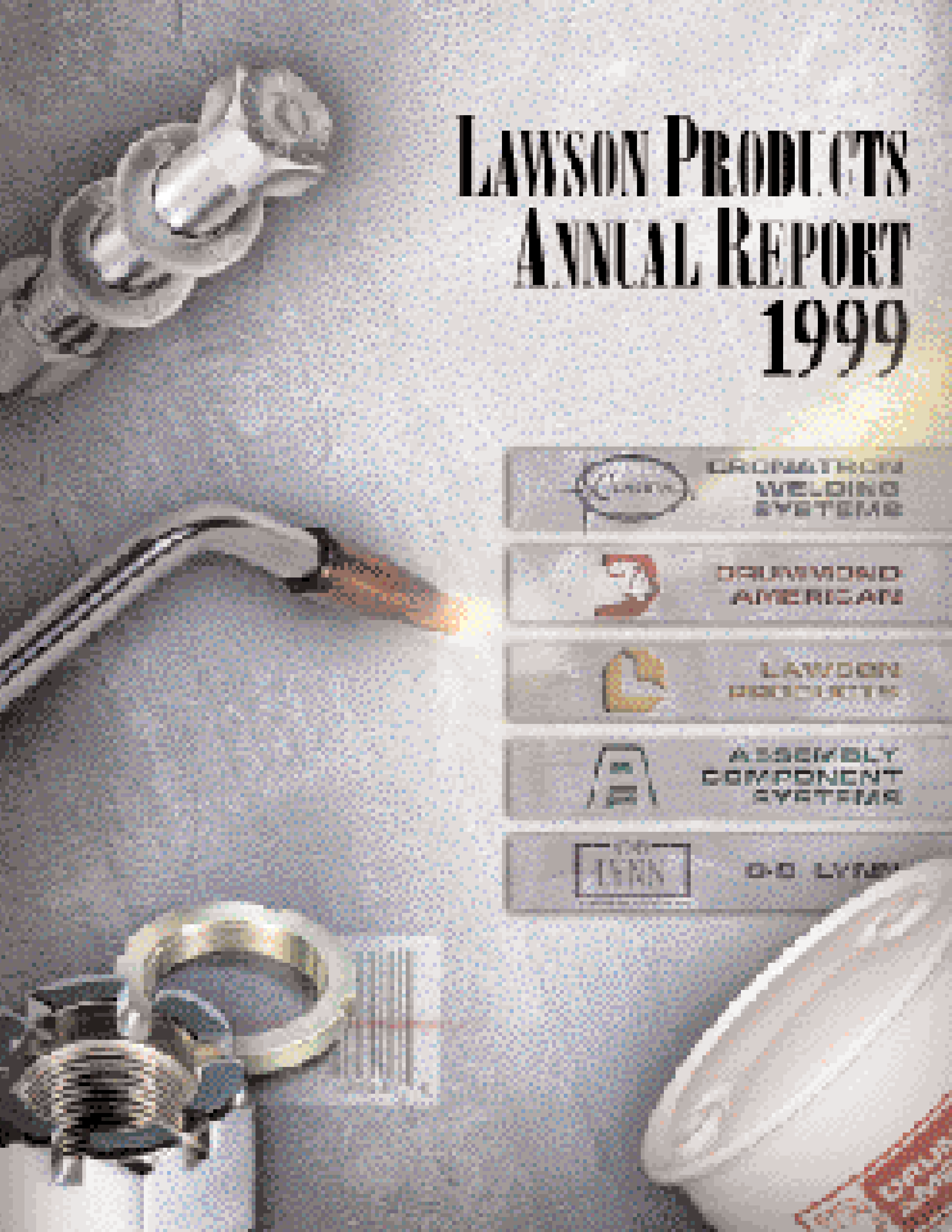
LAWSON PRODUCTS ANNUAL REPORT 1999



Five Year Selected Financial Data

	1999	Percent Change	1998	1997	1996	1995
Net Sales	**$318,970,113**	+9.0	$292,523,475	$278,144,321	$250,289,124	$223,537,182
Income Before Income Taxes	**40,269,981**	+19.9	33,590,229	35,723,277	33,884,637	34,815,029
Net Income – As Reported	**23,927,981**	+22.9	19,474,229	21,350,277	19,994,637	21,120,029
Net Income, Exclusive of Special Items[1]	**25,133,981**	+19.7	20,994,229	21,350,277	19,994,637	21,120,029
Total Assets	**215,990,877**	+8.5	198,982,290	188,974,415	175,161,839	160,613,798
Return on Assets (percent)	**11.1**	+13.3	9.8	11.3	11.4	13.1
Noncurrent Liabilities	**27,525,033**	+9.0	25,246,269	24,577,547	22,065,583	19,292,794
Stockholders' Equity	**150,039,989**	+5.0	142,934,735	139,925,387	128,746,212	122,810,577
Return on Equity (percent)	**16.5**	+22.2	13.5	16.0	15.8	16.9
Per Share of Common Stock:						
Basic Net Income	**$2.29**	+29.4	$1.77	$1.91	$1.73	$1.75
Diluted Net Income	**2.29**	+30.1	1.76	1.91	1.73	1.75
Stockholders' Equity[2]	**14.37**	+10.8	12.97	12.55	11.13	10.17
Cash Dividends Declared[2]	**.57**	+1.8	.56	.54	.52	.51
Basic Weighted Average Shares Outstanding	**10,444,076**	-5.3	11,023,934	11,153,091	11,563,052	12,072,668
Diluted Weighted Average Shares Outstanding	**10,445,836**	-5.4	11,041,819	11,175,232	11,563,715	12,074,647

[1] In 1999 and 1998, the Company recorded special charges for compensation arrangements related to management personnel reductions and retirements. These charges reduced net income by $1,760,000 and $1,520,000 for 1999 and 1998, respectively. Additionally, in 1999, a gain of $554,000, net of income taxes, was recorded on the sale of marketable securities.

[2] These per share amounts were computed using basic weighted average shares outstanding for all periods presented.

Our Company had a good year in 1999 by capitalizing on the organizational changes, facility enhancements and the proper positioning of talented people commenced during the prior year. We noted increases in net earnings, operating revenues and earnings per share.

Net income was $23,928,000, a 22.9% increase over 1998. This performance encouraged the Board of Directors to increase the quarterly dividend by 7% during December, 1999 and to declare the 108th consecutive quarterly dividend on March 13, 2000, payable on April 19, 2000, to stockholders of record as of April 5, 2000.

The strong increase in net income was derived from two sources: improvements in operating efficiencies and a 9% increase in net sales. Net sales during 1999 were a record $318,970,000, an increase of $26,447,000 from 1998. Sales increases resulted from an increased number of orders, higher average order values and the addition of new customers across the geographic areas served by our companies. Also contributing to increased sales was our ACS/SIMCO subsidiary acquired on July 1, 1999, as previously reported.

Statistical information aside, here is what your Company was doing during 1999 in order to attain those results. First, your management team was looking at and will continue to see the Lawson Family of Businesses as a group of highly specialized systems and product providers working together to achieve increased profitability and growth. Each specialized business focuses on the particular product and systems needs of each of its customers to assure top performance and unparalleled efficiency.

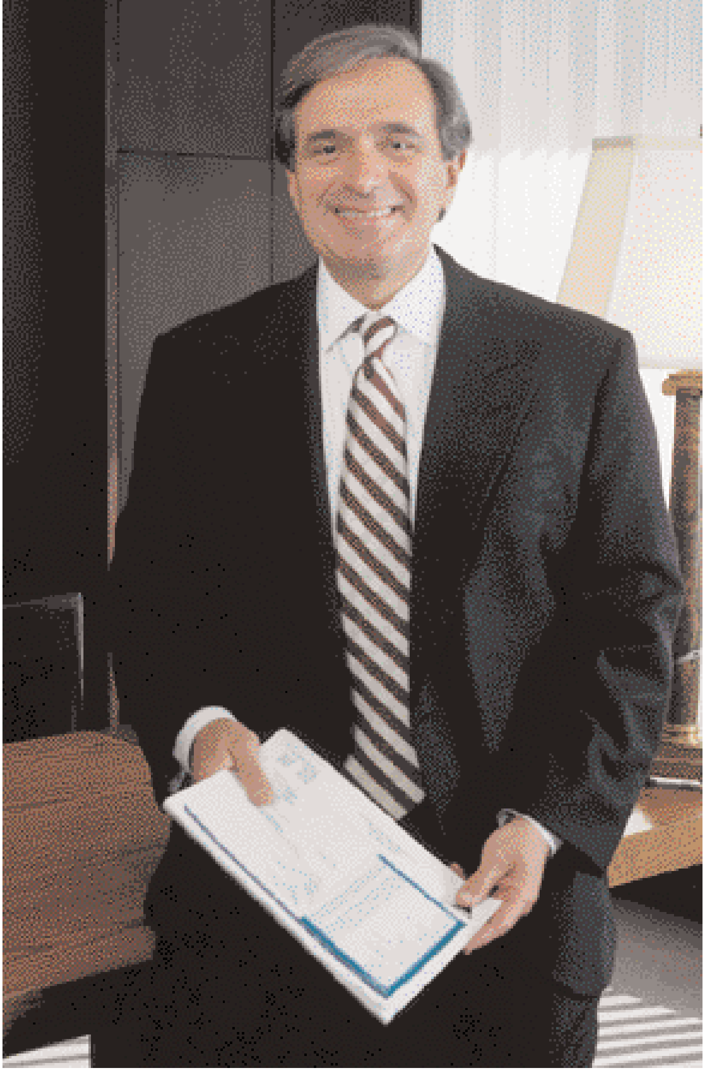
At the same time, the Family of Businesses works together in utilizing the talents of the people and the assets of each of the businesses. In this way, we have started to cross-utilize distribution facilities to bring products and systems closer to customers, while at the same time, decrease operating costs as a percentage of sales. We have formed purchasing councils which include people from each of the businesses. Their goal is to develop more and better sources of product while lowering costs, increasing quality and improving delivery times.

We are operating more efficiently. The Office of the President, comprised of Jeff Belford, head of operations, and Roger Cannon, head of sales, works to assure near perfect coordination among purchasing, distribution and sales. This helps to achieve customer satisfaction. The results include increased same-day shipping percentages. We are now shipping complete within 24 hours more than 99.5% of all lines ordered.

We are providing advanced computer systems to field sales people. Our field sales people are now able to offer the advantages of paperless ordering, on-site tool crib design, detailed product information, and bar code inventory control and restocking – all through the mechanism of a laptop or hand-held computer. This frees up valuable time needed to offer new solutions to problems of customers and helps to enhance the benefits we make available to them. These systems also work to reduce operating costs for our customers and for our Company as well.

Your Company has embarked on another new project. During early 2000, our Automatic Screw Machine subsidiary will commence the manufacture of certain items sold and distributed by Lawson through its fastener operations. Previously limited to goods sold by ACS into the OEM market, this will be our first venture into manufacturing high-quality MRO products for sale by our businesses. This is another example of cross-utilizing our talents and assets in order to enhance the benefit we provide to customers.

ACS/SIMCO was acquired on July 1, 1999, and is being brought into the Family of Businesses under the guidance of Stan Belsky, President and



head of our OEM activities. This new subsidiary specializes in providing inventory control systems for manufacturing operations. We are bringing significant efficiencies and new strategies to this most recent acquisition. This new business is already benefitting other members of the Lawson family. We anticipate greater cross-utilization of talents and assets as ACS/SIMCO becomes more familiar with its sister businesses.

C.B. Lynn is another example of Lawson's cross-utilization efforts. Providing customized supply systems to customers, C.B. Lynn helps to tie the Lawson Family together by drawing on the product, sales and delivery talents of each member and of third party suppliers in order to assist customers with their MRO inventory needs.

During 1999, we made significant management changes at Cronatron Welding Systems. Susan Collins, with 20 years of experience at the Company, was elected President in March. The sales side of the business saw the addition of Robert L. Davis as Vice President of Sales during September, 1999. Bob has a 25-year history with the Lawson Family of Businesses. He has served in key sales positions across the United States and in Canada. Within a reasonable time, we expect to see strong levels of profitable growth from this new management team.

In Canada, we added a Regional Manager to our sales management team. Andre Sarrazin joined the organization in May, 1999, to help lead the sales effort in the Eastern Canadian provinces, thereby allowing Bob Campbell to concentrate on sales development in the central and western provinces. We are also working closely with our Family of Businesses members in the United Kingdom and in Mexico. We have made strategic modifications at each location which we believe will benefit Lawson in the medium and long term. Operating results of all three businesses improved during 1999.

The Lawson Family of Businesses – a close-knit group of highly specialized providers of systems, services and products – is taking care of the needs of its customers. Lawson's customers have on hand what they need when they need it – no wasted travel time, no wasted time waiting at a retail counter, no wasted visiting time, no wasted telephone time, no wasted time independently searching through catalogs. For our customers, Lawson's systems eliminate down time and do so on a cost-efficient basis.

The Lawson Family of Businesses: systems, services and products keeping industry running every minute of every day. We intend to continue our focus on profitable growth.

Respectfully,

Robert J. Washlow

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

April, 2000

Roger F. Cannon

Office of the President and Chief Sales Officer

Over the years, The Lawson Family of Businesses has developed a reputation as the premier supplier offering, through its sales agents, the highest quality products and Value-Added Systems Solutions. When it comes to Value-Added Systems Solutions, Lawson, Drummond and Cronatron agents have an impressive arsenal at their disposal to assure that customers are receiving the best products when they are needed and in the most cost-efficient way. A small sampling of this arsenal of benefits is represented below:

- ISO 9002 Certification & A2LA Certified Laboratories
- 1,700 sales representatives throughout the United States, Canada, Mexico and the United Kingdom
- CD ROM & Internet-based Catalogs
- Diverse product offering – 82,000 items and growing
- Supplemental Supply & Specials – prompt accessibility to hundreds of thousands of items
- Integrated Supply Systems & Solutions
- Electronic Data Interchange (EDI)
- Emergency order systems
- 99.5% of all part numbers shipped complete within 24 hours of receipt of order
- Most orders filled complete during the same business day of receipt of order
- On-line MSDS availability
- Ready Stock Programs & replenishment systems
- Fastener safety seminars
- Demonstrations of product solutions
- Engineering support systems
- Heavy-duty, modular cabinetry for storage and dispensing of inventoried parts & supplies

At Lawson, Drummond and Cronatron, the sales agent is a professional who not only has superior product knowledge, but also has access to the full-time support of engineering experts. Our engineers are immediately available to consult with our sales agents and customers to solve problems as they occur, whether the issue relates to fastener applications, chemical solutions, or welding techniques. We have our own fully staffed laboratories to back up our engineering experts and assure the quality of each product we sell and solution we recommend.

Another example of our Value-Added benefits is Product Safety Seminars, conducted by trained professionals from the Product Education and Engineering Departments within our Family of Businesses. Product Safety Seminars not only educate our customers and their personnel, but also reduce our customers' overhead expenditures by ensuring the correct and most efficient utilization of our products.

Our sales agents also have support available from our Product Development Departments. This support enables them to keep their customers informed of the latest products and advances in the industry.

Custom designed cabinetry is another component of our approach to Value-Added Systems Solutions. Our cabinetry systems are designed and organized to meet the specific needs of each customer and to provide clear and immediate access to necessary parts and supplies. Our sales agents monitor and facilitate the restocking of the products in these cabinets on a regular basis, thereby removing the inventory control burden from our customers. This allows our customers valuable time to deal with other issues.

By providing these types of benefits, our sales agents truly work for their customers. At the same time, the customer is not burdened with the high fixed costs of salaries, benefits and other overhead charges associated with hiring and retaining employees to do this and help their customers minimize overhead costs and maximize profitability.

It is our total solution approach which enables us to consistently meet and exceed our customers' expectations and to help assure significant reductions in downtime of machinery and equipment.

Today, the cost to produce a single purchase order is approximately $100. Through Lawson, Cronatron, Drummond and our Supplemental Supply and Specials groups, our sales agents have an unlimited number of items which they offer their customers. Through our C.B. Lynn operation, sales representatives from all Lawson companies are able to assist their customers in consolidating their inventory needs by purchasing all of their products on a single purchase order. Thus C. B. Lynn customers can quickly and easily remove unnecessary costs from their operations.

Customers prefer to deal with people they can count on in times of emergencies. They want to deal with someone who can give important suggestions to help save time and money. Customers want to deal with suppliers who know them and their industry. Anyone can provide parts and supplies at a lower initial cost. There are catalogs, on-line services and retail stores that sell fasteners, chemicals and welding supplies. The question is: what do those procurement methods really cost our customers? Customers tell us that the "all-in" cost of dealing with such suppliers is high.

When dealing with the Lawson Family of Businesses, whether it is chemicals, welding supplies, fasteners or other industrial products, our customers have the necessary product on hand at the moment it is needed. No phone calls, no independent searching through catalogs, no time and expense of traveling to stores. The necessary item is there on hand, when needed, every time, all the time.

At Lawson Products, our business is reducing downtime for our customers. We do that best and on the most cost-efficient basis. ●

Jeffrey B. Belford

Office of the President and Chief Operating Officer

The concept of being providers of systems, services and products occurs at two levels within Lawson Products. The first and very important level is the face-to-face personal interaction between our sales agents and customers. It is the agent being the provider of systems and solutions to our customers that is the lifeblood of our business. The second level of services, systems and products is the support that must occur between the Lawson agent and the Lawson Family of Businesses. This support starts with the Operations group. The tools that the Lawson agent has at his disposal which make us different consist of product along with our support and distribution, customer service, and leading edge technology.

Our diversified product line continues to grow with 82,000 items available for immediate delivery. In addition, we have ready access to several hundred thousand items through our large database of vendors. Our product line is geared toward the MRO/OEM marketplace with specially engineered features that address superior quality and performance. We support the product through customer education and technical literature that allow for maximum product performance. We have available product research and development teams along with an engineering staff to assist, respond and aid the customer before, during and long after the sale of the item. In concert with the technical end of the product is a purchasing team that balances vendor support, costs, delivery, availability and quality to insure that the customer receives full value.

Claiming to have the product and being able to deliver it can often be two different things. We support the concept of no wasted delivery time through our 16 Distribution Centers strategically located in the United States, Canada, Mexico and in the United Kingdom. Many distribution companies have measurements that include weight received, packages stocked, boxes packed and orders shipped.

Although these are important, we focus on what we believe the customer cares about –

the ABC's of Quality. The customer wants his order shipped Accurately (no mistakes), with Brevity (get it to him quickly) and Completely (no backorders or cancellations). With our ISO 9002 registration, it is these attributes to which we hold our Distribution Centers accountable. Our Accuracy is measured on the weekly transactions that encompass order and product receipt to shipment and must be over 99.9% mistake free. Our Brevity is based on when an order arrives versus when it is shipped. Nearly 100% of all orders are ready for shipment within 24 hours of receipt. The Completeness of an order is the comparison of the number of lines (items) requested versus the number of lines shipped. We pride ourselves on a completeness percentage in excess of 99.5%. This means that the sales agents and our customers can count on an order being shipped quickly without mistakes, back orders or cancelled items. The customer, in turn, can operate with a smaller investment in his inventory.

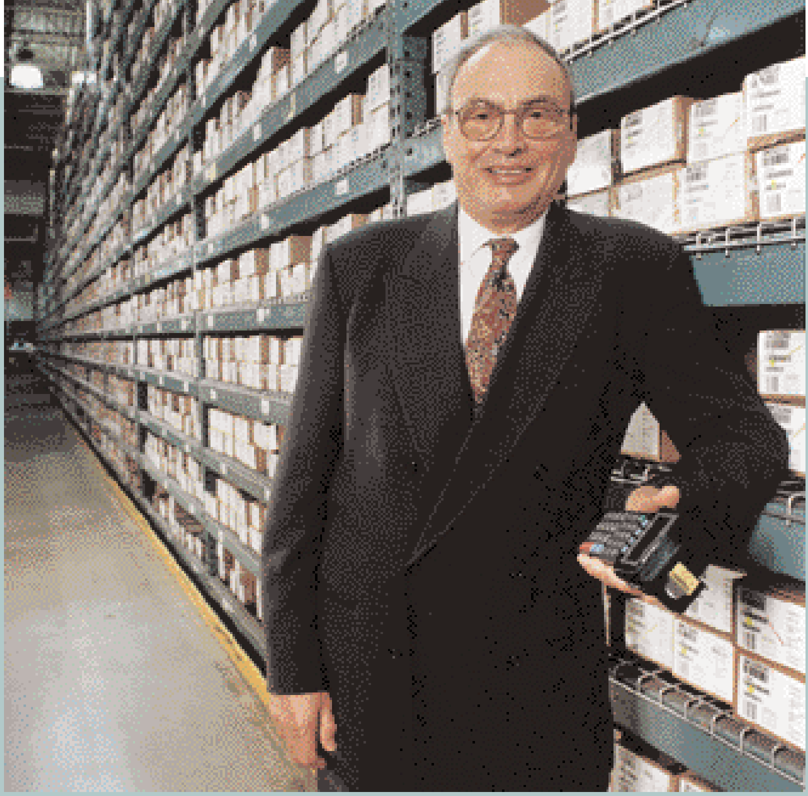
Customer Service is paramount, and the support systems need to be in place so that the sales agent can exceed the customer's expectation. We have staff available to support the sales agent with product knowledge, technical assistance, order inquiry and status, customer requests, computer help, literature, MSDS sheets and storage devices. We help facilitate product education workshops which educate and allow the sales agent to be more adept in aiding his customer.

Speed and saving time help to make our sales agents and customers more cost efficient. We help to accomplish this time savings through a number of in-house software programs, two of which are winners of the Microsoft Business Software of the Year Award. Our catalog of stocked items is available on CD ROM and is executable on a laptop computer. The software and CD ROM allow the customer to view product, see video demonstrations, print information and literature, generate a quote or submit an order. On the agent's laptop is another computer program that allows for input of an order through several different mediums, including the CD ROM electronic catalog, a Palm Pilot bar code reader or a manual keyboard. The software keeps track of the order (receive and ship dates) and provides usage and inventory reports to the customer for more efficient management of operations.

These are some of the supporting activities that are available for use by our sales agents to better provide for the customer. These activities, among others, are gathered into a package we call the Lawson System and are an integral part of how we meet and exceed the needs of our customers. ●

Stanley Belsky

President and Chief Operating Officer, Assembly Component Systems, Inc.



Assembly Component Systems, Inc. (ACS), using the most technically advanced supply chain management systems, is a "just-in-time" supplier of component parts used by original equipment manufacturers in assembling their product. As part of the Lawson Family of Businesses and operating through three business units, ACS, ACS/SIMCO and Automatic Screw Machine Products Company (Automatic), ACS provides the highest quality, competitively priced products and advanced customized inventory systems in the OEM markets it serves.

In 1996 Lawson Products entered the OEM market with the acquisition of ACS and its manufacturing unit, Automatic. With ACS came its proprietary "Deposit Inventory System" which electronically helps to assure a complete stock of production components within its customer's facility in a "just-in-time" manner.

The OEM customer has immediate access to the product it needs without placing multiple purchase orders and waiting for its supplier to ship product. The customer's personnel remove product as they need it, thus eliminating the need for major investments in systems. The customer scans the product as it is removed and transmits the data to ACS. ACS's proprietary software system automatically generates a replacement order and provides the data necessary for ACS to manage the inventory against production schedules.

This system substantially reduces the customer's cost of personnel to handle purchasing, material planning, expediting and receiving. ACS's "Deposit Inventory System" has earned a reputation as the most cost-effective supply chain management system for production components in mid-size accounts. As part of the Lawson Family of Businesses, ACS has been able to expand its product offering beyond production fasteners by tying into the Lawson supply base for electrical, fluid power and numerous other components.

In 1999 ACS acquired another OEM fastener distribution business and formed the ACS/SIMCO business unit. ACS/SIMCO serves customers that are larger than the typical ACS customer. The unit provides "just-in-time" inventory management systems to its customers through a storeroom within the customer's facility.

Both ACS and ACS/SIMCO are benefitting from the cross-utilization of their systems and methods of doing business. In addition, both businesses benefit from their combined purchasing power, systems technology capabilities, engineering resources, and the vast distribution assets that flow from being parts of the Lawson Family of Businesses.

Automatic, the manufacturing arm of ACS, was established in 1914 and provides the OEM market with the highest quality precision machined parts. Many of Automatic's customers are supplied on a "just-in-time" basis through the "Deposit Inventory System." Automatic is highly respected throughout the aerospace, off-road equipment, automotive and marine markets for its engineering and manufacturing capabilities, and for its delivery systems. This combination of manufacturing and supply chain management of precision machined parts by a single entity makes ACS and its subsidiaries unique in the industry. ●

A Message From Our Founder On The Occasion Of Our 30th Year As A Public Company

Joining with founder Sidney L. Port, right, on the occasion of the 30th Anniversary of Lawson Products becoming a publicly held company in April, 1970, are, from left, Director, Treasurer and Vice President of the Company Jerome Shaffer and James T. Brophy, Director. Mr. Brophy was a partner with Bacon, Whipple & Co., underwriter for the initial stock issue.

In April, 1970, when we became a public company, we began our first annual report to stockholders by quoting a famous phrase of Benjamin Franklin, written in 1757:

"A little neglect may breed great mischief; for want of a nail the shoe was lost; for want of a shoe the horse was lost; for want of a horse the rider was lost; being overtaken and slain by an enemy, all for want of a little care about a horse-shoe nail."

And we said:

"The loss that could be suffered in an earlier age for want of a horse-shoe nail is even more relevant today in this era of sophisticated machinery and equipment… and the services performed by Lawson Products, Inc."

The added direction of the Lawson Family of Businesses is right for our Company today because we have so much more to offer customers in terms of superior systems, services and products than ever before. We mark our 30th year as a public company not to celebrate past achievements, of which there are very many, but to focus everyone in each unit of the Family on the improved goals established by our new management team.

In addition to our stockholders, our most important obligation continues to be to our employees, agents and representatives. They are uppermost in our mind as we build upon their many achievements to strengthen our market position with new ideas and programs.

There are few companies in any industry fortunate enough to employ as dedicated an internal organization as ours.

The professional superiority of our regional managers and our sales representatives in the field is unmatched.

The new management team is pursuing plans and programs directed toward securing increases in profitable growth and a stronger return on investment.

Lawson Products will continue to build on the foundation on which we began the Company 48 years ago: to make a good company a better one, benefitting all who are members of the Lawson Family of Businesses.

S. L. Port

Sidney L. Port
Chairman of the Executive Committee

Stock and Financial Data

MARKET PRICES FOR COMMON STOCK

The Company's Common Stock is traded in the over-the-counter market under the NASDAQ symbol of "LAWS." The approximate number of stockholders of record at December 31, 1999 was 1,005. The following table sets forth the High and Low closing sale prices as reported on the NASDAQ National Market System during the last two years.

	1999		1998	
	High	Low	High	Low
First Quarter	23 1/8	20 1/2	31 1/4	24 1/2
Second Quarter	27 1/4	20 7/8	28 1/4	25 1/4
Third Quarter	27	21 5/8	27 1/4	20 9/16
Fourth Quarter	23 3/4	22	24 3/4	21 1/2

CASH DIVIDENDS PAID PER SHARE

	1999	1998
First Quarter	$.14	$.14
Second Quarter	.14	.14
Third Quarter	.14	.14
Fourth Quarter	.14	.14
	$.56	$.56

CLASSES OF SIMILAR PRODUCTS

The Company's products may be grouped into the following classes of similar products, each of which accounted for the indicated percentages of consolidated revenues:

	Percent of Consolidated Revenues		
	1999	1998	1997
Fasteners, fittings and related parts	46%	45%	46%
Industrial supplies	50	51	49
Automotive and equipment maintenance parts	4	4	5
	100%	100%	100%

Consolidated Balance Sheets

	December 31, 1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 11,974,611**	$ 13,871,720
Marketable securities	**12,282,229**	13,815,692
Accounts receivable, less allowance for doubtful accounts (1999 – $1,601,649; 1998 – $1,450,067)	**41,108,121**	35,255,226
Inventories	**55,484,532**	46,670,162
Miscellaneous receivables	**2,835,685**	2,894,636
Prepaid expenses	**5,193,621**	4,638,406
Deferred income taxes	**1,389,000**	1,256,000
Total Current Assets	**130,267,799**	118,401,842
Property, plant and equipment, at cost, less allowances for depreciation and amortization (1999 – $36,479,611; 1998 – $32,450,023)	**41,988,652**	41,142,497
Other assets:		
Marketable securities	**4,694,776**	11,019,945
Investments in real estate	**4,107,664**	4,053,664
Cash value of life insurance	**14,760,461**	12,876,120
Deferred income taxes	**8,784,000**	6,747,000
Goodwill, less accumulated amortization (1999 – $124,533)	**3,611,447**	—
Other	**7,776,078**	4,741,222
	43,734,426	39,437,951
	$ 215,990,877	$ 198,982,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ 8,248,929**	$ 5,112,982
Accrued expenses and other liabilities	**25,844,991**	22,405,504
Income taxes	**4,331,935**	3,282,800
Total Current Liabilities	**38,425,855**	30,801,286
Noncurrent liabilities and deferred credits:		
Accrued liability under security bonus plans	**16,494,190**	15,314,813
Deferred compensation and other liabilities	**11,030,843**	9,931,456
	27,525,033	25,246,269
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 – 1999 – 10,203,922 shares; 1998 – 10,663,822 shares	**10,203,922**	10,663,822
Capital in excess of par value	**717,004**	749,320
Retained earnings	**140,200,567**	132,208,664
	151,121,493	143,621,806
Foreign currency translation adjustment	**(1,053,504)**	(1,355,071)
Unrealized (loss) gain on marketable securities	**(28,000)**	668,000
Accumulated other comprehensive income	**(1,081,504)**	(687,071)
	150,039,989	142,934,735
	$ 215,990,877	$ 198,982,290

See notes to consolidated financial statements

Consolidated Statements of Income

	Year ended December 31,		
	1999	**1998**	**1997**
Net sales	**$318,970,113**	$ 292,523,475	$ 278,144,321
Cost of goods sold	**109,224,791**	99,554,363	95,985,602
Gross profit	**209,745,322**	192,969,112	182,158,719
Selling, general and administrative expenses	**168,338,997**	158,433,648	147,235,497
Special charges	**2,932,365**	2,621,124	—
Provision for doubtful accounts	**1,065,811**	983,367	1,028,221
Operating Income	**37,408,149**	30,930,973	33,895,001
Interest and dividend income	**1,312,312**	1,458,548	1,285,809
Interest expense	**(7,351)**	(47,957)	(31,280)
Other income – net	**1,556,871**	1,248,665	573,747
	2,861,832	2,659,256	1,828,276
Income Before Income Taxes	**40,269,981**	33,590,229	35,723,277
Federal and state income taxes (benefit):			
Current	**18,275,000**	16,034,000	15,306,000
Deferred	**(1,933,000)**	(1,918,000)	(933,000)
	16,342,000	14,116,000	14,373,000
Net Income	**$ 23,927,981**	$ 19,474,229	$ 21,350,277
Net Income Per Share of Common Stock:			
Basic	**$2.29**	$1.77	$1.91
Diluted	**$2.29**	$1.76	$1.91

See notes to consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock, $1 par value	*Capital in excess of par value*	*Retained Earnings*	*Accumulated Other Comprehensive Income*	*Comprehensive Income*
Balance at January 1, 1997	$ 11,311,464	$ 512,008	$ 117,234,229	$ (311,489)	$ —
Net income			21,350,277		21,350,277
Other comprehensive income, net of tax:					
Unrealized gain on marketable securities				55,000	55,000
Adjustment for foreign currency translation				(431,206)	(431,206)
Other comprehensive loss for the year					(376,206)
Comprehensive income for the year					$ 20,974,071
Cash dividends declared			(6,010,507)		
Stock issued under employee stock plans	11,269	266,217			
Purchase and retirement of common stock	(187,500)	(8,487)	(3,865,888)		
Balance at December 31, 1997	11,135,233	769,738	128,708,111	(687,695)	
Net income			19,474,229		$ 19,474,229
Other comprehensive income, net of tax:					
Unrealized gain on marketable securities				105,000	105,000
Adjustment for foreign currency translation				(104,376)	(104,376)
Other comprehensive income for the year					624
Comprehensive income for the year					$ 19,474,853
Cash dividends declared			(6,130,363)		
Stock issued under employee stock plans	589	12,738			
Purchase and retirement of common stock	(472,000)	(33,156)	(9,843,313)		
Balance at December 31, 1998	10,663,822	749,320	132,208,664	(687,071)	
Net income			23,927,981		$ 23,927,981
Other comprehensive income, net of tax:					
Unrealized loss on marketable securities				(696,000)	(696,000)
Adjustment for foreign currency translation				301,567	301,567
Other comprehensive loss for the year					(394,433)
Comprehensive income for the year					$ 23,533,548
Cash dividends declared			(5,908,594)		
Purchase and retirement of common stock	(459,900)	(32,316)	(10,027,484)		
Balance at December 31, 1999	$ 10,203,922	$ 717,004	$ 140,200,567	$(1,081,504)	

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

	Year ended December 31, 1999	1998	1997
Operating activities			
Net income	**$ 23,927,981**	$ 19,474,229	$ 21,350,277
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**6,527,459**	5,498,385	5,019,437
Provision for allowance for doubtful accounts	**1,065,811**	983,367	1,028,221
Deferred income taxes	**(1,933,000)**	(1,918,000)	(933,000)
Deferred compensation and security bonus plans	**4,651,635**	4,190,541	4,214,100
Payments under deferred compensation and security bonus plans	**(2,263,293)**	(3,414,210)	(1,604,352)
Losses from sale of property, plant and equipment	—	627	108,079
Gains from sale of marketable securities	**(902,960)**	(50,776)	(45,470)
Income from investments in real estate	**(544,000)**	(763,000)	(506,000)
Changes in operating assets and liabilities (Exclusive of effect of acquisition):			
Accounts receivable	**(4,276,788)**	(2,524,428)	(4,416,319)
Inventories	**(2,886,074)**	(4,881,840)	(4,741,208)
Prepaid expenses and other assets	**(5,757,891)**	(6,121,144)	(2,224,583)
Accounts payable and accrued expenses	**4,290,592**	4,753,798	886,109
Income taxes payable	**1,049,135**	1,642,005	(852,139)
Other	**368,539**	(798,646)	(303,506)
Net Cash Provided by Operating Activities	**23,317,146**	16,070,908	16,979,646
Investing activities			
Additions to property, plant and equipment	**(6,462,348)**	(5,378,660)	(5,894,656)
Purchases of marketable securities	**(122,774,913)**	(196,265,030)	(143,028,547)
Proceeds from sale of marketable securities	**130,451,955**	204,848,618	137,301,088
Proceeds from sale of property, plant and equipment	—	1,000	2,308
Proceeds from life insurance policies	—	438,819	—
Acquisition of business, net of cash acquired of $4,850	**(10,519,909)**	—	—
Other	**490,000**	440,000	80,000
Net Cash Provided by (Used in) Investing Activities	**(8,815,215)**	4,084,747	(11,539,807)
Financing Activities			
Purchases of common stock	**(10,519,700)**	(10,348,469)	(4,061,875)
Proceeds from exercise of stock options	—	13,327	277,486
Dividends paid	**(5,879,340)**	(6,196,361)	(5,923,040)
Net Cash Used in Financing Activities	**(16,399,040)**	(16,531,503)	(9,707,429)
Increase (Decrease) in Cash and Cash Equivalents	**(1,897,109)**	3,624,152	(4,267,590)
Cash and Cash Equivalents at Beginning of Year	**13,871,720**	10,247,568	14,515,158
Cash and Cash Equivalents at End of Year	**$ 11,974,611**	$ 13,871,720	$ 10,247,568

See notes to consolidated financial statements

NOTE A – DESCRIPTION OF BUSINESS

Lawson Products, Inc. and subsidiaries principally are distributors of expendable parts and supplies for maintenance, repair and operation of equipment. The Company has six operating units with which it conducts its business, however these units have been aggregated into one reportable segment. The Company's principle operations are in the United States, however the Company does have foreign operations as follows:

	Year ended December 31		
(In thousands)	**1999**	**1998**	**1997**
Revenues:			
Canada	$6,967	$6,324	$6,212
United Kingdom	3,001	2,872	3,018
Mexico	2,335	2,276	1,912
Long-lived Assets:			
Canada	2,312	2,273	2,553
United Kingdom	693	693	714
Mexico	86	135	220

NOTE B – SUMMARY OF MAJOR ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, each of which is wholly owned. All inter-company accounts and transactions have been eliminated in consolidation.

Revenue Recognition: Sales and associated cost of goods sold are recognized when products are shipped to customers.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Investments in Real Estate: The Company's investments in real estate representing limited partnership interests are carried on the basis of the equity method.

Marketable Securities: Marketable equity and debt securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains and losses, declines in value judged to be other-than-temporary, and interest and dividends are included in investment income. The cost of securities sold is based on the specific identification method.

Inventories: Inventories (principally finished goods) are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment: Provisions for depreciation and amortization are computed by the straight-line method for buildings using useful lives of 20 to 30 years and by the double declining balance method for machinery and equipment, furniture and fixtures and vehicles using useful lives of 4 to 10 years.

Investment Tax Credits: Investment tax credits on assets leased to others (see Investments in Real Estate) are deferred and amortized over the useful life of the related asset.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Stock Options: Stock options are accounted for under Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees." Under APB 25, no compensation expense is recognized because the exercise price of the stock options granted equals the market price of the underlying stock at the date of grant.

Goodwill: Goodwill represents the cost of business acquisitions in excess of the fair value of identifiable net tangible assets acquired. Goodwill is amortized over 15 years using the straight-line method and the carrying value is reviewed for impairment annually. If this review indicates that goodwill is not expected to be recoverable based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill will be reduced.

Foreign Currency Translation: The financial statements of foreign entities have been translated in accordance with Statement of Financial Accounting Standards No. 52 and, accordingly, unrealized foreign currency translation adjustments are reflected as a component of stockholders' equity. Realized foreign currency transaction gains and losses were not significant for the years ended December 31, 1999, 1998 and 1997.

Income per share: Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options.

Reclassifications: Certain amounts have been reclassified in the 1997 and 1998 financial statements to conform with the 1999 presentation.

New Accounting Standards: In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company expects to adopt the new Statement effective January 1, 2001. Statement 133 will require the Company to recognize all derivatives on the consolidated balance sheet at fair value. The Company does not anticipate that the adoption of Statement 133 will have a significant effect on its results of operations or financial position.

NOTE C – BUSINESS COMBINATION

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.

Pro forma consolidated net sales, assuming the purchase had occurred as of January 1, 1998 would approximate $329.9 million and $315.4 million for 1999 and 1998, respectively; pro forma net income or net income per share would not differ materially from reported amounts.

NOTE D – SPECIAL CHARGES

In the second and fourth quarter of 1999, the Company recorded special charges of $2,053,000 and $879,000, respectively. These charges were for severance and early retirement benefits to several members of management. These benefits will be paid through 2004. Payments against these accruals of approximately $323,000 were made in 1999.

In the fourth quarter of 1998, the Company recorded a special charge of $2,621,000 for severance and early retirement benefits for several members of management. These benefits will be paid through 2003. Payments of approximately $1,069,000 were made in 1999 against this accrual. In addition, an adjustment to reduce the accrual for approximately $129,000 was made in 1999 to reflect a change in the estimated total severance payments required.

NOTE E – MARKETABLE SECURITIES

The following is a summary of the Company's investments at December 31 which are classified as available-for-sale.

(In thousands)	*Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
1999				
Obligations of states and political subdivisions	$10,268	$1	$44	$10,225
Foreign government securities	6,724	–	–	6,724
Other debt securities	28	–	–	28
Total debt securities	$17,020	$1	$44	$16,977
1998				
Obligations of states and political subdivisions	$16,723	$ 90	$ 4	$16,809
Foreign government securities	7,007	–	–	7,007
Other debt securities	73	–	–	73
Total debt securities	23,803	90	4	23,889
Equity securities	6	947	6	947
	$23,809	$1,037	$10	$24,836

The gross realized gains on sales of marketable securities totaled: $992,000, $52,000 and $52,000 in 1999, 1998, and 1997, respectively, and the gross realized losses totaled $89,000, $1,000 and $7,000, respectively. The net adjustment to unrealized holding losses included as a separate component of stockholders' equity, net of taxes, totaled $696,000 in 1999, while in 1998 and 1997, the net adjustment to unrealized holding gains included as a separate component of stockholders' equity, net of taxes, totaled $105,000 and $55,000, respectively.

The amortized cost and estimated fair value of marketable securities at December 31, 1999, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of certain securities have the right to prepay obligations without prepayment penalties.

(In thousands)	*Cost*	*Estimated Fair Value*
Due in one year or less	$12,291	$12,282
Due after one year through five years	4,729	4,695
Total debt securities	$17,020	$16,977

NOTE F – PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment consists of:

	1999	**1998**
Land	$ 6,683,222	$ 6,011,531
Buildings and improvements	38,863,186	38,290,080
Machinery and equipment	27,363,448	22,216,024
Furniture and fixtures	5,293,762	5,014,995
Vehicles	260,895	272,829
Construction in Progress	3,750	1,787,061
	$78,468,263	$73,592,520

NOTE G – INVESTMENTS IN REAL ESTATE

The Company is a limited partner in two real estate limited partnerships. An officer and member of the Board of Directors of the Company has a 1.5% interest and 5.5% interest, respectively, as a general partner in these partnerships, which interests are subordinated to the Company's interests in distributable cash.

NOTE H – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	1999	**1998**
Salaries, commissions and other compensation	$ 8,051,216	$ 7,567,449
Accrued special charges	4,032,000	2,621,000
Accrued and withheld taxes, other than income taxes	2,196,971	2,080,204
Accrued profit sharing contributions	2,646,677	2,443,289
Accrued self-insured health benefits	1,574,878	1,318,356
Cash dividends payable	1,531,713	1,492,935
Other	5,811,536	4,882,271
	$25,844,991	$22,405,504

NOTE I – STOCK PLAN

The Company's Incentive Stock Plan As Amended (Plan), provides for the issuance of shares of Common Stock to non-employee directors, officers and key employees pursuant to stock options, stock appreciation rights, stock purchase agreements and stock awards. At December 31, 1999, 647,777 shares of Common Stock were available for issuance under the Plan.

The Plan permits the grant of incentive stock options, subject to certain limitations, with substantially the same terms as non-qualified stock options. Non-employee directors are not eligible to receive incentive stock options. Stock options are not exercisable within six months from date of grant and may not be granted at prices less than the fair market value of the shares at the dates of grant.

Benefits may be granted under the Plan through December 16, 2006.

Additional information with respect to the Plan is summarized as follows:

	Average Price	*Option Shares*
Outstanding January 1, 1997	24.48	310,285
Granted	27.00	1,000
Exercised	24.62	(11,269)
Canceled or expired	27.07	(9,737)
Outstanding December 31, 1997	24.40	290,279
Granted	26.75	9,000
Exercised	24.19	(889)
Canceled or expired	26.89	(27,500)
Outstanding December 31, 1998	23.34	270,890
Granted	22.44	9,000
Exercised	—	—
Canceled or expired	23.63	(9,700)
Outstanding December 31, 1999	24.19	270,190
Exercisable options at		
December 31, 1999	24.42	220,439
December 31, 1998	24.97	169,488
December 31, 1997	26.10	149,026

As of December 31, 1999, the Company had the following outstanding options:

Exercise Price	$22.44-$23.25	$26.75	$27.00-$29.75
Options Outstanding	179,440	9,000	81,750
Weighted Average Exercise Price	$22.55	$26.75	$27.49
Weighted Average Remaining Life	6.5	8.4	.5
Options Exercisable	136,939	2,250	81,250
Weighted Average Exercise Price	$22.56	$26.75	$27.50

Disclosure of pro forma information regarding net income and net income per share is required by FASB Statement No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes options pricing model.

The Company's weighted average fair value of options granted and assumptions used, were as follows:

	1999	1998	1997
Risk-free interest rate	6.79%	4.97%	5.81%
Dividend yield	2.00%	2.00%	2.00%
Stock price volatility factor	.18	.18	.19
Weighted-average expected life (years)	8	8	8
Weighted-average fair value of options granted	$6.95	$6.80	$7.77

For purposes of pro forma disclosures, the estimated fair value of options granted is amortized to expense over the option's vesting period. The pro forma effect on net income is not representative of the pro forma effect on net income in future years because grants made in 1996 and later years have an increasing vesting period.

The Company's pro forma information consisted of the following:

	1999	1998	1997
Net income – as reported	$23,927,981	$19,474,229	$21,350,277
Net income – pro forma	23,565,000	19,123,000	21,010,000
Basic earnings per share – as reported	2.29	1.77	1.91
Diluted earnings per share – as reported	2.29	1.76	1.91
Basic earnings per share – pro forma	2.26	1.73	1.88
Diluted earnings per share – pro forma	2.26	1.73	1.88

NOTE J – PROFIT SHARING AND SECURITY BONUS PLANS

The Company and certain subsidiaries have a profit sharing plan for office and warehouse personnel. The amounts of the companies' annual contributions are determined by the respective boards of directors subject to limitations based upon current operating profits (as defined) or participants' compensation (as defined).

The Company and its subsidiaries also have in effect security bonus plans for the benefit of their regional managers and independent sales representatives, under the terms of which participants are credited with a percentage of their yearly earnings (as defined). Of the aggregate amounts credited to participants' accounts, 25% vests after five years and an additional 5% vests each year thereafter. For financial reporting purposes, amounts are charged to operations over the vesting period.

Provisions for profit sharing and security bonus plans aggregated $5,051,000, $4,845,000 and $4,387,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The Company also sponsors a 401(k) defined contribution savings plan. The plan, which is available to all employees, was provided to give employees a pre-tax investment vehicle to save for retirement. All contributions to the plan are made by plan participants.

NOTE K – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In addition, deferred income taxes include net operating loss carryforwards of a foreign subsidiary which do not expire. The valuation allowance has been provided since there is no assurance that the benefit of the net operating loss carryforwards will be realized. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

Deferred Tax Assets:	1999	1998
Compensation and benefits	$ 12,327,000	$ 10,850,000
Inventory	1,237,000	1,037,000
Net operating loss carryforwards of subsidiary	4,169,000	3,877,000
Accounts receivable	486,000	446,000
Other	583,000	730,000
Total Deferred Tax Assets	18,802,000	16,940,000
Valuation allowance for deferred tax assets	(4,169,000)	(3,877,000)
Net Deferred Tax Assets	14,633,000	13,063,000
Deferred Tax Liabilities:		
Property, plant & equipment	1,060,000	1,318,000
Investments in real estate	3,063,000	3,169,000
Marketable securities	—	359,000
Other	337,000	214,000
Total Deferred Tax Liabilities	4,460,000	5,060,000
Total Net Deferred Tax Assets	$ 10,173,000	$ 8,003,000

Net deferred tax assets include the tax impact of items in comprehensive income of $583,000 and $371,000 at December 31, 1999 and 1998, respectively.

Income before income taxes for the years ended December 31, consisted of the following:

	1999	1998	1997
United States	$41,671,677	$36,288,309	$37,303,959
Foreign	(1,401,696)	(2,698,080)	(1,580,682)
	$40,269,981	$33,590,229	$35,723,277

The provisions for income taxes for the years ended December 31, consisted of the following:

	1999	1998	1997
Current:			
Federal	$15,187,000	$13,136,000	$12,568,000
State	3,088,000	2,898,000	2,738,000
	18,275,000	16,034,000	15,306,000
Deferred benefit	(1,933,000)	(1,918,000)	(933,000)
	$16,342,000	$14,116,000	$14,373,000

The reconciliation between the effective income tax rate and the statutory federal rate is as follows:

	1999	1998	1997
Statutory federal rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State income taxes, net of federal income tax benefit	5.0	5.6	5.0
Non-taxable dividend and interest income	(.1)	(.7)	(1.6)
Foreign losses	1.5	2.7	1.9
Other items	(.8)	(.6)	(.1)
Provision for income taxes	40.6%	42.0%	40.2%

Income taxes paid for the years ended December 31, 1999, 1998, and 1997 amounted to $17,157,000, $14,359,000 and $16,078,000, respectively.

NOTE L – COMMITMENTS

The Company's minimum rental commitments, principally for equipment, under noncancelable leases in effect at December 31, 1999, amounted to approximately $5,333,000. Such rentals are payable as follows: 2000 – $2,551,000; 2001 – $1,786,000; 2002 – $735,000 and 2003 and thereafter – $261,000.

Total rental expense for the years ended December 31, 1999, 1998 and 1997 amounted to $2,203,000, $1,655,000 and $1,647,000, respectively.

NOTE M – INCOME PER SHARE

The computation of basic and diluted earnings per share consisted of the following:

	Year ended December 31		
(In thousands, except per share data)	1999	1998	1997
Numerator:			
Net income	$23,928	$19,474	$21,350
Denominator:			
Denominator for basic income per share – weighted average shares	10,444	11,024	11,153
Effect of dilutive securities: Stock option plans	2	18	22
Denominator for diluted income per share – adjusted weighted average shares	10,446	11,042	11,175
Basic income per share	$2.29	$1.77	$1.91
Diluted income per share	$2.29	$1.76	$1.91

NOTE N – SUMMARY OF UNAUDITED QUARTERLY RESULTS OF OPERATIONS

Unaudited quarterly results of operations for the years ended December 31, 1999 and 1998 are summarized as follows:

	Quarter ended			
1999	**Mar. 31**	**Jun. 30[1,2]**	**Sept. 30[3]**	**Dec. 31[1,4]**
(In thousands, except per share data)				
Net sales	$74,148	$78,247	$82,515	$84,060
Cost of goods sold	25,837	26,672	29,595	27,121
Income before income taxes	8,992	8,716	9,942	12,620
Provision for income taxes	3,715	3,590	4,081	4,956
Net income	5,277	5,126	5,861	7,664
Net income per share of common stock				
Basic	.50	.49	.57	.75
Diluted	.50	.49	.57	.75
Diluted weighted average shares outstanding	10,651	10,495	10,360	10,282

	Quarter ended			
1998	**Mar. 31**	**Jun. 30**	**Sept. 30**	**Dec. 31[1,4]**
(In thousands, except per share data)				
Net sales	$70,363	$72,535	$75,530	$74,095
Cost of goods sold	24,828	24,876	25,941	23,909
Income before income taxes	7,728	8,267	9,138	8,458
Provision for income taxes	3,205	3,538	3,884	3,489
Net income	4,523	4,729	5,254	4,969
Net income per share of common stock				
Basic	.41	.42	.48	.46
Diluted	.40	.42	.48	.46
Diluted weighted average shares outstanding	11,175	11,161	11,057	10,785

1 During the second quarter of 1999 and the fourth quarter of 1999 and 1998, special charges were recorded related to severance and early retirement benefits, which reduced net income by $1,236,000, $524,000 and $1,520,000, respectively.

2 The quarter reflects a $554,000 gain, net of income taxes, on the sale of marketable securities.

3 The Company purchased substantially all the assets and assumed liabilities of the businesses now known as ACS/SIMCO on July 1, 1999. The transaction was accounted for as a purchase, and, therefore the results of ACS/SIMCO have been included with the Company's results since that date.

4 Inventories and cost of goods sold during interim periods are determined through the use of estimated gross profit rates. The difference between actual and estimated gross profit rates used for interim periods is adjusted in the fourth quarter. This adjustment increased net income by approximately $1,689,000 and $1,146,000 in 1999 and 1998, respectively.

Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Net sales for 1999 and 1998 increased 9.0% and 5.2%, respectively, over the immediately preceding years. The sales gain for 1999 resulted from the addition of new customers, increased orders, a higher average order size throughout Lawson's businesses and from the acquisition of our newest subsidiary, ACS/SIMCO. The advance for 1998 reflected increased contribution from substantially all Lawson operations with our specialty chemical subsidiary spearheading the 1998 increase.

Net income for 1999 rose 22.9% over 1998 to $23.9 million, while diluted net income per share in 1999 increased 30.1% to $2.29 from $1.76 in 1998. Sales gains, cost containment efforts and improved performance by our international subsidiaries were primarily responsible for the increase in net income in 1999 over 1998. Excluding a $1.8 million special charge, net of taxes, for compensation arrangements related to management personnel reductions and a gain of $600,000, net of income taxes, from the sale of marketable securities, net income was approximately $25.1 million ($2.41 per diluted share), an improvement of 19.7% over 1998 net income, exclusive of a special charge of $1.5 million, net of taxes. Net income in 1998 declined 8.8% from 1997 to $19.5 million, while diluted net income per share in 1998 decreased 7.9% to $1.76 from $1.91 in 1997. The decrease in net income from 1997 is primarily due to a $1.5 million special charge, net of taxes, for compensation arrangements related to management personnel reductions and retirements. Costs arising from the realignment of management in Lawson's domestic sales organization, as well as increased losses from our foreign operations and a higher effective tax rate also contributed to the decline in net income for 1998. These items more than offset the sales gains and gross profit improvements in 1998. Excluding the effect of the restructuring charge, 1998 net income was approximately $21 million ($1.90 per diluted share). Per share net income for 1999, 1998 and 1997 was positively affected by the Company's share repurchases discussed below.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operations for 1999, 1998, and 1997 were $23.3 million, $16.1 million and $17.0 million, respectively. The increase in 1999 was due primarily to the gain in net income noted above, lower payments made under deferred compensation and security bonus plans and higher depreciation and amortization levels. The decline in 1998 resulted principally from the decrease in net income noted above, and increased payments made under deferred compensation and security bonus plans which more than offset the positive impact from higher operating liabilities. In addition to satisfying operating requirements, current investments and cash flows from operations are expected to finance the Company's future growth, cash dividends and capital improvements.

Capital expenditures for 1999, 1998, and 1997, respectively, were $6.5 million, $5.4 million and $5.9 million. Consistent with prior years, capital expenditures were incurred primarily for new facilities, improvement of existing facilities, and for the purchase of related equipment. During the third quarter of 1999, construction of a new Lawson outbound facility in Suwanee, Georgia was substantially completed at a cost of approximately $7 million. The new facility 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 Suwanee facility. In 1998, construction was completed relative to the facilities expansion of the Company's specialty chemical subsidiary, at a cost of approximately $3 million.

During the third quarter of 1999, the Company purchased, for cash, substantially all of the assets and liabilities of SunSource Inventory Management Company, Inc. (SunSource) and Hillman Industrial Division (Hillman), headquartered in Lenexa, Kansas, at a cost of approximately $10.5 million. SunSource and Hillman were distributors of fasteners in the original equipment marketplace. The former business operations of SunSource and Hillman are conducted by the Company's new subsidiary, ACS/SIMCO.

During the fourth quarter of 1999, the Board of Directors authorized the purchase of up to 500,000 shares of the Company's common stock. As of December 31, 1999, no shares have been purchased relative to this authorization. In 1998, the Board of Directors authorized the purchase of up to 500,000 shares of the Company's common stock, of which 411,500 were purchased in 1999 for approximately $9.5 million. Additionally, during 1999, the remaining 48,500 shares relative to the 1996 stock repurchase authorization of up to 1,000,000 shares, were purchased for approximately $1 million. Relative to the 1996 stock repurchase authorization, 472,000 share were purchased for approximately $10.3 million in 1998 and 187,500 shares were purchased for approximately $4.1 million in 1997. Funds to purchase these shares were provided by investments and cash flows from operations.

IMPACT OF THE YEAR 2000

The Company did not experience any significant malfunctions or errors in its operating or business systems when the year changed from 1999 to 2000. Based upon operations since January 1, 2000, the Company does not expect any significant impact to its ongoing business as a result of the "Year 2000 issue." However, it is possible that the full impact of the date change, which was of concern due to computer programs that use two digits instead of four digits to define years, has not been fully recognized. The Company believes that such problems, if any, are likely to be minor and correctable.

The Company could also still be negatively affected if its customers or suppliers are adversely impacted by the Year 2000 or similar issue. The Company is not currently aware of any significant Year 2000 or similar problems that have arisen for its customers or suppliers.

The Company expended $600,000 on Year 2000 readiness efforts from 1997 to 1999. Those efforts included identifying and remediating Year 2000 problems and modification of Year 2000 non-compliant software.

IMPACT OF INFLATION AND CHANGING PRICES

The Company has continued to pass on to its customers most increases in product costs and, accordingly, gross margins have not been materially impacted. The impact from inflation has been more significant on the Company's fixed and semi-variable operating expenses, primarily wages and benefits, although to a lesser degree in recent years due to moderate inflation levels.

Although the Company expects that future costs of replacing warehouse and distribution facilities will rise due to inflation, such higher costs are not anticipated to have a material effect on future earnings.

Report of Independent Auditors

To the Stockholders and Board of Directors
Lawson Products, Inc.

We have audited the accompanying consolidated balance sheets of Lawson Products, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lawson Products, Inc. and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Chicago, Illinois
February 25, 2000

Corporate Information

Annual Meeting
The annual meeting of stockholders will be held at 10:00 a.m., Tuesday, May 16, 2000 at Corporate Headquarters.

Form 10-K
A copy of the Company's 1999 Annual Report on Form 10-K to the Securities and Exchange Commission is available without charge to stockholders upon written request to the Secretary of the Company.

CORPORATE HEADQUARTERS

Lawson Products, Inc.
1666 East Touhy Avenue
Des Plaines, Illinois 60018
(847) 827-9666

PRINCIPAL DISTRIBUTION CENTERS

Lawson Products, Inc.
Reno, Nevada
Frank J. Capallupo
Vice President and General Manager

Lawson Products, Inc.
Dallas, Texas
Dean Keith
Vice President and General Manager

Lawson Products, Inc.
Fairfield, New Jersey
Gerard Cropanese
General Manager

Lawson Products, Inc.
Suwanee, Georgia
Todd Henry
General Manager

Lawson Products, Inc.
Addison, Illinois
John Del Sasso
Vice President and General Manager

Lawson Products, Inc.
Des Plaines, Illinois
Robert W. Tucibat, II
General Manager

INTERNATIONAL

Lawson Products, Inc.
Mississauga, Ontario, Canada
Scott R. Aimers
Vice President and General Manager

Lawson Products de Mexico
Guadalajara, Jalisco, Mexico
Christina Fernandez
Director Mexican Operations

Lawson Products Limited
Bradley Stoke, Bristol BS 124
QU, England
Vernon Pearce
Director UK Operations

SPECIALIZED SUBSIDIARIES

Cronatron Welding Systems, Inc.
Charlotte, North Carolina
Susan J. Collins
President and Chief Operating Officer

Drummond American Corporation
Vernon Hills, Illinois
Daniel J. Jozwiak
President and Chief Operating Officer

Assembly Component Systems, Inc.
Burr Ridge, Illinois
Stanley Belsky
President and Chief Operating Officer

Distribution Subsidiary:
ACS/SIMCO
Lenaxa, Kansas

Manufacturing Subsidiary:
Automatic Screw Machine Products Company
Decatur, Alabama

C.B. Lynn Company
Des Plaines, Illinois
George Goff
Executive Vice President and General Manager

PROFESSIONAL SERVICES

Auditors
Ernst & Young LLP

Legal Counsel
McDermott, Will & Emery
Vedder, Price, Kaufman & Kammholz

Public Relations Counsel
Herbert H. Rozoff

Transfer Agent
First Chicago Trust Company,
a Division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500

Telephone: Inside the United States: 1-800-446-2617
(Operators are available Monday-Friday, 8:30 a.m. to 7:00 p.m. Eastern time. An interactive automated system is available around the clock every day.)

Internet: http://www.equiserve.com
Access your account via the Internet: http://gateway.equiserve.com

National NASDAQ Market
The common stock of Lawson Products is part of the NASDAQ National Market System. Stock quotations are included in the National Market System table in *The Wall Street Journal* and in leading daily newspapers across the country. These provide the same high, low and closing transaction prices as are shown for securities traded on the New York and other stock exchanges.

Officers

Sidney L. Port
Chairman of the
Executive Committee

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

Jeffrey B. Belford
Office of the President
Chief Operating Officer

Roger F. Cannon
Office of the President
Chief Sales Officer

Jerome Shaffer
Vice President
and Treasurer

Joseph L. Pawlick
Chief Financial Officer
and Secretary

James J. Smith
Vice President
Human Resources

Daniel N. Luber
Vice President
Corporate Planning
and Development

George H. Buckingham
Vice President
Sales

Dennis Coomes
Vice President
Sales

Barney Ruehl
Vice President
Sales Education

Robert J. Spedale
Vice President
Purchasing

John M. Del Sasso
Vice President
Distribution

James L. Schmidt
Vice President
Administration

Scott McCullough
Vice President
Supplemental Supply
& Specials

Victor G. Galvez
Controller

Directors

James T. Brophy
(Private Investor)
Audit Committee
Compensation Committee
Nominating Committee
Incentive Stock Committee

Bernard Kalish
(Retired CEO, Lawson Products, Inc.)

Ronald B. Port, M.D.
(Retired Physician)
Compensation Committee
Nominating Committee
Incentive Stock Committee

Sidney L. Port
(Chairman of the Executive Committee)
Nominating Committee
Incentive Stock Committee

Robert G. Rettig
(Consultant)
Audit Committee
Compensation Committee
Nominating Committee

Mitchell H. Saranow
(Chairman, The Saranow Group, L.L.C.)
Audit Committee
Compensation Committee

Jerome Shaffer
(Vice President and Treasurer)

Peter G. Smith
(Retired President, Lawson Products, Inc.)

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

Profile of Lawson Products, Inc.

Lawson Products sells and distributes approximately 82,000 expendable maintenance, repair and replacement fasteners, parts, chemical specialties, welding rod and supplies, specialized components, hydraulic and other flexible hose fittings and electrical and shop supplies. These products are used for the repair and maintenance of capital equipment of all types in the industrial, heavy-duty equipment, in-plant, buildings and grounds maintenance and transportation fields, and in manufacturing operations. The Company's manufacturing facility serves the original equipment requirements of the automotive, appliance, aerospace, construction and transportation industries with over 12,000 production and screw machine parts.

Customers are currently served from sixteen strategically located distribution centers and one manufacturing plant by approximately 1,750 independent sales agents and contract manufacturers' representatives in the United States, Puerto Rico, Canada, Mexico and the United Kingdom.

Lawson Products was founded in 1952 by Sidney L. Port, Chairman of the Executive Committee.

This report is printed on recycled paper.

The Lawson Family of Businesses

Systems, Services and Products

Keeping Industry Running

Every Minute – Every Day

LAWSON PRODUCTS, INC.,

and named subsidiaries in Canada, Mexico, and the United Kingdom: Provide abrasives, electrical items, fasteners, fittings, hardware, hose, hydraulics, pneumatics, supplies and tools, together with engineering consultations and inventory control solutions for the maintenance and repair requirements of customers.

CRONATRON WELDING SYSTEMS, INC.

Provides maintenance and repair operations with metallurgical solutions, welding equipment and supplies, wearplate, rod and powders along with inventory control systems.

DRUMMOND AMERICAN CORP.

Provides specialty chemical solutions and inventory control systems to maintenance and repair operations.

ASSEMBLY COMPONENT SYSTEMS, INC.

Provides original equipment manufacturers with just-in-time inventories of customized component parts and with customer-managed inventory systems through electronic commerce mechanisms.

ACS/SIMCO, INC.

Provides specialized inventory management systems to the OEM marketplace, along with custom-ordered component parts and other inventory items.

AUTOMATIC SCREW MACHINE PRODUCTS CO.

Manufacturer of specialized screw machine parts for the OEM and MRO marketplaces including ACS, SIMCO and Lawson.

C.B. LYNN COMPANY

A custom solutions provider of integrated supply services, including commodity management, customized inventory systems, inventory reduction services, information systems, procurement solutions and spot buying, product consolidation and supply chain management.

CONTENTS

Lawson Products, Inc.
Corporate Headquarters
1666 East Touhy Avenue
Des Plaines, Illinois 60018
www.lawsonproducts.com