546**

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2229304
(I.R.S. Employer
Identification No.)

8770 W. Bryn Mawr Avenue, Suite 900, Chicago, Illinois
(Address of principal executive offices)

60631
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares outstanding of the registrant's common stock, \$1 par value, as of April 15, 2016 was 8,771,120.

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“Safe Harbor” Statement under the Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms “may,” “should,” “could,” “anticipate,” “believe,” “continues,” “estimate,” “expect,” “intend,” “objective,” “plan,” “potential,” “project” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management’s current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include:

- the effect of general economic and market conditions;
- the ability to generate sufficient cash to fund our operating requirements;
- the ability to meet the covenant requirements of our line of credit;
- the market price of our common stock may decline;
- inventory obsolescence;
- work stoppages and other disruptions at transportation centers or shipping ports;
- changing customer demand and product mixes;
- increases in energy and commodity prices;
- decreases in demand from oil and gas customers due to lower oil prices;
- disruptions of our information and communication systems;
- cyber attacks or other information security breaches;
- failure to recruit, integrate and retain a talented workforce including productive sales representatives;
- the inability of management to successfully implement strategic initiatives;
- failure to manage change within the organization;
- highly competitive market;
- changes that affect governmental and other tax-supported entities;
- violations of environmental protection or other governmental regulations;
- negative changes related to tax matters; and
- all other factors discussed in the Company’s “Risk Factors” set forth in its Annual Report on Form 10-K for the year ended December 31, 2015.

The Company undertakes no obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

| ASSETS | March 31, 2016 (Unaudited) | December 31, 2015 |
|------------------------------------------------------------|-------------------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 10,068 | \$ 10,765 |
| Restricted cash | 800 | 800 |
| Accounts receivable, less allowance for doubtful accounts | 31,012 | 27,231 |
| Inventories, net | 43,800 | 44,095 |
| Miscellaneous receivables and prepaid expenses | 4,281 | 3,667 |
| Total current assets | 89,961 | 86,558 |
| Property, plant and equipment, net | 34,008 | 35,487 |
| Cash value of life insurance | 8,475 | 10,245 |
| Deferred income taxes | 51 | 51 |
| Other assets | 2,008 | 753 |
| Total assets | \$ 134,503 | \$ 133,094 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Revolving line of credit | \$ 2,230 | \$ 925 |
| Accounts payable | 10,800 | 9,370 |
| Accrued expenses and other liabilities | 22,829 | 26,048 |
| Total current liabilities | 35,859 | 36,343 |
| Security bonus plan | 14,459 | 14,641 |
| Financing lease obligation | 8,310 | 8,539 |
| Deferred compensation | 4,390 | 4,626 |
| Deferred rent liability | 3,925 | 3,912 |
| Other liabilities | 4,043 | 3,769 |
| Total liabilities | 70,986 | 71,830 |
| Stockholders' equity: | | |
| Preferred stock, \$1 par value: | | |
| Authorized - 500,000 shares, Issued and outstanding — None | — | — |
| Common stock, \$1 par value: | | |
| Authorized - 35,000,000 shares | | |
| Issued - 8,796,264 shares | | |
| Outstanding - 8,771,120 shares | 8,796 | 8,796 |
| Capital in excess of par value | 10,156 | 9,877 |
| Retained earnings | 44,589 | 43,572 |
| Treasury stock – 25,144 shares | (515) | (515) |
| Accumulated other comprehensive income | 491 | (466) |
| Total stockholders' equity | 63,517 | 61,264 |
| Total liabilities and stockholders' equity | \$ 134,503 | \$ 133,094 |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--------------------------------------------------------|---------------------------------|-------------------|
| | 2016 | 2015 |
| Net sales | \$ 69,711 | \$ 69,904 |
| Cost of goods sold | 27,252 | 27,021 |
| Gross profit | 42,459 | 42,883 |
| Operating expenses: | | |
| Selling expenses | 22,753 | 24,401 |
| General and administrative expenses | 18,537 | 19,429 |
| Operating expenses | 41,290 | 43,830 |
| Operating income (loss) | 1,169 | (947) |
| Interest expense | (166) | (136) |
| Other income (expenses), net | 123 | (233) |
| Income (loss) before income taxes | 1,126 | (1,316) |
| Income tax expense | 109 | 55 |
| Net income (loss) | \$ 1,017 | \$ (1,371) |
| Basic income (loss) per share of common stock | \$ 0.12 | \$ (0.16) |
| Diluted income (loss) per share of common stock | \$ 0.11 | \$ (0.16) |
| Weighted average shares outstanding: | | |
| Basic weighted average shares outstanding | 8,771 | 8,706 |
| Effect of dilutive securities outstanding | 131 | — |
| Diluted weighted average shares outstanding | 8,902 | 8,706 |
| Comprehensive income (loss) | | |
| Net income (loss) | \$ 1,017 | \$ (1,371) |
| Other comprehensive loss, net of tax | | |
| Adjustment for foreign currency translation | 957 | (519) |
| Net comprehensive income (loss) | \$ 1,974 | \$ (1,890) |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--------------------------------------------------------------------------------------|---------------------------------|-------------------|
| | 2016 | 2015 |
| Operating activities: | | |
| Net income (loss) | \$ 1,017 | \$ (1,371) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 2,187 | 2,096 |
| Stock-based compensation | (1,217) | (747) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,697) | (1,994) |
| Inventories | 611 | (68) |
| Prepaid expenses and other assets | 1,192 | 1,137 |
| Accounts payable and other liabilities | (1,190) | (1,100) |
| Other | 134 | 151 |
| Net cash used in operating activities | \$ (963) | \$ (1,896) |
| Investing activities: | | |
| Additions to property, plant and equipment | \$ (519) | \$ (352) |
| Business acquisition | (1,250) | — |
| Proceeds from sale of property and equipment | — | 3 |
| Net cash used in investing activities | \$ (1,769) | \$ (349) |
| Financing activities: | | |
| Net proceeds on revolving line of credit | \$ 1,305 | \$ — |
| Net cash provided by financing activities | \$ 1,305 | \$ — |
| Effect of exchange rate changes on cash and cash equivalents | 730 | 28 |
| Decrease in cash and cash equivalents | (697) | (2,217) |
| Cash and cash equivalents at beginning of period | 10,765 | 4,207 |
| Cash and cash equivalents at end of period | \$ 10,068 | \$ 1,990 |

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements**Note 1 — Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying unaudited condensed consolidated financial statements of Lawson Products, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of the Company, all normal recurring adjustments have been made that are necessary to present fairly the results of operations for the interim periods. Operating results for the three month periods ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. Certain reclassifications have been made to the Condensed Consolidated Financial Statements for March 31, 2015 to conform to current period presentation.

The Company operates in one reportable segment as a Maintenance, Repair and Operations ("MRO") distributor of products and services to the industrial, commercial, institutional, and governmental maintenance, repair and operations marketplace.

For the three months ended March 31, 2016 and 2015, stock options to purchase 40,000 of the Company's common stock were excluded from the computation of diluted earnings per share because they were anti-dilutive. Additionally, for the three months ended March 31, 2015, the effect of approximately 184,000 common shares from outstanding restricted stock awards, market stock units and stock options were anti-dilutive and excluded from the computation of diluted earnings per share because of the net loss recorded for the period.

There have been no material changes in the Company's significant accounting policies during the three months ended March 31, 2016 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2015.

Note 2 — Restricted Cash

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

Note 3 — Inventories, net

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

| | (Dollars in thousands) | |
|-------------------------------------------|------------------------|-------------------|
| | March 31, 2016 | December 31, 2015 |
| Inventories, gross | \$ 49,504 | \$ 49,615 |
| Reserve for obsolete and excess inventory | (5,704) | (5,520) |
| Inventories, net | <u>\$ 43,800</u> | <u>\$ 44,095</u> |

Note 4 — Acquisition and Goodwill

In the first quarter of 2016, the Company acquired the assets of Perfect Products Company of Michigan, an auto parts distributor for approximately \$1.3 million in cash and \$30 thousand in contingent consideration. The transaction resulted in additional goodwill which is included in the table below:

| | (Dollars in thousands) | |
|----------------------------|--------------------------------------|-------|
| | Three Months Ended March 31, 2016 | |
| Goodwill | | |
| Beginning balance | \$ | 319 |
| Acquisition | | 1,254 |
| Impact of foreign exchange | | 20 |
| Ending balance | \$ | 1,593 |

Goodwill is included as a component of other assets in the condensed consolidated financial statements. Contingent consideration of \$30 thousand was not reflected in the condensed consolidated statement of cash flows.

Note 5 — Loan Agreement

In 2012, the Company entered into a Loan and Security Agreement ("Loan Agreement") which expires in August 2017. Due to the lock box arrangement and a subjective acceleration clause contained in the borrowing agreement, any outstanding borrowings under the revolving line of credit are classified as a current liability. The Loan Agreement consists of a \$40.0 million revolving line of credit facility, which includes a \$10.0 million sub-facility for letters of credit. In December 2013, the Company entered into a Second Amendment to Loan and Security Agreement ("Second Amendment") which revised certain terms of the original Loan Agreement.

Credit available under the Loan Agreement is based upon:

- a) 80% of the face amount of the Company's eligible accounts receivable, generally less than 60 days past due, and
- b) the lesser of 50% of the lower of cost or market value of the Company's eligible inventory, generally inventory expected to be sold within 18 months, or \$20.0 million.

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

At March 31, 2016, the Company had \$2.2 million of borrowings under its revolving line of credit facility and additional borrowing availability of \$31.4 million. The Company paid interest of \$0.2 million and \$0.1 million for the three months ended March 31, 2016 and 2015, respectively. The weighted average interest rate was 3.5% for the three months ended March 31, 2016.

In addition to other customary representations, warranties and covenants, we are required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the Loan Agreement, and a minimum quarterly tangible net worth level as defined in the Second Amendment. On March 31, 2016, we were in compliance with all financial covenants as detailed below:

| Quarterly Financial Covenants | Requirement | Actual |
|-------------------------------|----------------|----------------|
| EBITDA to fixed charges ratio | 1.10 : 1.00 | 3.25 : 1.00 |
| Minimum tangible net worth | \$45.0 million | \$54.6 million |

Note 6 — Severance Reserve

Changes in the Company's reserve for severance as of March 31, 2016 and 2015 were as follows:

| | (Dollars in thousands) | |
|--------------------------------|------------------------------|--------|
| | Three Months Ended March 31, | |
| | 2016 | 2015 |
| Balance at beginning of period | \$ 697 | \$ 311 |
| Charged to earnings | 204 | 571 |
| Payments | (380) | (216) |
| Balance at end of period | \$ 521 | \$ 666 |

Note 7 — Stock-Based Compensation

The Company recorded a benefit for stock-based compensation of \$1.2 million and \$0.5 million in the first three months of 2016 and 2015, respectively, as a portion of stock-based compensation is related to the market value of the Company's common stock which declined during both periods.

A summary of stock-based awards issued during the three months ended March 31, 2016 follows:

Stock Performance Rights ("SPRs")

The Company issued 53,503 SPRs to key employees with an exercise price of \$18.98 per share that cliff vest on December 31, 2018 and have a termination date of December 31, 2023.

Market Stock Units ("MSUs")

The Company issued 74,866 MSUs to key employees that cliff vest on December 31, 2018. MSU's are exchangeable for the Company's common shares at the end of the vesting period. The number of shares of common stock that will be issued upon vesting, ranging from zero to 112,300, will be determined based upon the trailing sixty-day average closing price of the Company's common stock on December 31, 2018.

Note 8 — Income Taxes

Primarily due to the cumulative losses that the Company has incurred over the past three years, the Company has determined that there is insufficient positive evidence to conclude that it is more likely than not that it will be able to utilize its deferred tax assets to offset future taxable income. Therefore, substantially all deferred tax assets are currently subject to a tax valuation allowance. However, sufficient evidence may become available in future periods regarding the utilization of deferred tax assets that would lead to the reduction of all or a portion of the valuation allowance resulting in a decrease to income tax expense for the period in which the reduction is recorded. Although the Company is in this full tax valuation allowance position, a tax expense of \$0.1 million for both the three months ended March 31, 2016 and 2015 was primarily due to state taxes and reserves for uncertain tax positions.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income tax of multiple state and foreign jurisdictions. As of March 31, 2016, the Company is subject to U.S. Federal income tax examinations for the years 2012 through 2014 and income tax examinations from various other jurisdictions for the years 2006 through 2014. The Company is also subject to an examination by the Canada Revenue Authority ("CRA") for the years 2006 through 2010. The CRA examination was completed during May 2013 and resulted in proposed adjustments which amount to \$1.3 million of additional tax for the 2008 and 2009 tax years. The Company did not agree with these adjustments and filed a request with Competent Authority programs in both the U.S. and Canada in October 2013. The Competent Authority program assists taxpayers with respect to matters covered in the mutual agreement procedure provisions of tax treaties. In the fourth quarter of 2015, Competent Authority completed their review and communicated to the Company that they proposed to assess a tax on the 2009 tax year only. A formal letter of disposition from Competent Authority is expected to be received in 2016. The Company plans to accept the proposal and recorded an expense of approximately \$0.8 million in Canada in the fourth quarter of 2015 and expects to realize a related benefit of \$0.5 million in the U.S.

Earnings from the Company's foreign subsidiary are considered to be indefinitely reinvested. A distribution of these non-U.S. earnings in the form of dividends or otherwise would subject the Company to both U.S. Federal and state income taxes, as adjusted for foreign tax credits. During the first quarter of 2016, as the result of a small acquisition, the Company recorded \$1.3 million of tax deductible goodwill that may result in a tax benefit in future periods.

Note 9 — Contingent Liabilities

In 2012, the Company identified that a site it owns in Decatur, Alabama, contains hazardous substances in the soil and groundwater as a result of historical operations prior to the Company's ownership. The Company retained an environmental consulting firm to further investigate the contamination including the measurement and monitoring of the site. In August 2013, the site was enrolled in Alabama's voluntary cleanup program. On October 30, 2014, the Company received estimates from its environmental consulting firm with three potential remediation solutions. The estimates included a range of viable remedial approaches. The first solution included limited excavation and removal of the contaminated soil along with monitoring for a period up to 10 years. The second solution included the first solution plus the installation of a groundwater extraction system. The third scenario included the first and second solutions plus treatment injections to reduce the degradation time. The estimated expenditures over a 10-year period under the three scenarios ranged from \$0.3 million to \$1.4 million, of which up to \$0.3 million may be capitalized. As the Company has determined that a loss was probable, however no scenario was more likely than the other at that time, a liability in the amount of \$0.3 million was established in 2014.

During 2015, after further evidence had been collected and analyzed, the Company concluded that it was probable that future remediation would be required, and accordingly accrued an additional \$0.9 million for the estimated costs. This estimate is based on the information developed to date and as the remediation efforts proceed, additional information may impact the final cost. As of March 31, 2016, agreement with Alabama's voluntary cleanup program on viable treatment of the property has not yet been reached and the Company continues to evaluate potential remediation alternatives that could impact the ultimate cost of remediation. As of March 31, 2016, approximately \$1.2 million was accrued for remediation in other long-term liabilities on the accompanying consolidated balance sheet.

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

Overview

The Maintenance, Repair and Operations ("MRO") distribution industry is highly fragmented. We compete for business with several national distributors as well as a large number of regional and local distributors. The MRO business is significantly impacted by the overall strength of the manufacturing sector of the U.S. economy. One measure used to evaluate the strength of the industrial products market is the PMI index published by the Institute for Supply Management, which is considered by many economists to be a reliable near-term economic barometer. A measure above 50 generally indicates expansion of the manufacturing sector while a measure below 50 generally represents contraction. The average monthly PMI declined to 49.8 in the first quarter of 2016 compared to 53.2 in the first quarter of 2015 indicating slower growth in the U.S. manufacturing economy compared to a year ago. The MRO distribution industry slowed due to many factors with the most prominent factor impacting Lawson being a slow-down in the oil and gas end markets due to lower oil prices.

Our sales are also affected by the number of sales representatives and the amount of sales which each representative can generate, which we measure as average sales per day per sales representative. As of March 31, 2016 we had a sales force of 960 sales representatives, an increase of 43 over the prior year quarter. We plan to continue to increase the size of our sales force for the foreseeable future. While we anticipate future sales growth from our expanded sales force, we also anticipate a short-term decrease in average sales per day per sales representative, as new representatives build up customer relationships in their territories.

Despite our top-line sales being impacted by the weaker oil and gas demand, we were able to generate operating income of \$1.2 million for the quarter ended March 31, 2016 compared to a net operating loss of \$0.9 million in 2015. The 2015 net loss was primarily driven by the \$1.9 million expense for a North American sales meeting that was not held in 2016.

Quarter ended March 31, 2016 compared to quarter ended March 31, 2015

| (\$ in thousands) | 2016 | | 2015 | |
|-------------------------------------|-----------|----------------|------------|----------------|
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Net sales | \$ 69,711 | 100.0 % | \$ 69,904 | 100.0 % |
| Cost of goods sold | 27,252 | 39.1 % | 27,021 | 38.7 % |
| Gross profit | 42,459 | 60.9 % | 42,883 | 61.3 % |
| Operating expenses: | | | | |
| Selling expenses | 22,753 | 32.6 % | 24,401 | 34.9 % |
| General and administrative expenses | 18,537 | 26.6 % | 19,429 | 27.8 % |
| Operating expenses | 41,290 | 59.2 % | 43,830 | 62.7 % |
| Operating income (loss) | 1,169 | 1.7 % | (947) | (1.4)% |
| Interest and other expenses, net | (43) | (0.1)% | (369) | (0.5)% |
| Income (loss) before income taxes | 1,126 | 1.6 % | (1,316) | (1.9)% |
| Income tax expense | 109 | 0.1 % | 55 | 0.1 % |
| Net income (loss) | \$ 1,017 | 1.5 % | \$ (1,371) | (2.0)% |

Net Sales

Net sales for the first quarter of 2016 decreased 0.3% to \$69.7 million from \$69.9 million in the first quarter of 2015. Sales in the first quarter of 2016 were negatively impacted by a general slow-down in the MRO marketplace, weaker demand from customers operating in the oil and gas industry, a decrease in the Canadian exchange rate and lower productivity from newly hired sales representatives as they build out their territories. Sales to oil and gas customers declined \$0.9 million and total net sales were negatively impacted by the Canadian exchange rate by \$0.5 million from the prior year quarter. This was partially offset by an increase in sales by our Kent Automotive Division and growing existing strategic account relationships. The first quarter of 2016 had 64 selling days compared to 63 in the first quarter of 2015. Average daily sales decreased to \$1.089 million in the first quarter of 2016 compared to \$1.110 million in the prior year quarter.

Gross Profit

Gross profit decreased to \$42.5 million in the first quarter of 2016 compared to \$42.9 million in the first quarter of 2015 and decreased as a percent of sales to 60.9% from 61.3% a year ago. Product margin remained consistent versus a year ago, however, as a result of rebalancing and refining our inventory forecasting process, we incurred additional labor and freight costs for the quarter.

Selling Expenses

Selling expenses consist of compensation paid to our sales representatives and related expenses to support our sales efforts. Selling expenses decreased \$1.6 million to \$22.8 million in the first quarter of 2016 from \$24.4 million in the prior year quarter and as a percent of sales, decreased to 32.6% compared to 34.9% in the first quarter of 2015. The 2015 expense included \$1.9 million of expense related to the North American sales meeting held in 2015 which was not held in 2016. This decrease was partially offset in 2016 by an increase in expenses related to our investment in newly hired sales representatives.

General and Administrative Expenses

General and administrative expenses consist of expenses to operate our distribution network and overhead expenses to manage the business. General and administrative expenses decreased to \$18.5 million in the first quarter of 2016 from \$19.4 million in the prior year quarter due primarily to a \$0.7 million decrease in stock-based compensation and a \$0.4 million decrease in severance expenses.

Interest and Other Expenses, Net

Interest and other expenses, net improved by \$0.3 million in the first quarter of 2016, mostly due to a currency exchange gain in 2016 compared to a currency exchange loss in 2015.

Income Tax Expense

Primarily due to historical cumulative losses, substantially all of our deferred tax assets are subject to a tax valuation allowance. Although we are in a full tax valuation allowance position, an income tax expense of \$0.1 million was recorded in the first quarter of both 2016 and 2015 due to state taxes and reserves for uncertain tax positions.

Net Income(Loss)

We reported net income of \$1.0 million in the first quarter of 2016 compared to a net loss \$1.4 million in the first quarter of 2015. The 2015 net loss was primarily driven by the \$1.9 million expense for a North American sales meeting that was not held in 2016.

Liquidity and Capital Resources

Cash and cash equivalents were \$10.1 million on March 31, 2016 compared to \$10.8 million on December 31, 2015. The net cash used in operations of \$1.0 million in the three months ended March 31, 2016 was primarily to fund increases in accounts receivable due to higher sales at the end of the quarter compared to the previous quarter and additional payments made during the quarter.

Capital expenditures, primarily for improvements to our distribution centers and information technology, were \$0.5 million in the three months ended March 31, 2016 compared to \$0.4 million in the prior year period. In 2016, we invested \$1.3 million in the acquisition of a small MRO distributor.

On March 31, 2016, we had \$2.2 million borrowings on our revolving line of credit. No dividends were paid to shareholders in the three months ended March 31, 2016 and 2015. Dividends are currently restricted under the Loan Agreement to amounts not to exceed \$7.0 million annually.

Loan Agreement

In addition to other customary representations, warranties and covenants, we are required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the Loan Agreement, and a minimum quarterly tangible net worth level as defined in the Second Amendment. On March 31, 2016, we were in compliance with all financial covenants as detailed below:

| Quarterly Financial Covenants | Requirement | Actual |
|-------------------------------|----------------|----------------|
| EBITDA to fixed charges ratio | 1.10 : 1.00 | 3.25 : 1.00 |
| Minimum tangible net worth | \$45.0 million | \$54.6 million |

While we met the minimum financial covenant levels for the quarter ended March 31, 2016, failure to meet these covenant requirements in future quarters could lead to higher financing costs, increased restrictions, or reduce or eliminate our ability to borrow funds and could have a material adverse effect on our business, financial condition and results of operations.

At March 31, 2016, we had additional borrowing availability of \$31.4 million. We believe cash provided by operations and funds available under our Loan Agreement are sufficient to fund our operating requirements, strategic initiatives and capital improvements throughout the remainder of 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at March 31, 2016 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that (i) the information relating to Lawson, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

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

ITEM 6. EXHIBITS

Exhibit #

| | |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAWSON PRODUCTS, INC.
(Registrant)

Dated: April 28, 2016

/s/ Michael G. DeCata

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

Dated: April 28, 2016

/s/ Ronald J. Knutson

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

CERTIFICATION

I, Michael G. DeCata, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal nine months (the registrant’s fourth fiscal nine months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 28, 2016

/s/ Michael G. DeCata

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

CERTIFICATION

I, Ronald J. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal nine months (the registrant’s fourth fiscal nine months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 28, 2016

/s/ Ronald J. Knutson

Ronald J. Knutson

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

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

In connection with the Quarterly Report of Lawson Products, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

April 28, 2016

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

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