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 September 30, 2010

or

o **Transition Report under Section 13 OR 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission file Number: 0-10546

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2229304**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1666 East Touhy Avenue, Des Plaines, Illinois	**60018**
(Address of principal executive offices)	(Zip Code)

(847) 827-9666

(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 o

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 o No o

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

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

The number of shares outstanding of the registrant's common stock, $1 par value, as of October 15, 2010 was 8,522,001.

"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; increases in commodity prices; work stoppages and other disruptions at transportation centers or shipping ports; disruptions of the Company's information and communication systems; competition and competitive pricing pressures; changes in customer demand; the influence of controlling stockholders; the inability of management to successfully implement strategic initiatives and, all of the factors discussed in the Company's "Risk Factors" set forth in its Annual Report on Form 10-K for the year ended December 31, 2009 and in this Quarterly Report on Form 10-Q.

The Company undertakes no obligation to update any such factor 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.

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ITEM 1 — FINANCIAL STATEMENTS

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,170	$ 8,787
Accounts receivable, less allowance for doubtful accounts	39,032	32,225
Inventories	55,802	54,692
Miscellaneous receivables and prepaid expenses	11,281	10,214
Deferred income taxes	4,711	2,935
Property held for sale	—	332
Discontinued operations	1,106	29,135
Total current assets	135,102	138,320
Property, plant and equipment, less accumulated depreciation and amortization	41,012	40,394
Cash value of life insurance	14,983	17,021
Deferred income taxes	11,795	14,313
Goodwill	28,099	27,957
Other assets	2,132	2,524
Discontinued operations	—	1,118
Total assets	$ 233,123	$ 241,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,704	$ 14,191
Settlement payable	—	10,000
Accrued expenses and other liabilities	32,402	34,681
Discontinued operations	314	4,368
Total current liabilities	52,420	63,240
Security bonus plan	25,365	25,931
Deferred compensation	10,249	10,374
Other	1,186	5,456
	36,800	41,761
Stockholders' equity:		
Preferred stock, $1 par value:		
Authorized — 500,000 shares, Issued and outstanding — None	—	—
Common stock, $1 par value:		
Authorized — 35,000,000 shares, Issued and outstanding — 8,522,001 shares	8,522	8,522
Capital in excess of par value	5,124	4,780
Retained earnings	127,632	121,888
Accumulated other comprehensive income	2,625	1,456
Stockholders' equity	143,903	136,646
Total liabilities and stockholders' equity	$ 233,123	$ 241,647

See notes to condensed consolidated financial statements.

Lawson Products, Inc.
Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	$ 89,264	$ 84,054	$ 260,102	$ 254,483
Cost of goods sold	33,210	30,009	96,792	94,550
Gross profit	56,054	54,045	163,310	159,933
Operating expenses:				
Selling, general and administrative expenses	49,512	49,947	150,195	153,210
Severance and other expenses (benefits)	(2,024)	464	(875)	6,253
Loss (gain) on disposal of property, plant and equipment	—	—	(1,701)	16
Operating income	8,566	3,634	15,691	454
Other income (expense), net	(14)	124	32	896
Interest expense	(105)	(132)	(386)	(474)
Income from continuing operations before income taxes	8,447	3,626	15,337	876
Income tax expense	2,584	853	5,880	254
Income from continuing operations	5,863	2,773	9,457	622
Loss from discontinued operations, net of income taxes	(2,434)	(1,270)	(2,009)	(3,220)
Net income (loss)	$ 3,429	$ 1,503	$ 7,448	$ (2,598)
Basic and diluted income (loss) per share of common stock:				
Continuing operations	$ 0.69	$ 0.33	$ 1.11	$ 0.07
Discontinued operations	(0.29)	(0.15)	(0.24)	(0.37)
Net income (loss) per share	$ 0.40	$ 0.18	$ 0.87	$ (0.30)
Basic weighted average shares outstanding	8,522	8,522	8,522	8,522
Dilutive effect of stock based compensation	12	—	6	—
Diluted weighted average shares outstanding	8,534	8,522	8,528	8,522
Cash dividends declared per share of common stock	$ 0.08	$ 0.06	$ 0.20	$ 0.12

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2010	2009
Operating activities:		
Net income (loss)	$ 7,448	$ (2,598)
Loss from discontinued operations	2,009	3,220
Income from continuing operations	9,457	622
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	4,489	5,265
Deferred income taxes	3,325	2,219
Settlement payment	(10,000)	(5,000)
Loss (gain) from disposal of property, plant and equipment	(1,701)	16
Changes in operating assets and liabilities		
Accounts receivable	(7,471)	3,031
Inventories	(1,013)	6,196
Prepaid expenses and other assets	1,549	118
Accounts payable and accrued expenses	2,612	5
Other	(247)	2,169
Net cash provided by operating activities of continuing operations	1,000	14,641
Investing activities:		
Additions to property, plant and equipment	(5,218)	(2,352)
Proceeds from sale of property	2,027	2,179
Proceeds from sale of business	16,000	—
Net cash provided by (used in) investing activities of continuing operations	12,809	(173)
Financing activities:		
Net payments of revolving line of credit	—	(7,700)
Dividends paid	(1,534)	(2,216)
Other	(32)	(420)
Net cash used in financing activities of continuing operations	(1,566)	(10,336)
Discontinued operations:		
Operating cash flows	2,144	2,407
Investing cash flows	(4)	(43)
Net cash provided by discontinued operations	2,140	2,364
Increase in cash and cash equivalents	14,383	6,496
Cash and cash equivalents at beginning of period	8,787	4,300
Cash and cash equivalents at end of period	$ 23,170	$ 10,796

See notes to condensed consolidated financial statements.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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, 2009. In the opinion of the Company, all normal recurring adjustments have been made, that are necessary to present fairly the results of operations for the interim periods. Operating results for the three and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The condensed consolidated financial statements have been reclassified for all prior periods presented to reflect current discontinued operations treatment See Note 2 — *Discontinued Operations*. Unless noted otherwise, discussions in the Notes to Condensed Consolidated Financial Statements pertain to continuing operations. Certain other reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications have no effect on net income as previously reported.

There have been no material changes in our significant accounting policies during the nine months ended September 30, 2010 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2009. The Company has evaluated subsequent events through October 28, 2010, the filing date of this Form 10-Q, and has determined that there were no subsequent events to recognize or disclose in these financial statements.

Note 2 — Discontinued operations

On August 31, 2010 the Company entered into a transaction to sell substantially all of the assets of Assembly Component Systems, Inc. ("ACS"), a wholly owned subsidiary, to Supply Technologies LLC ("Supply Technologies"), a wholly owned company of Park-Ohio Holdings Corp. Under the terms of the Asset Purchase Agreement ("the Agreement"), Supply Technologies purchased substantially all of the assets of ACS for $19.0 million. Of the total consideration, $16.0 million was paid to Lawson in cash on September 1, 2010. The remaining balance due, adjusted based on the final value of the working capital of ACS on August 31, 2010, will be paid in quarterly installments over the next three years, subject to the terms of a subordinated promissory note between Supply Technologies and Lawson. In addition, Supply Technologies assumed certain liabilities of ACS. A $3.9 million pre-tax loss on the sale was recorded in the third quarter of 2010.

ACS was previously included in the Company's Original Equipment Manufacturing ("OEM") segment. Losses per share of $0.15 and $0.37 related to the ACS operations for the three and nine month periods ended September 30, 2009, respectively, have been reclassified from continuing operations to discontinued operations.

The Company closed its operations in Mexico in 2007.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table details the components of income (loss) from discontinued operations:

	(Amounts in thousands, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales of ACS	$ 8,928	$ 7,134	$ 34,786	$ 31,119
Pre-tax income (loss) from discontinued operations				
ACS	$ 186	$ (779)	$ 979	$ (3,135)
Mexico	(76)	(19)	(172)	(96)
Total pre-tax income (loss)	110	(798)	807	(3,231)
Income tax expense (benefit)	44	472	316	(11)
Income (loss) from discontinued operations	66	(1,270)	491	(3,220)
Pre-tax loss on sale of ACS	(3,858)	—	(3,858)	—
Income tax benefit	(1,358)	—	(1,358)	—
Loss on sale of ACS	(2,500)	—	(2,500)	—
Loss from discontinued operations	$ (2,434)	$ (1,270)	$ (2,009)	$ (3,220)
Diluted loss per share				
ACS	$ (0.28)	$ (0.15)	$ (0.22)	$ (0.36)
Mexico	(0.01)	—	(0.02)	(0.01)
Total	$ (0.29)	$ (0.15)	$ (0.24)	$ (0.37)

Note 3 — Inventories

Components of inventories were as follows:

	(Amounts in thousands)	
	September 30, 2010	December 31, 2009
Finished goods	$ 60,270	$ 59,172
Work in progress	1,275	1,227
Raw materials	1,640	1,759
Total	63,185	62,158
Reserve for obsolete and excess inventory	(7,383)	(7,466)
	$ 55,802	$ 54,692

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 4 —Severance Reserve

The table below shows the changes in the Company's reserve for severance and related payments, included in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets as of September 30, 2010 and 2009:

	(Amounts in thousands) Nine Months Ended September 30, 2010	2009
Balance at beginning of year	$ 4,086	$ 6,012
Charged to earnings	3,242	6,418
Payments	(3,699)	(6,653)
Adjustment to prior reserve	(67)	(165)
Balance at end of the period	$ 3,562	$ 5,612

Note 5 — Litigation Settlement Proceeds

During the three and nine month periods ended September 30, 2010 the Company recorded a benefit of $3.5 million and $4.1 million, respectively, in "Severance and Other Expenses (Benefits)" as a result of proceeds received from a settlement agreement and legal remedies related to the actions of several former sales agents and the Share Corporation ("Share") alleging, among other things, breach of contract and interference with the Company's business relationships. In exchange for the proceeds, the Company agreed to settle all related claims with Share and the former sales agents.

Note 6 — Loss (Gain) on Disposal of Property, Plant and Equipment

In the first nine months of 2010, the Company received cash proceeds of $2.0 million from the sale of its Dallas, Texas distribution center, resulting in a gain of $1.7 million.

Note 7 — Stock Based Compensation

Service based awards

Service based awards vest based on the participants service to the Company over a fixed period of time. During the first nine months of 2010 the Company issued 35,692 of restricted stock awards with a vesting period of either one or three years. Each restricted stock award can be exchanged for the Company's common stock on the vesting date. The Company also issued 30,944 restricted stock units during the first nine months of 2010 with a vesting period of one year. Each restricted stock unit can be exchanged for either the Company's common stock or the equivalent value in cash on the vesting date. The Company had 72,092 unvested restricted stock awards and 30,944 unvested restricted stock units outstanding at September 30, 2010. An expense of $0.3 million and $0.6 million for outstanding restricted stock awards and restricted stock units was recorded in "Selling, general and administrative expenses" in the three and nine month periods ended September 30, 2010, respectively.

Performance based awards

The Company has established two Long-Term Incentive Plans ("LTIP"); one for the Senior Executive Officers ("SEO LTIP") and one for the Company's Vice Presidents ("VP LTIP"). Awards under both plans are contingent on the level of financial performance of the Company over the three year period ending December 31, 2012.

Under the terms of the SEO LTIP, at the end of the three year period, one half of the amount earned would be payable in cash and one half payable in the Company's common stock. The maximum amount of stock that could be issued, assuming the December 31, 2012 closing price of the stock remained at the September 30, 2010 closing price of $15.27, would be 99,154 shares.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The VP LTIP is payable one half in restricted stock and one half in non-qualified stock options. The Company has issued 28,249 shares of restricted stock and 59,556 of non-qualified stock options with an exercise price of $14.04. These amounts represent the maximum amount that can be earned by the participants over the three year period and the amounts may be reduced based on the Company's financial performance.

Stock Performance Rights ("SPRs")

SPRs are similar to stock options, however, they are settled in cash rather than in stock. The exercise price of an SPR is equal to the fair market value of the Company's stock as of date of grant and the value is only realized by the participant if the stock price at the time of exercise is higher than at the date of grant. The participant receives a cash payment for the difference upon exercise. SPR grants generally have a three-year vesting schedule, with awards vesting ratably over that period on the anniversary of the grant date and have a term of seven to ten years from the date of grant.

Activity related to the Company's SPRs during the nine months ended September 30, 2010 was as follows:

	Number of SPRs	Weighted Average Exercise Price
Outstanding on December 31, 2009	388,300	$ 28.31
Granted	2,600	14.04
Cancelled	(27,150)	23.16
Outstanding on September 30, 2010	363,750	28.59

The fair value of the outstanding SPRs was remeasured on September 30, 2010 using the Black-Scholes valuation model. This model requires the input of the following subjective assumptions that may have a significant impact on the fair value estimate:

Expected volatility	50.9% to 88.6%
Risk-free interest rate	0.2% to 1.1%
Expected remaining term (in years)	0.1 to 4.5
Expected annual dividend	$0.32

A benefit of $0.2 million and an expense of $0.4 million for outstanding SPRs was recorded in "Selling, general and administrative expenses" in the third quarters of 2010 and 2009, respectively. The Company recorded a benefit of $0.3 million and $0.1 million during the first nine months of 2010 and 2009, respectively.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 8 — Income Tax

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of multiple state and international jurisdictions. As of September 30, 2010, the Company is subject to U.S. Federal income tax examinations for 2009 and non-U.S. income tax examinations for the years 2005 through 2009. During the third quarter of 2010, the Company completed its U.S. Federal examinations for the years ended December 31, 2007 and 2008 with no material adjustments.

Note 9 — Contingencies

During 2009, the Internal Revenue Service initiated an employment tax examination for the years 2006 through 2008 of the long-standing treatment by a Company subsidiary, Drummond American LLC, of its sales agents as independent contractors. It is not possible at this time to predict the final outcome of this examination or to establish a reasonable estimate of possible additional taxes owed, if any.

Note 10 — Comprehensive Income (loss)

Components of comprehensive income (loss) for the three and nine months ended September 30, 2010 and 2009 are as follows:

	(Amounts in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$ 3,429	$ 1,503	$ 7,448	$ (2,598)
Foreign currency translation adjustment	1,296	701	1,169	1,190
Comprehensive income (loss)	$ 4,725	$ 2,204	$ 8,617	$ (1,408)

Note 11 — Related Party Transaction

The Company's Chairman of the Board, Dr. Port, is a partner in two partnerships that have an interest in Lawson's common stock. During 2010, litigation was initiated against Dr. Port, requesting that the partnerships be changed to allow the partners to have more control over their respective shares. The suit names Dr. Port as a defendant based on his role in the partnerships and as a director of the Company. The Company is not a party to the lawsuit.

The Company incurred $0.5 million for legal services provided to Dr. Port in relation to this litigation. As of September 30, 2010, the Company has not made a determination as to whether Dr. Port is entitled to indemnification in this matter or if he is responsible for the legal fees.

Lawson Products, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 12 — Segment Reporting

The Company's operating units have been aggregated into two reportable segments: MRO and OEM. The Company's MRO segment is a distributor of products and services to the industrial, commercial, institutional, and governmental maintenance repair and operations marketplace. The Company's OEM segment manufactures and distributes production and specialized component parts to the original equipment marketplace. The Company's two reportable segments are distinguished by the nature of products distributed and sold, types of customers and manner of servicing them. The Company evaluates performance and allocates resources to reportable segments primarily based on operating income. The OEM segment has been restated for prior periods to reflect the sale of the ACS business.

The following table presents summary financial information for the Company's reportable segments:

	(Amounts in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales				
MRO	$ 85,660	$ 81,359	$ 250,014	$ 244,748
OEM	3,604	2,695	10,088	9,735
Consolidated total	$ 89,264	$ 84,054	$ 260,102	$ 254,483
Operating income (loss)				
MRO	$ 6,390	$ 4,384	$ 13,129	$ 7,144
OEM	152	(286)	(14)	(421)
Severance and other benefits (expense)	2,024	(464)	875	(6,253)
Gain (loss) from disposal of property, plant and equipment	—	—	1,701	(16)
Consolidated total	$ 8,566	$ 3,634	$ 15,691	$ 454
Other income (expense), net	(14)	124	32	896
Interest expense	(105)	(132)	(386)	(474)
Income from continuing operations before income taxes	$ 8,447	$ 3,626	$ 15,337	$ 876

The following table presents total assets for the Company's reportable segments:

	(Amounts in thousands)	
	September 30, 2010	December 31, 2009
Total assets		
MRO	$ 201,030	$ 181,717
OEM	14,481	12,429
Segment total	215,511	194,146
Corporate	16,506	17,248
Discontinued operations	1,106	30,253
Consolidated total	$ 233,123	$ 241,647

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

Quarter ended September 30, 2010 compared to Quarter ended September 30, 2009

The following table presents a summary of our financial performance for the three months ended September 30, 2010 and 2009:

	2010		2009	
($ in thousands)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales				
MRO	$ 85,660	96.0%	$ 81,359	96.8%
OEM	3,604	4.0	2,695	3.2
Consolidated total	$ 89,264	100.0%	$ 84,054	100.0%
Gross profit				
MRO	$ 55,440	64.7%	$ 53,784	66.1%
OEM	614	17.0	261	9.7
Consolidated total	56,054	62.8	54,045	64.3
Operating expenses:				
Selling, general and administrative expenses	49,512	55.5	49,947	59.4
Severance and other expenses (benefits)	(2,024)	(2.3)	464	0.6
Operating income	8,566	9.6	3,634	4.3
Other (expense), net	(119)	(0.1)	(8)	—
Income from continuing operations before income tax expense	8,447	9.5	3,626	4.3
Income tax expense	2,584	2.9	853	1.0
Income from continuing operations	$ 5,863	6.6%	$ 2,773	3.3%

Net Sales

Net sales for the third quarter of 2010 increased 6.2% to $89.3 million, from $84.1 million in the third quarter of 2009.

MRO net sales increased 5.3% in the third quarter of 2010, to $85.7 million from $81.4 million in the prior year period, primarily reflecting continued growth with our strategic, governmental and automotive customers. OEM net sales increased $0.9 million, or 33.7%, in the third quarter of 2010, to $3.6 million from $2.7 million in the prior year period driven by strength in our aerospace customer base and new customer growth.

Gross Profit

Gross profit increased $2.0 million in the third quarter of 2010, to $56.1 million from $54.0 million in the prior year period. The gross profit margin for the third quarter of 2010 decreased to 62.8%, 1.5 percentage points less than the 64.3% achieved in the third quarter of 2009 primarily due to the intentional change in mix to higher volume strategic customers with lower margins. The growth in lower margin OEM sales also contributed to the margin percentage decline.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses decreased in the third quarter of 2010 to $49.5 million, including the $1.6 million of expenses incurred due to ERP implementation, from $49.9 million in 2009. As a percent of net sales, SG&A decreased 3.9 percentage points to 55.5% in the third quarter of 2010 compared to 59.4% in the third quarter of 2009, primarily due to operating efficiencies and our cost savings initiatives. SG&A expenses in the third quarter of 2010 include legal fees of $0.5 million advanced to a related party (see Note 11 — Related Party Transaction) and a benefit of $0.3 million pertaining to the Company's long-term incentive program.

Severance and Other Expenses (Benefits)

Severance expense was $1.5 million in the third quarter of 2010 compared to a $0.5 million in the third quarter of 2009. A restructuring of some of our managerial responsibilities focused on improved operating efficiencies during the third quarter of 2010 resulted in the elimination of certain positions.

During the third quarter of 2010 we recorded a benefit of $3.5 million related to proceeds received from a settlement agreement and legal remedies related to the actions of several former sales agents and the Share Corporation ("Share") alleging, among other things, breach of contract and interference with the Company's business relationships. In exchange for the proceeds, we agreed to settle all related claims with Share and the former sales agents.

Income Tax Expense

Income tax expense of $2.6 million was recorded based on pre-tax income of $8.4 million for the three months ended September 30, 2010, resulting in an effective tax rate of 30.6%. For the three months ended September 30, 2009, we recorded income tax of $0.9 million based on pre-tax income of $3.6 million, resulting in an effective tax rate of 23.5%. The higher 2010 tax rate primarily reflects the effect of the 2010 projected pre-tax income compared to the 2009 pre-tax loss.

Discontinued Operations

The Company recorded a loss from discontinued operations of $2.4 million and $1.3 million for the third quarter of 2010 and 2009, respectively. The 2010 loss included $2.5 million for the after tax charge related to the sale of its ACS business, while the 2009 loss represented operating losses of ACS and Mexico.

Net Income

We reported net income of $3.4 million or $0.40 per share in the third quarter of 2010. Pre-tax 2010 income was primarily driven by increased sales, a $3.5 million benefit from the Share legal settlement and operating cost savings partially offset by the loss from discontinued operations. Third quarter 2009 net income was $1.5 million or $0.18 per share.

Nine Months ended September 30, 2010 compared to Nine Months ended September 30, 2009

The following table presents a summary of our financial performance for the nine months ended September 30, 2010 and 2009:

($ in thousands)	2010 Amount	2010 % of Net Sales	2009 Amount	2009 % of Net Sales
Net sales				
MRO	$ 250,014	96.1%	$ 244,748	96.2%
OEM	10,088	3.9	9,735	3.8
Consolidated total	$ 260,102	100.0%	$ 254,483	100.0%
Gross profit				
MRO	$ 161,700	64.7%	$ 158,560	64.8%
OEM	1,610	16.0	1,373	14.1
Consolidated total	163,310	62.8	159,933	62.8
Operating expenses:				
Selling, general and administrative expenses	150,195	57.7	153,210	60.2
Severance and other expenses (benefits)	(875)	(0.3)	6,253	2.4
Loss (gain) on disposal of property, plant and equipment	(1,701)	(0.6)	16	—
Operating income	15,691	6.0	454	0.2
Other income (expense), net	(354)	(0.1)	422	0.1
Income from continuing operations before income tax expense	15,337	5.9	876	0.3
Income tax expense	5,880	2.3	254	0.1
Income from continuing operations	$ 9,457	3.6%	$ 622	0.2%

Net Sales

Net sales for the first nine months of 2010 increased 2.2% to $260.1 million, from $254.5 million in the first nine months of 2009. MRO net sales increased $5.3 million or 2.2% in the first nine months of 2010, to $250.0 million from $244.7 million in the prior year period. The growth in MRO sales was primarily driven by our strategic, governmental and automotive customers. OEM net sales increased $0.4 million in the first nine months of 2010, to $10.1 million from $9.7 million in the prior year period.

Gross Profit

Gross profit increased $3.4 million in the first nine months of 2010, to $163.3 million from $159.9 million in the prior year period. Gross profit as a percent of net sales remained constant at 62.8% in the first nine months of both 2010 and 2009.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses were $150.2 million or 57.7% of net sales and $153.2 million or 60.2% of net sales for the nine months ended September 30, 2010 and 2009, respectively. SG&A as a percent of net sales improved 2.5 percentage points in the first nine months of 2010 compared to the first nine months of 2009 as we realized certain operating efficiencies and the streamlining of our cost structure, including the closure of our Dallas and Charlotte distribution centers in 2009. During the nine months ended September 30, 2010 we incurred ERP implementation expenses of $2.3 million which partially offset the cost savings from our initiatives.

Severance and Other Restructuring Charges

Severance expense was $3.2 million and $6.4 million in the first nine months of 2010 and 2009, respectively. A restructuring of some of our managerial responsibilities focused on improved operating efficiencies during the first nine months of 2010 resulted in the elimination of certain positions. During the first nine months of 2009, primarily in response to the economic recession, we reduced the size of our work force across the organization.

During the first nine months of 2010 we recorded a benefit of $4.1 million related to proceeds received from a settlement agreement and legal remedies related to the actions of several former sales agents and the Share Corporation ("Share") alleging, among other things, breach of contract and interference with the Company's business relationships. In exchange for the proceeds, we agreed to settle all related claims with Share and the former sales agents.

Loss (Gain) on Disposal of Property, Plant and Equipment

In the first nine months of 2010, we received cash proceeds of $2.0 million from the sale of our Dallas, Texas distribution center, resulting in a gain of $1.7 million. In 2009, a $0.4 million gain from the sale of the Company's Charlotte, North Carolina distribution center was offset by a $0.4 million write-down in the value of equipment.

Income Tax Expense

Income tax expense of $5.9 million was recorded based on pre-tax income of $15.3 million for the nine months ended September 30, 2010, resulting in an effective tax rate of 38.3%. For the nine months ended September 30, 2009, the Company recorded income tax expense of $0.3 million based on pre-tax income of $0.9 million resulting in an effective tax rate of 29.0%. The higher 2010 tax rate primarily reflects the effect of 2010 projected pre-tax income compared to the 2009 pre-tax loss.

Discontinued Operations

The Company recorded a loss from discontinued operations of $2.0 million and $3.2 million for the nine months ended 2010 and 2009, respectively. The 2010 loss included $2.5 million for the after tax charge related to the sale of its ACS business while the 2009 loss represented operating losses of ACS and Mexico.

Net Income (loss)

We reported net income of $7.4 million or $0.87 per diluted share in the first nine months of 2010. Pre-tax 2010 income was driven by higher gross profit from increased sales, a $1.7 million gain related to the sale of the Dallas distribution center, a $4.1 million legal settlement and significant operating cost savings. These items were offset by ERP implementation costs of $2.3 million, severance costs of $3.2 million and the loss from discontinued operations.

Liquidity and Capital Resources

Cash on hand was $23.2 million on September 30, 2010 compared to $8.8 million on December 31, 2009. Net cash provided by continuing operations was $1.0 million for the first nine months of 2010 compared to $14.6 million in the first nine months of 2009. Increased net income in the first nine months of 2010 was somewhat offset by an increase in working capital and the final settlement payment related to prior year litigation. Accounts receivable increased $7.5 million as the increased sales had not yet been fully realized in cash on September 30, 2010. Additionally, $1.0 million was invested to increase inventory levels to support higher sales. Cash provided by operations in the first nine months of 2009 primarily reflected a decrease in accounts receivable and lower inventory levels.

We received $16.0 million from the sale of ACS in the third quarter of 2010. Additionally, cash flows from investing activities in the first nine months of 2010 and 2009 benefited from the receipt of $2.0 million and $2.2 million, respectively from the sale of our Dallas, Texas and Charlotte, North Carolina distribution centers. Capital expenditures, including $4.1 million related to the implementation of a new ERP system, were $5.2 million for the first nine months of 2010. We anticipate that the total cost of the ERP implementation, including both capital and expense, will be approximately $20 million and will continue through 2011.

Net cash used in financing activities in the first nine months of 2010 and 2009 was $1.6 million and $10.3 million, respectively. The change was primarily due to a net payment of $7.7 million on our revolving line of credit in the first nine months of 2009 and a $0.7 million decrease in dividend payments in 2010 compared to 2009. On September 30, 2010 and 2009, we had no borrowings outstanding on our revolving line of credit. At September 30, 2010 we were in compliance with all covenants related to our revolving line of credit as detailed below:

Covenant	Requirement	Actual
Minimum EBITDA, as defined in the amended Credit Agreement	$10.0 million	$21.0 million
Cash plus accounts receivable and inventory to debt ratio	2.00:1.00	89.46:1.00
Minimum tangible net worth	$55.0 million	$85.6 million

We believe that cash on hand, cash provided by future operations and our $55.0 million revolving line of credit will be sufficient to fund our operating requirements, ERP implementation, capital improvements and other commitments and obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2010 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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 was no change in the Company's internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

ITEMS 1, 1A, 2, 3 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

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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 October 28, 2010	/s/ Thomas J. Neri Thomas J. Neri President and Chief Executive Officer (principal executive officer)
Dated October 28, 2010	/s/ Ronald J. Knutson Ronald J. Knutson Senior Vice President and Chief Financial Officer (principal financial and accounting officer)

Exhibit 31.1

CERTIFICATION

I, Thomas J. Neri, 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 quarter (the registrant’s fourth fiscal quarter 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: October 28, 2010

/s/ Thomas J. Neri

Thomas J. Neri
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, Ronald J. Knutson, certify that:

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

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter 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):

   (b) 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: October 28, 2010

/s/ Ronald J. Knutson

Ronald J. Knutson
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

Exhibit 32

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

In connection with the Quarterly Report of Lawson Products, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2010 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.

October 28, 2010

/s/ Thomas J. Neri
Thomas J. Neri
Lawson Products, Inc.
President and Chief Executive Officer
(principal executive officer)

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