

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For quarterly period ended September 30, 2000 Commission file no. 0-10546

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2229304

(State or other jurisdiction of incorporation or
organization)

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

1666 East Touhy Avenue, Des Plaines, Illinois

60018

(Address of principal executive offices)

(Zip Code)

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

Not applicable

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 9,706,404 Shares, \$1 par value, as of October 16, 2000.

PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	September 30, 2000	December 31, 1999
	----- (unaudited)	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,014	\$ 11,975
Marketable securities	10,981	12,282
Accounts receivable, less allowance for doubtful accounts	42,848	41,108
Inventories (Note B)	52,395	55,485
Miscellaneous receivables and prepaid expenses	8,947	8,029
Deferred income taxes	1,436	1,389
Total Current Assets	----- 131,621	----- 130,268
Marketable securities	1,590	4,695
Property, plant and equipment, less allowances for depreciation and amortization	39,925	41,989
Investments in real estate	4,548	4,108
Deferred income taxes	9,568	8,784
Other assets	28,878	26,147
Total Assets	----- \$ 216,130 =====	----- \$ 215,991 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 6,717	\$ 8,249
Accrued expenses and other liabilities	21,537	25,845
Income taxes	5,867	4,332
	-----	-----
Total Current Liabilities	34,121	38,426
	-----	-----

Accrued liability under security bonus plans	17,644	16,494
Other	11,651	11,031
	-----	-----
	29,295	27,525
	-----	-----

Stockholders' Equity:

Preferred Stock, \$1 par value:		
Authorized - 500,000 shares		
Issued and outstanding - None	-	-
Common Stock, \$1 par value:		
Authorized - 35,000,000 shares		
Issued and outstanding-(2000-9,706,404 shares; 1999-10,203,922 shares)	9,706	10,204
Capital in excess of par value	762	717
Retained earnings	143,925	140,201
Accumulated other comprehensive income	(1,679)	(1,082)
	-----	-----
Total Stockholders' Equity	152,714	150,040
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 216,130	\$ 215,991
	=====	=====

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2000	1999	2000	1999
	-----	-----	-----	-----
Net sales	\$ 85,424	\$ 82,515	\$ 256,045	\$ 234,910
Cost of goods sold (Note B)	30,071	29,595	90,404	82,104
	-----	-----	-----	-----
Gross Profit	55,353	52,920	165,641	152,806
Selling, general and administrative expenses	45,116	43,678	133,983	125,720
Special charges	0	0	240	2,053
	-----	-----	-----	-----
Operating income	10,237	9,242	31,418	25,033
Investment and other income	499	700	1,606	2,617
	-----	-----	-----	-----
Income before income taxes	10,736	9,942	33,024	27,650
Provision for income taxes	4,358	4,081	13,485	11,386
	-----	-----	-----	-----
Net income	\$ 6,378	\$ 5,861	\$ 19,539	\$ 16,264
	=====	=====	=====	=====
Net income per share of common stock:				
Basic	\$ 0.66	\$ 0.57	\$ 1.97	\$ 1.55
	=====	=====	=====	=====
Diluted	\$ 0.65	\$ 0.57	\$ 1.97	\$ 1.55
	=====	=====	=====	=====
Cash dividends declared per share of common stock	\$ 0.15	\$ 0.14	\$ 0.45	\$ 0.42
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	9,718	10,354	9,906	10,500
	=====	=====	=====	=====
Diluted	9,737	10,360	9,917	10,502
	=====	=====	=====	=====

See notes to condensed consolidated financial statements.

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

(UNAUDITED)

(Amounts in thousands)

	For the Nine Months Ended September 30,	
	2000	1999
	-----	-----
Operating activities:		
Net income	\$ 19,539	\$ 16,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,646	4,682
Changes in operating assets and liabilities	(7,730)	(7,120)
Other	625	44
	-----	-----
Net Cash Provided by Operating Activities	17,080	13,870
	-----	-----
Investing activities:		
Additions to property, plant and equipment	(2,223)	(5,319)
Purchases of marketable securities	(46,584)	(83,794)
Proceeds from sale of marketable securities	51,012	96,412
Acquisition of SunSource Inventory Management Company, Inc.	-	(10,192)
Other	99	492
	-----	-----
Net Cash Provided by Investing Activities	2,304	(2,401)
	-----	-----
Financing activities:		
Purchases of treasury stock	(11,932)	(7,094)
Dividends paid	(4,497)	(4,430)
Other	84	-
	-----	-----
Net Cash Used in Financing Activities	(16,345)	(11,524)
	-----	-----
Increase/(Decrease) in Cash and Cash Equivalents	3,039	(55)
Cash and Cash Equivalents at Beginning of Period	11,975	13,872
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 15,014	\$ 13,817
	=====	=====

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to Lawson Products, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 1999. The Condensed Consolidated Balance Sheet as of September 30, 2000, the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 2000 and 1999 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2000 and 1999 are unaudited. In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) have been made, which are necessary to present fairly the results of operations for the interim periods. Operating results for the three and nine month periods ended September 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

B) Inventories (consisting of primarily finished goods) at September 30, 2000 and cost of goods sold for the three and nine month periods ended September 30, 2000 and 1999 were determined through the use of estimated gross profit rates. The difference between actual and estimated gross profit is adjusted in the fourth quarter. In 1999, this adjustment increased net income by approximately \$1,689,000.

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

	Three Months Ended September 30,	
	2000	1999
	-----	-----
Net income	\$ 6,378	\$ 5,861
Unrealized gain on marketable securities	4	-
Foreign currency translation adjustments	(174)	111
	-----	-----
Comprehensive income	\$ 6,208	\$ 5,972
	=====	=====

	Nine Months Ended September 30,	
	2000	1999
	-----	-----
Net income	\$ 19,539	\$ 16,264
Unrealized gain (loss) on marketable securities	15	(683)
Foreign currency translation adjustments	(612)	262
	-----	-----
Comprehensive income	\$ 18,942	\$ 15,843
	=====	=====

The components of accumulated other comprehensive income, net of related tax, at September 30, 2000 and December 31, 1999 are as follows (in thousands):

	2000	1999
	-----	-----
Unrealized loss on marketable securities	\$ (13)	\$ (28)
Foreign currency translation adjustments	(1,666)	(1,054)
	-----	-----
Accumulated other comprehensive income	\$ (1,679)	\$ (1,082)
	=====	=====

D) Earnings per Share

The calculation of dilutive weighted average shares outstanding for the three and nine months ended September 30, 2000 and 1999 are as follows (in thousands):

	Three Months Ended September 30,	
	2000	1999
	-----	-----
Basic weighted average shares outstanding	9,718	10,354
Dilutive impact of options outstanding	19	6
	-----	-----
Dilutive weighted average shares outstanding	9,737	10,360
	=====	=====
	Nine Months Ended September 30,	
	2000	1999
	-----	-----
Basic weighted average shares outstanding	9,906	10,500
Dilutive impact of options outstanding	11	2
	-----	-----
Dilutive weighted average shares outstanding	9,917	10,502
	=====	=====

(E) In the second quarter of 2000, the Company recorded a special charge of \$145,000, net of income tax benefit of \$95,000 for severance benefits, while in the second quarter of 1999, the Company recorded a special charge of \$1,237,000, net of income tax benefit of \$816,000, for severance and early retirement benefits in connection with previously announced management changes. Additionally, in the second quarter of 1999, a gain of \$554,000, net of income taxes of \$369,000, was recorded on the sale of marketable securities.

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

Independent Accountants' Review Report

Board of Directors and Stockholders
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of September 30, 2000 and the related condensed consolidated statements of income for the three month and nine month periods ended September 30, 2000 and 1999 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

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

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

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

/s/ ERNST & YOUNG LLP

October 16, 2000

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, contains certain forward-looking statements pertaining to the ability of the Company to finance future growth, cash dividends and capital expenditures and certain other matters. These statements are subject to uncertainties and other factors which could cause actual events or results to vary materially from those anticipated. The Company does not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances.

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

Net sales for the three and nine month periods ended September 30, 2000 increased 3.5% to \$85,424,000 and 9.0% to \$256,045,000, respectively, relative to the comparable periods of 1999. The sales gains reflect increased contribution from substantially all Lawson operations and from our new subsidiary, ACS/SIMCO. See Note F to Notes to Condensed Consolidated Financial Statements.

Net income for the third quarter rose 8.8% to \$6,378,000 (\$.65 per diluted share) from \$5,861,000 (\$.57 per diluted share) for the similar period of 1999. Net income for the nine months ended September 30, 2000 advanced 20.1% to \$19,539,000 (\$1.97 per diluted share) from \$16,264,000 (\$1.55 per diluted share) for the same period of 1999. These increases are primarily attributable to cost containment efforts and the gains in net sales noted above. Per share net income for 2000 and 1999 was positively impacted by the Company's share repurchase program. In the second quarter of 2000, the Company recorded a special charge of \$145,000, net of income tax benefit of \$95,000, for severance benefits, while in the second quarter of 1999, the Company recorded a special charge of \$1,237,000, net of income tax benefit of \$816,000, for severance and early retirement benefits in connection with previously announced management changes. Additionally, in the second quarter of 1999, an after tax gain of \$554,000 was recorded on the sale of marketable securities. Excluding the effects of these items, net income for the nine month period ended September 30, 2000, increased 16.2% compared to the nine months ended September 30, 1999.

Cash flows provided by operations for the nine months ended September 30, 2000 advanced to \$17,080,000 from \$13,870,000 in the comparable period of the prior year. This increase was due primarily to a gain in net income from the same period in 1999, noted above. Current investments and cash flows from operations are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures.

Additions to property, plant and equipment were \$2,223,000 and \$5,319,000, respectively, for the nine months ended September 30, 2000 and 1999. Capital expenditures during 2000 primarily reflect purchases of computer related equipment, while in 1999, additions to property, plant and equipment primarily reflect costs incurred relative to the construction of a new Lawson outbound facility in Suwanee, Georgia and purchases of computer related equipment. This new facility was substantially completed in the third quarter of 1999 at a cost of approximately \$7,000,000, and will be used in place of the Norcross, Georgia facility, which was disposed of in a tax-free exchange as a component of the purchase price of the new facility.

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

During the first nine months of 2000, the Company purchased 501,268 shares of its own common stock for approximately \$11,932,000. Of these purchases, 412,668 shares were acquired relative to the 1999 Board authorization of 500,000 shares and 88,600 shares represented the remaining shares relative to a 1998 stock repurchase authorization of 500,000 shares. In the first nine months of 1999, the Company purchased 310,000 shares of its own common stock for approximately \$7,094,000. Of these purchases, 261,500 shares were acquired relative to the 1998 Board authorization of 500,000 shares and 48,500 shares represented the remaining shares relative to a 1996 stock repurchase authorization of 1,000,000

shares. All shares purchased as of September 30, 2000 have been retired. Funds to purchase these shares were provided by investments and cash flows from operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2000 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

PART II

OTHER INFORMATION

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

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

- (a) 15 Letter from Ernst & Young LLP regarding Unaudited Interim Financial Information
- 27 Financial Data Schedule
- (b) The registrant was not required to file a Current Report on Form 8-K for the most recently completed quarter.

SIGNATURES

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

LAWSON PRODUCTS, INC.
(Registrant)

Dated October 16, 2000

/s/ Robert J. Washlow

Robert J. Washlow
Chairman of the Board

Dated October 16, 2000

/s/ Joseph L. Pawlick

Joseph L. Pawlick
Chief Financial Officer

October 16, 2000

Board of Directors
Lawson Products, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-17912 dated November 4, 1987) of Lawson Products, Inc. of our report dated October 16, 2000 relating to the unaudited condensed consolidated interim financial statements of Lawson Products, Inc. which are included in its Form 10-Q for the quarter ended September 30, 2000.

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

/s/ ERNST & YOUNG LLP

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9-MOS

DEC-31-2000

SEP-30-2000

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