

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarter period ended September 30, 2004

[] TRANSITION REPORT OR PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to

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)

(847) 827-9666

(Registrant's telephone number, including area code)

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 by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). 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. 9,346,280 SHARES, \$1 PAR VALUE,
AS OF OCTOBER 15, 2004.

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
2004

DECEMBER 31,
2003

(UNAUDITED)

ASSETS

- - - - -

Current Assets:

| | | |
|---|-----------|-----------|
| Cash and cash equivalents | \$ 28,049 | \$ 21,399 |
| Marketable securities | 2,810 | 2,156 |
| Accounts receivable, less allowance for doubtful accounts | 50,411 | 47,972 |
| Inventories | 62,238 | 59,817 |
| Miscellaneous receivables and prepaid expenses | 8,365 | 11,439 |
| Deferred income taxes | 1,538 | 1,975 |
| Total Current Assets | 153,411 | 144,758 |

Property, plant and equipment, less allowances for depreciation and amortization

| | | |
|--|--------|--------|
| Property, plant and equipment, less allowances for depreciation and amortization | 40,259 | 42,946 |
| Deferred income taxes | 13,815 | 13,201 |
| Goodwill, less accumulated amortization | 28,649 | 28,649 |
| Other assets | 18,498 | 17,389 |

Total Assets

| | | |
|--------------|------------|------------|
| Total Assets | \$ 254,632 | \$ 246,943 |
|--------------|------------|------------|

LIABILITIES AND STOCKHOLDERS' EQUITY

- - - - -

Current Liabilities:

| | | |
|--|----------|----------|
| Accounts payable | \$ 8,778 | \$ 8,240 |
| Accrued expenses and other liabilities | 27,394 | 27,176 |
| Current portion of long term debt | 1,544 | 1,462 |
| Total Current Liabilities | 37,716 | 36,878 |

Accrued liability under security bonus plans

| | | |
|--|--------|--------|
| Accrued liability under security bonus plans | 21,079 | 20,823 |
| Long term debt | 404 | 1,573 |
| Other | 14,961 | 14,318 |
| | 36,444 | 36,714 |

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-(2004- 9,342,380 shares; 2003- 9,493,511 shares) | 9,342 | 9,494 |
| Capital in excess of par value | 3,311 | 2,667 |
| Retained earnings | 168,063 | 161,831 |
| Accumulated other comprehensive income | (244) | (641) |
| Total Stockholders' Equity | 180,472 | 173,351 |

Total Liabilities and Stockholders' Equity

| | | |
|--|------------|------------|
| Total Liabilities and Stockholders' Equity | \$ 254,632 | \$ 246,943 |
|--|------------|------------|

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, | |
|---|--|-----------|---|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales | \$ 107,380 | \$ 99,301 | \$ 312,481 | \$ 292,485 |
| Cost of goods sold | 40,667 | 35,349 | 114,724 | 104,931 |
| Gross profit | 66,713 | 63,952 | 197,757 | 187,554 |
| Selling, general and administrative expenses | 58,401 | 56,661 | 171,191 | 166,431 |
| Other charges | ---- | 398 | ---- | 1,644 |
| Operating income | 8,312 | 6,893 | 26,566 | 19,479 |
| Investment and other income | 776 | 660 | 1,886 | 1,407 |
| Interest expense | (40) | (65) | (151) | (72) |
| Income before income taxes | 9,048 | 7,488 | 28,301 | 20,814 |
| Provision for income taxes | 3,462 | 3,124 | 10,872 | 8,551 |
| Net income | \$ 5,586 | \$ 4,364 | \$ 17,429 | \$ 12,263 |
| Net income per share of common stock: | | | | |
| Basic | \$ 0.59 | \$ 0.46 | \$1.85 | \$ 1.29 |
| Diluted | \$ 0.59 | \$ 0.46 | \$1.84 | \$ 1.29 |
| Cash dividends declared per share of common stock | \$ 0.18 | \$ 0.16 | \$0.54 | \$ 0.48 |
| Weighted average shares outstanding: | | | | |
| Basic | 9,390 | 9,492 | 9,440 | 9,492 |
| Diluted | 9,422 | 9,511 | 9,468 | 9,510 |

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, | |
|---|---|-----------|
| | 2004 | 2003 |
| Operating activities: | | |
| Net income | \$ 17,429 | \$ 12,263 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,011 | 5,041 |
| Changes in operating assets and liabilities | (4,636) | (3,723) |
| Other | 2,525 | 2,813 |
| | 20,329 | 16,394 |
| Investing activities: | | |
| Additions to property, plant and equipment | (1,306) | (3,124) |
| Purchases of marketable securities | (6,230) | (3,418) |
| Proceeds from sale of marketable securities | 5,576 | 2,858 |
| Other | 100 | 146 |
| | (1,860) | (3,538) |
| Financing activities: | | |
| Purchases of treasury stock | (6,355) | (127) |
| Proceeds from revolving line of credit | ---- | 4,000 |
| Payments on revolving line of credit | ---- | (4,000) |
| Payments on long term debt | (1,086) | (341) |
| Dividends paid | (5,110) | (4,555) |
| Other | 732 | (52) |
| | (11,819) | (5,075) |
| Increase in Cash and Cash Equivalents | 6,650 | 7,781 |
| Cash and Cash Equivalents at Beginning of Period | 21,399 | 7,591 |
| | \$ 28,049 | \$ 15,372 |
| | 28,049 | 15,372 |

See notes to condensed consolidated financial statements.

PART I - NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and, therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to Lawson Products, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2003. The Condensed Consolidated Balance Sheet as of September 30, 2004, the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 2004 and 2003 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2004 and 2003 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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

B) Total comprehensive income and its components, net of related tax, for the third quarter and nine months of 2004 and 2003 are as follows (in thousands):

| | Three months ended September 30, | |
|--|----------------------------------|----------|
| | 2004 | 2003 |
| | ---- | ---- |
| Net income | \$5,586 | \$4,364 |
| Foreign currency translation adjustments | 499 | 32 |
| | ----- | ----- |
| Comprehensive income | \$6,085 | \$4,396 |
| | ===== | ===== |
| | | |
| | Nine months ended September 30, | |
| | 2004 | 2003 |
| | ---- | ---- |
| Net income | \$17,429 | \$12,263 |
| Foreign currency translation adjustments | 397 | 1,123 |
| | ----- | ----- |
| Comprehensive income | \$17,826 | \$13,386 |
| | ===== | ===== |

The components of accumulated other comprehensive income, net of related tax, at September 30, 2004 and December 31, 2003 are as follows (in thousands):

| | 2004 | 2003 |
|--|----------|----------|
| | ---- | ---- |
| Foreign currency translation adjustments | \$ (244) | \$ (641) |
| | ----- | ----- |
| Accumulated other comprehensive income | \$ (244) | \$ (641) |
| | ===== | ===== |

C) Earnings per Share

The calculation of dilutive weighted average shares outstanding for the three and nine months ended September 30, 2004 and 2003 are as follows (in thousands):

| | Three months ended September 30, | |
|--|----------------------------------|-------|
| | 2004 | 2003 |
| | ---- | ---- |
| Basic weighted average shares outstanding | 9,390 | 9,492 |
| Dilutive impact of options outstanding | 32 | 19 |
| | ----- | ----- |
| Dilutive weighted average shares outstanding | 9,422 | 9,511 |
| | ===== | ===== |
| | | |
| | Nine months ended September 30, | |
| | 2004 | 2003 |
| | ---- | ---- |
| Basic weighted average shares outstanding | 9,440 | 9,492 |
| Dilutive impact of options outstanding | 28 | 18 |
| | ----- | ----- |
| Dilutive weighted average shares outstanding | 9,468 | 9,510 |
| | ===== | ===== |

D) Revolving Line of Credit

In March 2001 the Company entered into a \$50 million revolving line of credit. The revolving line of credit matures five years from the closing date and carries an interest rate of prime minus 150 basis points floating or LIBOR plus 75 basis points, at the Company's option. Interest is payable quarterly on prime borrowings and at the earlier of quarterly or maturity with respect to the LIBOR contracts.

The line of credit contains certain financial covenants regarding interest coverage, minimum stockholders' equity and working capital, all of which the Company was in compliance with at September 30, 2004. The Company had no borrowings outstanding under the line at September 30, 2004, and December 31, 2003.

E) Severance and Related Charges

The table below shows an analysis of the Company's reserves for severance and related expenses for the first nine months of 2004 and 2003:

| In thousands | Nine months ended September 30, | |
|------------------------------|---------------------------------|---------|
| ----- | 2004 | 2003 |
| ----- | ---- | ---- |
| Balance at beginning of year | \$2,476 | \$ 876 |
| Charged to earnings | -- | 1,644 |
| Cash paid | (1,003) | (504) |
| | ----- | ----- |
| Balance at September 30 | \$1,473 | \$2,016 |
| | ===== | ===== |

F) Intangible Assets

Intangible assets subject to amortization, included within other assets, were as follows (in thousands):

| | September 30, 2004 | | |
|---------------------------|--------------------|--------------|----------|
| | ----- | | |
| | Gross | Accumulated | Net |
| | Balance | Amortization | Carrying |
| | ----- | ----- | ----- |
| Trademarks and tradenames | \$1,747 | \$ 922 | \$ 825 |
| Customer Lists | 953 | 392 | 561 |
| | ----- | ----- | ----- |
| | \$2,700 | \$1,314 | \$1,386 |
| | ===== | ===== | ===== |

| | December 31, 2003 | | |
|---------------------------|-------------------|--------------|----------|
| | ----- | | |
| | Gross | Accumulated | Net |
| | Balance | Amortization | Carrying |
| | ----- | ----- | ----- |
| Trademarks and tradenames | \$1,747 | \$ 851 | \$ 896 |
| Customer Lists | 953 | 368 | 585 |
| | ----- | ----- | ----- |
| | \$2,700 | \$1,219 | \$1,481 |
| | ===== | ===== | ===== |

Trademarks and tradenames are being amortized over a weighted average 15.14 years. Customer lists are being amortized over 13.96 years. Amortization expense for intangible assets is expected to be \$116,000 for 2004 and \$83,000 for each of the next four years.

G) Accounting for Stock-Based Compensation

The Company adopted FASB Statement No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure," which requires interim financial disclosure to show the effect on net income and earnings per share as required by FASB Statement No. 123, "Accounting for Stock-Based Compensation." These disclosures are as follows:

| In thousands | Three Months Ended September 30 | |
|--|---------------------------------|----------|
| | 2004 | 2003 |
| Net income-as reported | \$ 5,586 | \$ 4,364 |
| Deduct: Total stock based employee compensation expense determined under fair value method, net of tax | 0 | (6) |
| Net income-pro forma | \$ 5,586 | \$ 4,358 |
| Basic and diluted earnings per share-as reported | \$.59 | \$.46 |

| In thousands | Nine Months Ended September 30 | |
|--|--------------------------------|-----------|
| | 2004 | 2003 |
| Net income-as reported | \$ 17,429 | \$ 12,263 |
| Deduct: Total stock based employee compensation expense determined under fair value method, net of tax | (4) | (16) |
| Net income-pro forma | \$ 17,425 | \$ 12,247 |
| Basic earnings per share-as reported | \$ 1.85 | \$ 1.29 |
| Diluted earnings per share-as reported | 1.84 | 1.29 |

The Company's incentive stock plan provides for the issuance of Stock Performance Rights (SPRs). These SPRs vest at 20% per year and entitle the recipient to receive a cash payment equal to the excess of the market value of the Company's common stock and the SPR price when the SPRs are surrendered. The Company records an accrued liability based on the number of outstanding vested SPRs and the market value of the Company's common stock. The compensation expense accrual increased \$689,000 in the first nine months of 2004 compared to a \$136,000 reduction in the first nine months of 2003. The increase in the compensation expense accrual for the first nine months of 2004 is primarily due to an increase in the Company's stock price. No additional SPRs were issued during the first nine months of 2004.

H) Segment Reporting

The Company has four reportable segments: Maintenance, Repair and Replacement distribution in the U.S. (MRO-US), International Maintenance, Repair and Replacement distribution in Canada (MRO-CAN), Original Equipment Manufacturer distribution and manufacturing in the U.S.(OEM-US), International Original Equipment Manufacturer distribution in the United Kingdom and Mexico(OEM-INTL).

The operations of the Company's MRO distribution segments distribute a wide range of MRO parts to repair and maintenance organizations by the Company's force of independent field sales agents, and inside sales personnel.

The operations of the Company's OEM segments manufacture and distribute component parts to OEM manufacturers through a network of independent manufacturers representatives as well as internal sales personnel.

The Company's reportable segments are distinguished by the nature of products distributed and sold, types of customers, manner of servicing customers, and geographical location.

The Company evaluates performance and allocates resources to reportable segments primarily based on operating income.

Financial information for the Company's reportable segments consisted of the following:

| In thousands | Three Months Ended September 30 | |
|-------------------------|---------------------------------|-----------|
| | 2004 | 2003 |
| ----- | | |
| Net sales | | |
| MRO-US | \$ 80,778 | \$ 77,488 |
| MRO-CAN | 5,157 | 4,651 |
| OEM-US | 17,064 | 13,403 |
| OEM-INTL | 4,381 | 3,759 |
| | ----- | ----- |
| Consolidated total | \$ 107,380 | \$ 99,301 |
| | ===== | ===== |
| Operating income (loss) | | |
| MRO-US | \$ 7,306 | \$ 6,626 |
| MRO-CAN | 512 | 434 |
| OEM-US | 678 | 336 |
| OEM-INTL | (184) | (503) |
| | ----- | ----- |
| Consolidated total | \$ 8,312 | \$ 6,893 |
| | ===== | ===== |

The reconciliation of segment profit to consolidated income before income taxes consisted of the following:

| In thousands | Three Months Ended September 30 | |
|-----------------------------|---------------------------------|----------|
| | 2004 | 2003 |
| ----- | | |
| Total operating income | | |
| from Reportable segments | \$ 8,312 | \$ 6,893 |
| Investment and other income | 776 | 660 |
| Interest expense | (40) | (65) |
| | ----- | ----- |
| Income before income taxes | \$ 9,048 | \$ 7,488 |
| | ===== | ===== |

| In thousands | Nine Months Ended September 30 | |
|-------------------------|--------------------------------|------------|
| | 2004 | 2003 |
| ----- | | |
| Net sales | | |
| MRO-US | \$ 235,157 | \$ 227,861 |
| MRO-CAN | 15,752 | 13,938 |
| OEM-US | 48,130 | 40,999 |
| OEM-INTL | 13,442 | 9,687 |
| | ----- | ----- |
| Consolidated total | \$ 312,481 | \$ 292,485 |
| | ===== | ===== |
| Operating income (loss) | | |
| MRO-US | \$ 23,403 | \$ 18,838 |
| MRO-CAN | 1,651 | 1,448 |
| OEM-US | 1,779 | 479 |
| OEM-INTL | (267) | (1,286) |
| | ----- | ----- |
| Consolidated total | \$ 26,566 | \$ 19,479 |
| | ===== | ===== |

The reconciliation of segment profit to consolidated income before income taxes consisted of the following:

| In thousands | Nine Months Ended September 30 | |
|---|--------------------------------|-----------|
| | 2004 | 2003 |
| Total operating income from reportable segments | \$ 26,566 | \$ 19,479 |
| Investment and other income | 1,886 | 1,407 |
| Interest expense | (151) | (72) |
| Income before income taxes | \$ 28,301 | \$ 20,814 |

Asset information related to the Company's reportable segments consisted of the following:

| In thousands | September 30, | December 31, |
|-------------------------------|---------------|--------------|
| | 2004 | 2003 |
| Total Assets | | |
| MRO-US | \$ 171,153 | \$ 168,783 |
| MRO-CAN | 18,099 | 17,137 |
| OEM-US | 38,865 | 36,076 |
| OEM-INTL | 11,162 | 9,771 |
| Total for reportable segments | 239,279 | 231,767 |
| Corporate | 15,353 | 15,176 |
| Consolidated total | \$ 254,632 | \$ 246,943 |

At September 30, 2004 and December 31, 2003, the carrying value of goodwill within each reportable segment was as follows (in thousands):

| | |
|--------------------|-----------|
| MRO-US | \$ 22,104 |
| MRO-CAN | 4,294 |
| OEM-US | 2,251 |
| Consolidated total | \$ 28,649 |

I) Impact of Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities (FIN 46)." FIN 46 explains how to identify variable interest entities (VIE) and how an enterprise assesses its interest in a VIE to decide whether to consolidate the VIE. It requires existing unconsolidated VIEs to be consolidated if the Company is the primary beneficiary. The Company adopted FIN 46 as of July 1, 2003, which has resulted in the consolidation of the Company's investment in a limited partnership, which owns an office building in Chicago, Illinois. In conjunction with the consolidation of its investment, the Company has recorded the long-term debt of the VIE, which represents a mortgage payable relative to the building, of approximately \$1.9 million at September 30, 2004. The interest rate of the mortgage payable is 7.315%, with a maturity date of January 1, 2006. The building and land have a net carrying value of approximately \$4.2 million, which are included in property, plant and equipment. The remaining assets, none of which are significant, are recorded in other assets.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Lawson Products, Inc.

We have reviewed the condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of September 30, 2004 and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2004 and 2003, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards of the Public Company Accounting Oversight Board, the objective of which is the expression of 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 condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lawson Products, Inc. as of December 31, 2003, 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, 2004, 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, 2003, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
October 15, 2004

"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 include, but are not limited to, those related to general economic conditions and market conditions in the original equipment manufacturers and maintenance, repair and replacement distribution industries in North America and to a lesser extent, the United Kingdom, the Company's ability to obtain new customers and manage growth, material or labor cost increases, competition in the Company's business, operating margin risk due to competitive pricing and operating efficiencies, successful integration of acquisitions, the Company's dependence on key personnel and the length of economic downturns in the Company's markets. In the event of continued economic downturn, the Company could experience additional customer bankruptcies, reduced volume of business from its existing customers and lost volume due to plant shutdowns or consolidations by the Company's customers other factors that may be referred to or noted in the Company's reports filed with the Securities and Exchange Commission from time to time. 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.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUES AND GROSS PROFIT

Net sales for the three-month period ended September 30, 2004 increased 8.1% to \$107.4 million, from \$99.3 million in the same period of 2003. Combined Maintenance, Repair and Replacement distribution (MRO-US and MRO-CAN) net sales rose \$3.8 million in the third quarter, to \$85.9 million from \$82.1 million in the same period of 2003. Sales increases were achieved in both the U.S. and Canadian MRO segments for the three-month period. The sales increase in the U.S. was principally attributable to the addition of new customers and increased penetration of existing customers. Although sales unit volume increased slightly in Canada, the Company benefited from foreign exchange rate fluctuations. Combined Original Equipment Manufacturer (OEM-US and OEM-INTL) net sales increased \$4.3 million in the third quarter, to \$21.4 million from \$17.1 million in the same period of 2003. Sales were higher in the U.S. and internationally for the three-month period. The sales gain in both the U.S. and international segments was attributable to higher unit sales from existing customers and the addition of new customers. The favorable impact of foreign exchange fluctuations also accounted for a portion of the sales increase achieved by the international segment.

For the nine-month period ended September 30, 2004, net sales increased 6.8% to \$312.5 million, from \$292.5 million in the comparable period of 2003. Combined Maintenance, Repair and Replacement distribution (MRO-US and MRO-CAN) net sales increased \$9.1 million for the nine-month period, to \$250.9 million from \$241.8 million in the same period of 2003. Consistent with the third quarter, sales increases were achieved in both the U.S. and Canadian MRO segments for the nine-month period, with the sales increase in the U.S. principally attributable to the addition of new customers and increased penetration of existing customers, and in Canada, the majority of the sales increase was attributable to favorable foreign exchange fluctuations. Net sales for the combined Original Equipment Manufacturer (OEM-US and OEM-INTL) segment increased \$10.9 million in the first nine months, to \$61.6 million from \$50.7 million in the same period of 2003. Sales were higher in the U.S. and internationally for the nine-month period. Similar to the third quarter, the sales gain in both the U.S. and international segments was attributable to higher unit sales from existing customers and the addition of new customers as well as the favorable impact of foreign exchange fluctuations.

Gross profit margins for the three-month periods ended September 30, 2004 and 2003 were 62.1% and 64.4%, respectively. In conjunction with OEM segment sales growth results discussed above, price competition in the domestic OEM market resulted in third quarter 2004 OEM segment gross profit margins of 25.6% compared to 28.4% in the prior year period. In those same periods, MRO gross profit margins declined slightly, from 71.9% in 2003 to 71.2% in 2004. The rapid OEM segment sales growth in the 2004 three-month period compared to the same 2003 period has had the effect of reducing consolidated gross profit margins over these periods.

For the nine-month periods ended September 30, 2004 and 2003, gross profit margins were 63.3% and 64.1%, respectively. MRO segment gross profit margins improved from 71.6% in 2003 to 72.3% in 2004 for these periods. Increases in average selling prices as a result of price increases implemented in June 2004 are the primary driver of slightly higher MRO gross profit margins in the year-to-date September, 2004 period compared to the prior year. As discussed above, sales growth in the OEM segment has had the effect of slightly reducing overall gross profit margins for the nine-month period ended September 2004 compared to the prior year period.

OPERATING EXPENSES AND OPERATING INCOME

- - - - -

Operating expenses were \$58.4 million and \$57.1 million for the quarters ended September 30, 2004 and 2003, respectively. The \$1.3 million dollar increase in quarterly operating expenses for 2004 over the prior year quarter is primarily related to higher employee compensation costs. As a result of the sales increases and productivity improvements over these periods, operating expenses as a percent of sales declined from 57.5% in the 2003 period to 54.4% of sales in the 2004 period.

For the nine months ended September 30, 2004 and 2003, operating expenses were \$171.2 million and \$168.1 million, respectively. The \$3.1 million increase in total operating costs for year-to-date September 2004 over 2003 is primarily related to higher information technology development costs (\$1.3 million), employee compensation costs (\$1.5 million) and various other items (\$0.3 million).

As a result of the Company's ability to leverage its operating cost infrastructure, operating expenses as a percent of sales for these nine-month periods declined from 57.5% of sales in 2003 to 54.8% of sales in 2004.

Operating income for the three-month period ended September 30, 2004 increased 20.6% to \$8.3 million, from \$6.9 million in the comparable period of 2003. This \$1.4 million increase in operating income is attributable to net sales increases, offset by the lower gross profit margins and the operating expense increases discussed above. As a result of the Company's ability to leverage its operating cost infrastructure, operating income as a percent of sales for the three-month periods increased from 6.6% of sales in 2003 to 7.7% of net sales in 2004.

For the nine-month period ended September 30, 2004, operating income increased 36.4% to \$26.6 million, from \$19.5 million in the similar period of 2003. The \$7.1 million increase in operating income over these periods is driven by the same factors discussed for the three-month periods above. As a percentage of net sales, year-to-date September, 2004 operating income was 8.5% in 2004 compared to 6.7% in 2003 as a result of the Company's leverage and management of operating expenses while achieving higher net sales.

INVESTMENT AND OTHER INCOME

- - - - -

Investment and other income consists primarily of rental and interest income. For the quarters ended September 30, 2004 and 2003, investment and other income was \$0.8 million and \$0.7 million, respectively.

For the nine-month periods ended September 30, 2004 and 2003, investment and other income was \$1.9 million and \$1.4 million, respectively. The increase in 2004 is primarily attributable to the consolidation of the Company's investment in a limited partnership (please refer to Note I) beginning in the third quarter of 2003.

INTEREST EXPENSE

- - - - -

Interest expense is primarily attributable to interest paid relative to a mortgage payable for the building owned by the limited partnership referred to in Note I.

PROVISION FOR INCOME TAXES

- - - - -

The effective tax rates for the three months ended September 30, 2004 and 2003 were 38.3% and 41.7%, respectively. For the nine-month periods ended September 30, 2004 and 2003, the effective tax rates were 38.4% and 41.1% respectively. The decline in the effective tax rates for the quarter and year-to-date periods is principally due to substantially reduced OEM segment losses internationally in 2004. These losses have declined from \$0.5 million to \$0.2 million for the three months ended September 2003 and 2004, respectively, and declined from \$1.3 million to \$0.3 million for the nine-month periods ended September 30, 2003 and 2004, respectively. No tax benefit was provided to the Company in either year. However, the reduction in losses has had the effect of lowering the overall effective tax rate. The impact of the lower losses was 1.4% and 1.7%, respectively for the quarter and year-to-date periods.

Also, a reduction of the tax provision in the third quarter of 2004 was recorded relative to a contribution of inventory to a charitable organization. This benefit lowered the effective tax rate for the quarter and year-to-date periods by 1.4% and 0.5%, respectively.

NET INCOME

- - - - -

Net income for the third quarter of 2004 increased 28.0%, to \$5.6 million (\$.59 per diluted share), compared to \$4.4 million (\$.46 per diluted share) in the similar period of 2003. The \$1.2 million increase in net income is the result of the \$1.4 million increase in operating income and lower effective tax rates discussed above.

For the nine-month period ended September 30, 2004, net income rose 42.1%, to \$17.4 million (\$1.84 per diluted share), from \$12.6 million (\$1.29 per diluted share) in the comparable period of 2003. The \$4.8 million increase in net income is the result of the \$7.1 million increase in operating income and reduced effective tax rates discussed above.

LIQUIDITY AND CAPITAL RESOURCES

- - - - -

Net cash provided by operations for the nine months ended September 30, 2004 and 2003 was \$20.3 million and \$16.4 million, respectively. In 2004, net cash provided by operations was positively impacted by higher net income and negatively impacted by an increase in net operating assets, primarily accounts receivable and inventories.

In 2003, an increase in net operating assets and slightly lower operating liabilities negatively impacted net cash provided by operations.

Working capital at September 30, 2004 was \$115.7 million as compared to \$107.9 million at December 31, 2003. At September 30, 2004 the current ratio was 4.1 to 1 as compared to 3.9 to 1 at December 31, 2003.

Additions to property, plant and equipment were \$1.3 million and \$3.1 million, respectively, for the nine months ended September 30, 2004 and 2003. Capital expenditures in 2004 were incurred for the purchase of equipment. In 2003, additions to property, plant and equipment were incurred primarily for the purchase of manufacturing machinery, improvement of existing facilities and for the purchase of related equipment. Requirements for plant expansion and manufacturing equipment in 2003 accounted for the significant difference between 2003 and the approximate \$2.0 million expected for additions in 2004.

The Company increased the cash dividend to \$.18 per share on common shares. This was a 12.5% increase over the previous \$.16 per share on common shares paid each quarter in 2003.

During the first nine months of 2004, the Company purchased 179,841 shares of its own common stock for approximately \$6,355,000, pursuant to the 2000 Board authorization to purchase up to 500,000 shares. In the first nine months of 2003, the Company purchased 4,600 shares of its own common stock for approximately \$127,000 pursuant to the 2000 Board authorization noted above. All shares purchased as of September 30, 2004 have been retired. Funds to purchase these shares were provided by investments and net cash provided by operations. There is no expiration date relative to this authorization.

On October 13, 2004, the Company announced that its Board of Directors authorized a stock repurchase program to purchase up to 500,000 shares of its common stock in addition to that previously authorized. There is no expiration date relative to this authorization.

Net cash provided by operations, current investments and the \$50,000,000 unsecured line of credit are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2004 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

The Company's chief executive officer and chief financial officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of the previous mentioned evaluation.

PART II - OTHER INFORMATION

ITEMS 1, 3, 4 AND 5 ARE INAPPLICABLE AND HAVE BEEN OMITTED FROM THIS REPORT.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

| Period | Total Number of Shares Purchased | (b) Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or approximate Dollar Value) of Shares that may Yet Be Purchased Under the Plans or Programs |
|---------------------|--|--|---|--|
| 01/01/04 - 01/31/04 | --- | --- | --- | \$286,399 |
| 02/01/04 - 02/29/04 | 8,242 | \$29.76 | 8,242 | \$278,157 |
| 03/01/04 - 03/31/04 | 20,305 | \$30.07 | 20,305 | \$257,852 |
| 04/01/04 - 04/30/04 | 24,057 | \$32.85 | 24,057 | \$233,795 |
| 05/01/04 - 05/31/04 | 27,781 | \$33.58 | 27,781 | \$206,014 |
| 06/01/04 - 06/30/04 | 11,049 | \$34.85 | 11,049 | \$194,965 |
| 07/01/04 - 07/31/04 | 15,636 | \$36.97 | 15,636 | \$179,329 |
| 08/01/04 - 08/31/04 | 30,022 | \$36.32 | 30,022 | \$149,307 |
| 09/01/04 - 09/30/04 | 42,749 | \$40.28 | 42,749 | \$106,558 |
| Total | 179,841 | \$35.34 | 179,841 | \$106,558 |

On May 16, 2000, the Board of Directors of the Company authorized the purchase of up to 500,000 shares of its own common stock. On October 13, 2004, the Company announced that its Board of Directors authorized a stock repurchase program to purchase up to an additional 500,000 shares of its common stock. There is no expiration date relative to either authorization.

ITEM 6. EXHIBITS.

- 15 Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information
- 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

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 November 9, 2004

/s/ Robert J. Washlow

Robert J. Washlow
Chief Executive Officer and
Chairman of the Board

Dated November 9, 2004

/s/ Thomas Neri

Thomas Neri
Executive Vice President,
Chief Financial Officer, and
Treasurer

October 15, 2004

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 15, 2004 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, 2004.

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

Chicago, Illinois

CERTIFICATIONS

I, Robert J. Washlow, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc.;
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(s) 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 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. 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
 - c. 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(s) 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: November 9, 2004

/s/ Robert J. Washlow

Robert J. Washlow
Chief Executive Officer

CERTIFICATIONS

I, Thomas Neri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lawson Products, Inc.;
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(s) 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 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) 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
 - (c) 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(s) 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: November 9, 2004

/s/ Thomas Neri

Thomas Neri
 Executive Vice President, Finance, Planning and Corporate Development;
 Chief Financial Officer; and Treasurer

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, 2004 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. ss.1350, as adopted pursuant to ss.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.

/s/ Robert J. Washlow

Robert J. Washlow, Chief Executive Officer

/s/ Thomas Neri

Thomas Neri, Executive Vice President, Finance,
Planning and Corporate Development;
Chief Financial Officer; and Treasurer

November 9, 2004

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.