LAWSON PRODUCTS INC/NEW/DE/
Form 10-Q
July 28, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

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

For quarterly period ended June 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 þ 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 þ	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 þ

The number of shares outstanding of the registrant s common stock, $1 par value, as of July 24, 2010 was 8,522,001.

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms may, should, could, anticipate, believe, continues, estimate, expect, intend, objective, plan, potential, project and si 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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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,616	$ 8,787
Accounts receivable, less allowance for doubtful accounts	46,372	39,804
Inventories	75,067	73,696
Miscellaneous receivables and prepaid expenses	11,567	10,423
Deferred income taxes	3,896	4,819
Property held for sale		332
Discontinued assets	464	459
Total current assets	145,982	138,320
Property, plant and equipment, less accumulated depreciation and amortization	40,961	40,576
Cash value of life insurance	17,040	17,021
Deferred income taxes	12,977	15,249
Goodwill	27,875	27,957
Other assets	2,490	2,524
Total assets	$ 247,325	$ 241,647
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 23,233	$ 19,968
Settlement payable	10,000	10,000
Accrued expenses and other liabilities	29,857	33,272
Total current liabilities	63,090	63,240
Revolving line of credit	5,150	
Security bonus plan	25,799	25,931
Deferred compensation	10,946	10,374
Other	2,654	5,456
	44,549	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	4,951	4,780
Retained earnings	124,884	121,888
Accumulated other comprehensive income	1,329	1,456
Stockholders equity	139,686	136,646
Total liabilities and stockholders equity	$ 247,325	$ 241,647

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net sales	$ 101,623	$ 95,033	$ 196,696	$ 194,414
Cost of goods sold	42,993	39,164	82,584	84,378
Gross profit	58,630	55,869	114,112	110,036
Operating expenses:				
Selling, general and administrative expenses	54,144	52,932	106,252	109,613
Severance and other restructuring charges (benefits)	1,224	(94)	1,699	5,947
Loss (gain) on disposal of property, plant and equipment		(395)	(1,701)	16
Operating income (loss)	3,262	3,426	7,862	(5,540)
Other income	52	51	102	776
Interest expense	(196)	(268)	(281)	(342)
Income (loss) from continuing operations before income taxes	3,118	3,209	7,683	(5,106)
Income tax expense (benefit)	1,344	1,313	3,567	(1,083)
Income (loss) from continuing operations	1,774	1,896	4,116	(4,023)
Loss from discontinued operations, net of income taxes	(87)	(49)	(97)	(78)
Net income (loss)	$ 1,687	$ 1,847	$ 4,019	$ (4,101)
Basic and diluted income (loss) per share of common stock:				
Continuing operations	$ 0.21	$ 0.22	$ 0.48	$ (0.47)
Discontinued operations	(0.01)		(0.01)	(0.01)
	$ 0.20	$ 0.22	$ 0.47	$ (0.48)

Basic weighted average shares outstanding		8,522		8,522		8,522		8,522
Dilutive effect of stock based compensation		7				4		
Diluted weighted average shares outstanding		8,529		8,522		8,526		8,522
Cash dividends declared per share of common stock	$	0.06	$	0.03	$	0.12	$	0.06

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2010	2009
Operating activities:		
Net income (loss)	$ 4,019	$ (4,101)
Loss from discontinued operations	97	78
Income (loss) from continuing operations	4,116	(4,023)
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,003	3,679
Deferred income taxes	3,271	2,294
Loss (gain) from disposal of property, plant and equipment	(1,701)	16
Changes in operating assets and liabilities		
Accounts receivable	(7,146)	4,659
Inventories	(1,434)	6,880
Prepaid expenses and other assets	(1,132)	1,885
Accounts payable and accrued expenses	424	2,402
Other	(1,462)	(1,189)
Net cash (used in) provided by operating activities	(2,061)	16,603
Investing activities:		
Additions to property, plant and equipment	(3,619)	(1,996)
Proceeds from sale of property	2,027	2,179
Net cash (used in) provided by investing activities	(1,592)	183
Financing activities:		
Net proceeds from (payments to) revolving line of credit	5,150	(7,700)
Dividends paid	(1,534)	(1,960)
Other	(32)	(238)
Net cash provided by (used in) financing activities	3,584	(9,898)
Discontinued operations:		
Operating cash flows	(102)	(220)

Net cash used for discontinued operations	(102)	(220)
Increase (decrease) in cash and cash equivalents	(171)	6,668
Cash and cash equivalents at beginning of period	8,787	4,300
Cash and cash equivalents at end of period	$ 8,616	$ 10,968

See notes to condensed consolidated financial statements.

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

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

The accompanying 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. The Condensed Consolidated Balance Sheet as of June 30, 2010, the Condensed Consolidated Statements of Operations for the three-month and six-month periods ended June 30, 2010 and 2009 and the Condensed Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2010 and 2009 are unaudited. 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 six-month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

There have been no material changes in our significant accounting policies during the six months ended June 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 July 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. Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2 Inventories

Components of inventories were as follows:

	(Amounts in thousands)	
	June 30, 2010	December 31, 2009
Finished goods	$ 82,274	$ 81,621
Work in progress	1,144	1,227
Raw materials	1,616	1,759
Total	85,034	84,607
Reserve for obsolete and excess inventory	(9,967)	(10,911)
	$ 75,067	$ 73,696

Note 3 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 June 30, 2010 and 2009:

	(Amounts in thousands) Six Months Ended June 30,	
	2010	2009
Balance at beginning of year	$ 4,145	$ 6,111
Charged to earnings	1,732	6,033
Cash paid	(2,673)	(4,651)
Adjustment to prior reserve	(33)	(165)
Balance at end of the period	$ 3,171	$ 7,328

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

Note 4 Loss (Gain) on Disposal of Property, Plant and Equipment

In the first half 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 5 Stock Based Compensation

During the second quarter 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 issued 30,944 restricted stock units 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 72,892 unvested restricted stock awards and 30,944 unvested restricted stock units outstanding at June 30, 2010.

Activity related to the Company s Stock Performance Rights (SPRs) during the six months ended June 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	(20,450)	22.80
Outstanding on June 30, 2010	370,450	28.51

The fair value of the outstanding SPRs was remeasured on June 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	51.1% to 92.2%
Risk-free interest rate	0.2% to 1.7%
Expected remaining term (in years)	0.2 to 4.7
Expected annual dividend	$0.24

Compensation expense for outstanding stock based compensation of $0.5 million and $0.3 million was recorded in Selling, general and administrative expenses in the second quarters of 2010 and 2009, respectively. The Company recorded stock based compensation expense of $0.2 million during the first six months of 2010 and a stock based compensation benefit of $0.4 million during the first six months of 2009.

Note 6 Income Tax Expense (Benefit)

Income tax as a percentage of pre-tax income (loss) for the three and six months ended June 30, 2010 was 43.1% and 46.4%, respectively, compared to 40.9% and 21.2% for the three and six months ended June 30, 2009. The primary reason for the lower tax rate in the first half of 2009 was due to state tax expense and non-deductible expenses, which reduced the effective tax rate on the loss.

At June 30, 2010, the Company had $1.1 million in unrecognized tax benefits, the recognition of which would have a favorable effect on the effective tax rate. Due to the uncertainty of both timing and resolution of income tax examinations, the Company is unable to determine whether any amounts included in the June 30, 2010 balance of unrecognized tax benefits represent tax positions that could significantly change during the next twelve months. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense (benefit).

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

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 June 30, 2010, the Company is subject to U.S. Federal income tax examinations for 2006 and non-U.S. income tax examinations for the years 2005 through 2009.

Note 7 Comprehensive Income (loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss)	$ 1,687	$ 1,847	$ 4,019	$ (4,101)
Foreign currency translation adjustment	(479)	701	(127)	1,190
Comprehensive income (loss)	$ 1,208	$ 2,548	$ 3,892	$ (2,911)

Note 8 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 following table presents summary financial information for the Company s reportable segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales				
MRO	$ 84,738	$ 80,570	$ 164,354	$ 163,389
OEM	16,885	14,463	32,342	31,025
Consolidated total	$ 101,623	$ 95,033	$ 196,696	$ 194,414
Operating income (loss)				
MRO	$ 4,117	$ 3,841	$ 7,289	$ 2,839
OEM	369	(904)	571	(2,416)
Severance and other restructuring (charges) benefits	(1,224)	94	(1,699)	(5,947)
Gain (loss) from disposal of property, plant and equipment		395	1,701	(16)
Consolidated total	$ 3,262	$ 3,426	$ 7,862	$ (5,540)

Other income	52	51	102	776
Interest expense	(196)	(268)	(281)	(342)
Income (loss) from continuing operations before income taxes	$ 3,118	$ 3,209	$ 7,683	$ (5,106)

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

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

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

	2010		2009	
($ in thousands)	Amount	% of Net Sales	Amount	% of Net Sales
Net sales				
MRO	$ 84,738	83.4%	$ 80,570	84.8%
OEM	16,885	16.6	14,463	15.2
Consolidated total	$ 101,623	100.0%	$ 95,033	100.0%
Gross profit				
MRO	$ 54,512	64.3%	$ 53,211	66.0%
OEM	4,118	24.4	2,658	18.4
Consolidated total	58,630	57.7	55,869	58.8
Operating expenses:				
Selling, general and administrative expenses	54,144	53.3	52,932	55.7
Severance and other restructuring charges (benefits)	1,224	1.2	(94)	(0.1)
Gain on disposal of property, plant and equipment			(395)	(0.4)
Operating income	3,262	3.2	3,426	3.6
Other, net	(144)	(0.1)	(217)	(0.2)
Income from continuing operations before income tax expense	3,118	3.1	3,209	3.4
Income tax expense	1,344	1.4	1,313	1.4
Income from continuing operations	$ 1,774	1.7%	$ 1,896	2.0%

Net Sales

Net sales for the second quarter of 2010 increased 6.9% to $101.6 million, from $95.0 million in the second quarter of 2009, primarily reflecting a stabilization of the economy and continued growth with our strategic, governmental and automotive customers.

MRO net sales increased 5.2% in the second quarter of 2010, to $84.7 million from $80.6 million in the prior year period. OEM net sales increased $2.4 million or 16.7% in the second quarter of 2010, to $16.9 million from $14.5 million in the prior year period.

Gross Profit

Gross profit increased $2.8 million in the second quarter of 2010, to $58.6 million from $55.9 million in the prior year period. The gross profit margin for the second quarter of 2010 decreased to 57.7%, 1.1 percentage points less than the 58.8% achieved in the second quarter of 2009 primarily due to a change in the sales mix which included a larger proportion of lower margin OEM business compared to the prior year quarter along with a decline in the MRO gross margin percentage as a result of customer mix.

MRO gross profit increased to $54.5 million from $53.2 million in the prior year period. MRO gross profit as a percent of net sales decreased 1.7 percentage points to 64.3% for the second quarter of 2010 from 66.0% in the second quarter of 2009. The decline was primarily driven by a change in the customer mix including higher volume customers that return slightly lower margins as a percentage of total sales.

OEM gross profit increased to $4.1 million in the second quarter of 2010 from $2.7 million in the prior year period. Gross profit as a percent of net sales increased to 24.4% for the second quarter of 2010, 6.0 percentage points higher than 18.4% achieved in the second quarter of 2009. The improved margin was due primarily to renegotiating customer contracts to provide a higher rate of return and not renewing contracts with low rates of return.

Selling, General and Administrative Expenses (SG&A   )

SG&A expenses increased $1.2 million in the second quarter of 2010 to $54.1 million from $52.9 million in 2009, primarily due to expenses to support the increased sales. Additionally, the Company incurred ERP implementation expenses of $0.6 million for the 2010 second quarter. SG&A as a percent of net sales decreased 2.4 percentage points to 53.3% in the second quarter of 2010 compared to 55.7% in the second quarter of 2009 as we realized certain efficiencies from the streamlining of our cost structure, including the closure of our Dallas and Charlotte distribution centers in 2009.

Severance and Other Restructuring Charges (Benefits)

Severance expense was $1.2 million in the second quarter of 2010 compared to a $0.1 million net benefit recorded in the second quarter of 2009. A realignment of some of our managerial operating responsibilities during the second quarter of 2010 resulted in the elimination of certain positions.

Gain on Disposal of Property, Plant and Equipment

In the second quarter of 2009, we received cash proceeds of $2.2 million from the sale of our Charlotte, North Carolina distribution center, resulting in a gain of $0.4 million.

Income Tax Expense

Income tax expense of $1.3 million was recorded based on pre-tax income of $3.1 million for the three months ended June 30, 2010, resulting in an effective tax rate of 43.1%. For the three months ended June 30, 2009, we recorded income tax of $1.3 million based on pre-tax income of $3.2 million, resulting in an effective tax rate of 40.9%. The primary reason for the higher tax rate in 2010 was due to higher non-deductible expenses, which increased the effective tax rate.

Net Income

We reported net income of $1.7 million or $0.20 per share in the second quarter of 2010. The 2010 net income was driven by increased sales and cost savings initiatives offset by pre-tax $0.6 million expense related to our ERP implementation and $1.2 million related to severance costs. The second quarter of 2009 net income of $1.8 million or $0.22 per share benefited from the $0.4 million gain on sale of the Charlotte distribution center.

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Six Months ended June 30, 2010 compared to Six Months ended June 30, 2009

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

($ in thousands)	2010 Amount	2010 % of Net Sales	2009 Amount	2009 % of Net Sales
Net sales				
MRO	$ 164,354	83.6%	$ 163,389	84.0%
OEM	32,342	16.4	31,025	16.0
Consolidated total	$ 196,696	100.0%	$ 194,414	100.0%
Gross profit				
MRO	$ 106,260	64.7%	$ 104,776	64.1%
OEM	7,852	24.3	5,260	17.0
Consolidated total	114,112	58.0	110,036	56.6
Operating expenses:				
Selling, general and administrative expenses	106,252	54.0	109,613	56.4
Severance and other restructuring charges	1,699	0.9	5,947	3.0
Loss (gain) on disposal of property, plant and equipment	(1,701)	(0.9)	16	
Operating income (loss)	7,862	4.0	(5,540)	(2.8)
Other, net	(179)	(0.1)	434	0.2
Income (loss) from continuing operations before income tax expense	7,683	3.9	(5,106)	(2.6)
Income tax expense (benefit)	3,567	1.8	(1,083)	(0.5)
Income (loss) from continuing operations	$ 4,116	2.1%	$ (4,023)	(2.1)%

Net Sales

Net sales for the first half of 2010 increased 1.2% to $196.7 million, from $194.4 million in the first half of 2009. MRO net sales increased $1.0 million or 0.6% in the first half of 2010, to $164.4 million from $163.4 million in the prior year period. OEM net sales increased $1.3 million or 4.2% in the first six months of 2010, to $32.3 million from $31.0 million in the prior year period.

Gross Profit

Gross profit increased $4.1 million in the first six months of 2010, to $114.1 million from $110.0 million in the prior year period. Gross profit as a percent of net sales increased to 58.0% in the first six months of 2010, 1.4 percentage points higher than the 56.6% achieved in the first six months of 2009.

MRO gross profit increased to $106.3 million from $104.8 million in the prior year period. MRO gross profit as a percent of net sales increased 0.6 percentage points to 64.7% for the first six months of 2010 from 64.1% in the first six months of 2009.

OEM gross profit increased $2.6 million in the first half of 2010, to $7.9 million from $5.3 million in the prior year period. Gross profit as a percent of net sales increased to 24.3% for the first half of 2010, 7.3 percentage points higher than 17.0% achieved in the first half of 2009. The improved margin was due primarily to renegotiating customer contracts to provide a higher rate of return and not renewing contracts with low rates of return.

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Selling, General and Administrative Expenses (SG&A)

SG&A expenses were $106.3 million or 54.0% of net sales and $109.6 million or 56.4% of net sales for the six months ended June 30, 2010 and 2009, respectively. SG&A as a percent of net sales improved 2.4 percentage points in the first half of 2010 compared to the first half of 2009 as we realized certain efficiencies from the streamlining of our cost structure, including the closure of our Dallas and Charlotte distribution centers in 2009.

Severance and Other Restructuring Charges

Severance expense was $1.7 million and $5.9 million in the first half of 2010 and 2009, respectively. A realignment of some of our managerial operating responsibilities during the first half of 2010 resulted in the elimination of certain positions. During the first half of 2009, primarily in response to the economic recession, we reduced the size of our work force across the organization by approximately 150 employees.

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

In the first half 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 (Benefit)

Income tax expense of $3.6 million was recorded based on pre-tax income of $7.7 million for the six months ended June 30, 2010, resulting in an effective tax rate of 46.4%. For the six months ended June 30, 2009, the Company recorded $1.1 million income tax benefit, based on a pre-tax loss from continuing operations of $5.1 million, resulting in an effective tax rate of 21.2%. The primary reason for the lower tax rate in 2009 was due to state income taxes and non-deductible expenses, which reduced the effective tax rate on the loss.

Net Income

We reported net income of $4.0 million or $0.47 per share in the first six months of 2010. The 2010 net income was driven by improved gross profit margins, a $1.7 million gain related to the sale of the Dallas distribution center and cost savings initiatives. These items were offset by pre-tax $0.6 million expense related to our ERP implementation and $1.7 million of severance costs. The first six months of 2009 net loss of $4.1 million or $0.48 per share loss was partially driven by $5.9 million of severance costs.

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Liquidity and Capital Resources

Cash on hand was $8.6 million on June 30, 2010 compared to $8.8 million on December 31, 2009. We borrowed $5.2 million on our revolving line of credit during the first six months of 2010 primarily to support an increase in working capital along with cash expended on our Enterprise Resource Planning (ERP) system implementation.

Net cash used in continuing operations was $2.1 million for the first six months of 2010 compared to $16.6 million provided by continuing operations in the first six months of 2009. Increased net income in the first half of 2010 was more than offset by an increase in working capital. Accounts receivable increased $7.1 million as the increased sales had not yet been fully realized in cash on June 30, 2010. Additionally, $1.4 million was invested to increase inventory levels to support higher sales. Cash provided by operations in the first half of 2009 primarily reflected a decrease in accounts receivable and lower inventory levels.

Cash flows from investing activities in the first six 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 $2.8 million related to the implementation of a new ERP system, were $3.6 million for the first six months of 2010 compared to $2.0 million in 2009. We anticipate that the total cost of the ERP implementation, including both capital and expense, will range from $15 million to $20 million and will continue through 2011.

Net cash provided by financing activities in the first six months of 2010 was $3.6 million compared to cash used for financing activities of $9.9 million in the first six months of 2009. The change was primarily due to a net borrowing on our revolving credit line of $5.2 million in the first half of 2010 compared to a net payment of $7.7 million in the first six months of 2009. On June 30, 2010, we had $5.2 million of borrowings outstanding on our revolving line of credit and $1.4 million of outstanding letters of credit, leaving borrowing availability of $48.4 million subject to the following covenant limitations.

At June 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	$18.2 million
Cash plus accounts receivable and inventory to debt ratio	2.00:1.00	19.65:1.00
Minimum tangible net worth	$55.0 million	$80.6 million

We believe that 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at June 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 June 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 July 28, 2010	/s/ Thomas J. Neri Thomas J. Neri President and Chief Executive Officer (principal executive officer)
Dated July 28, 2010	/s/ Ronald J. Knutson Ronald J. Knutson Senior Vice President and Chief Financial Officer (principal financial and accounting officer)