# Lawson Products, Inc.

## Annual Report 2000

# Contents



# Five Year Selected Financial Data



| | 2000 | Percent Change | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| Net Sales[1] | **$348,967,486** | +6.1 | $328,987,099 | $301,831,128 | $286,638,316 | $258,566,853 |
| Income Before Income Taxes | **47,565,673** | +18.1 | 40,269,981 | 33,590,229 | 35,723,277 | 33,884,637 |
| Net Income[2] | **28,135,673** | +17.6 | 23,927,981 | 19,474,229 | 21,350,277 | 19,994,637 |
| Total Assets | **222,721,466** | +3.1 | 215,990,877 | 198,982,290 | 188,974,415 | 175,161,839 |
| Return on Assets (percent) | **12.6** | +13.5 | 11.1 | 9.8 | 11.3 | 11.4 |
| Noncurrent Liabilities | **28,946,453** | +5.2 | 27,525,033 | 25,246,269 | 24,577,547 | 22,065,583 |
| Stockholders' Equity | **159,912,465** | +6.6 | 150,039,989 | 142,934,735 | 139,925,387 | 128,746,212 |
| Return on Average Equity (percent) | **18.6** | +12.7 | 16.5 | 13.5 | 16.0 | 15.8 |
| Per Share of Common Stock: | | | | | | |
| Basic Net Income | **$2.85** | +24.5 | $2.29 | $1.77 | $1.91 | $1.73 |
| Diluted Net Income | **2.85** | +24.5 | 2.29 | 1.76 | 1.91 | 1.73 |
| Stockholders' Equity[3] | **16.22** | +12.9 | 14.37 | 12.97 | 12.55 | 11.13 |
| Cash Dividends Declared | **.60** | +5.3 | .57 | .56 | .54 | .52 |
| Basic Weighted Average Shares Outstanding | **9,859,610** | –5.6 | 10,444,076 | 11,023,934 | 11,153,091 | 11,563,052 |
| Diluted Weighted Average Shares Outstanding | **9,873,680** | –5.5 | 10,445,836 | 11,041,819 | 11,175,232 | 11,563,715 |

[1] *In 2000, the Company adopted EITF No. 00-10, Accounting for Shipping and Handling Fees and Costs. EITF No. 00-10 required companies to reflect all amounts billed to customers in sales transactions as part of net sales. Prior year amounts have been reclassified to conform to the requirements of EITF 00-10. The reclassification has no impact on net income.*

[2] *During 2000, the Company recorded a gain of $2,136,000, net of income taxes, relative to the sale of the Company's interest in a real estate investment. 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.*

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

# To Our Stockholders



The year 2000 proved to be a good one for our Family of Businesses. For the year, Lawson Products enjoyed:

- A 6.1% increase in Net Sales
- A 17.6% increase in Net Income
- A 24.5% increase in Net Income per Share
- A 5.3% increase in Dividends Declared
- A 6.6% increase in Stockholders' Equity
- A 12.7% increase in Return on Average Equity
- A 13.5% increase in Return on Assets

During the year, we created two new sales channels, strengthened our traditional sales channel and initiated work on an additional marketing campaign. A new product education program was implemented and we made the commitment to provide our sales agents with the additional equipment and tools they need to better compete in today's electronic marketplace. Our international operations were reorganized and we now anticipate further improvements in their productivity. The Family of Businesses emphasized increased interaction and cooperation among our companies to better service customers. The entrepreneurial spirit is prevalent in every department of each of our businesses.

On March 6, 2001, the Board of Directors declared a regular quarterly dividend of 16 cents per share of common stock payable April 19, 2001, to stockholders of record as of April 5, 2001. This represents an increase of 6.7% and is the 112th consecutive quarterly dividend paid to stockholders.

The year 2000 was a good year, but we are not satisfied. During the first three quarters of the year, we enjoyed growth in revenue and earnings. The last quarter was a bit disappointing. Toward the end of the year, we experienced a moderate decline in sales compared to the same period in the prior year. As a result, we experienced a moderation in the growth of earnings we were experiencing earlier in the year.

The general weakening in the U.S. economy and unusual weather conditions in key markets affected a good portion of our customer base. Nevertheless, we have maintained our focus on activities calculated to continue our profitable growth and are taking advantage of opportunities to accelerate that growth.

As indicated above, throughout the year we were absorbed with creating, testing and beginning the rollout of several new sales and marketing initiatives. In fact, we have developed fifteen new "tools" conceived to assist our sales forces in better penetrating markets and opening new markets. These tools are designed to increase the productivity of each sales agent, thereby substantially increasing his or her personal earnings, and those of our Company. With these tools, the sales agent will have options at hand to help assure that we meet 100% of each customer's needs, both MRO and OEM, when the customer wants them met and in the way the customer wants them met. Our Company is now in position to assist customers in ways which are nimble, flexible and creative.

Many of us were raised with the discipline of striking while the iron is hot. At Lawson, we were faced with that opportunity during the latter part of 2000 and we seized that opportunity. After months of intense effort by the distribution teams and sales management teams at each of our businesses, we announced in January, 2001, the execution of an agreement to acquire certain assets of the North American operations of Premier Farnell plc. The potential of this opportunity for our Family of Businesses is so great that we could not refuse or delay it even though our plate was full.

The decision to proceed on all of these fronts at the same time provides a good deal of insight into the energy level, talent and commitment of our sales and distribution teams. There are no better, no stronger and no more committed people in our industry. The activities undertaken during the latter part of 2000 required us to absorb front-end expenses in order to concentrate on exciting new opportunities, and to forego other opportunities which would have required additional attention from our sales managers. We expect those burdens to continue into a portion of 2001, are prepared for it, and will see it through with a goal of building the largest, strongest and most profitable field sales force in our industry.

Through our thinking process over the past two years, we grew to better appreciate the inherent value of our sales force and recognize that it is clearly the very best in our industry. A new incentive plan for our independent sales agents and their managers was created in 2000, based on a goal-setting mechanism. We expect it to have a positive effect on future results. We will leverage the value of our sales force by affording to our colleagues and customers the advantages of two new sales channels operating in conjunction with our field sales agents.

During 2000 we launched our e-commerce system on a controlled, experimental basis. This channel affords to our customers 24 X 7 ordering capability and will serve to augment the efforts of our sales agents. It will allow the sales agent to further leverage his or her time and effort by reducing order-taking time, thereby increasing the time available to solicit new business and expand business with existing customers.

A second new sales channel, telesales, was created during the year and will be implemented during 2001. This new channel will be staffed by experienced telephone sales and customer service representatives working in conjunction with and, in fact, partnering with our sales agents. This unit will strive to re-establish relationships with dormant accounts, help to cover geographically dispersed accounts, and pre-qualify prospective customers. Our sales agents will have the option of utilizing one or both of these new sales channels as they determine will best serve the needs of each customer.

Near year-end, we initiated several new systems and programs offering flexibility in the way we assist customers according to their specific requirements. In addition, the National Accounts group was expanded from four to twelve representatives and is being further expanded in 2001. It now includes representatives from every member of the Family of Businesses. This will allow us to increase our influence in, and to better penetrate and better serve the larger, multi-location customer segment of the market. In 2000 we also increased the size of our product education group and launched a revitalized introductory program for newer independent agents.

Lawson also expanded its commitment to technology. Our expanded program will help sales agents equip themselves with the latest electronic tools allowing them to maximize their productivity and efficiency. Work was commenced on producing CD-ROM catalogs for the Drummond and Cronatron subsidiaries. During 2001, these catalogs will evolve into on-line catalogs similar to those in use by other Lawson subsidiaries. We also introduced new systems to assist customers in maintaining inventory in a readily available manner. At year-end, we established a direct marketing campaign as a new tool for sales agents to use to increase average order size and product awareness.

As a further commitment to the future of the Family of Businesses, we are proceeding with the acquisition of certain assets of the North American Industrial Products and Kent Automotive Divisions of Premier Farnell, plc. These assets include the sales forces, trade and brand names, intellectual property, inventory, and the telesales and customer service teams of those operations.

With this acquisition, the Lawson Family of Businesses will be increasing its field sales force by over 370 experienced sales agents and will have the benefit of seventy experienced telesales and customer service representatives. The addition of these field and telesales representatives and the increase in the sales and distribution activities related to their efforts will not require any material investment by Lawson in infrastructure, plant or equipment. We expect to complete the transaction by the end of the first quarter, 2001.

Although we expended substantial time, talent and energy in 2000 on modifying the way we conduct our activities and on the acquisition, we were still able to maintain our record-setting 99.7% shipping rate (orders shipped complete within 24 hours and most the same day) and increase our earnings. We feel this is perhaps the most exciting time in the 49-year history of our Company.

Our focus remains singular: profitable growth for the benefit of our customers, our colleagues internally and in the field, our community, and for our shareholders.

Respectfully,

Robert J. Washlow
Chairman of the Board
Chief Executive Officer

April, 2001

# 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, 2000 was 959. 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.

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $24.50 | $21.50 | $23.125 | $20.50 |
| Second Quarter | 24.88 | 22.00 | 27.25 | 20.875 |
| Third Quarter | 25.88 | 23.75 | 27.00 | 21.625 |
| Fourth Quarter | 27.75 | 22.88 | 23.75 | 22.00 |

### CASH DIVIDENDS PAID PER SHARE

| | 2000 | 1999 |
|---|---|---|
| First Quarter | $.15 | $.14 |
| Second Quarter | .15 | .14 |
| Third Quarter | .15 | .14 |
| Fourth Quarter | .15 | .14 |
| | $.60 | $.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* | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Fasteners, fittings and related parts | 47% | 46% | 45% |
| Industrial supplies | 49 | 50 | 51 |
| Automotive and equipment maintenance parts | 4 | 4 | 4 |
| | 100% | 100% | 100% |

# Consolidated Balance Sheets

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | **$ 7,911,710** | $ 11,974,611 |
| Marketable securities | **29,972,654** | 12,282,229 |
| Accounts receivable, less allowance for doubtful accounts (2000 – $1,658,585; 1999 – $1,601,649) | **40,823,141** | 41,108,121 |
| Inventories | **55,228,380** | 55,484,532 |
| Miscellaneous receivables | **2,696,986** | 2,835,685 |
| Prepaid expenses | **6,658,687** | 5,193,621 |
| Deferred income taxes | **1,857,000** | 1,389,000 |
| Total Current Assets | **145,148,558** | 130,267,799 |
| Property, plant and equipment, at cost, less allowances for depreciation and amortization (2000 – $41,571,230; 1999 – $36,479,611) | **39,404,599** | 41,988,652 |
| Other assets: | | |
| Marketable securities | **400,832** | 4,694,776 |
| Investments in real estate | **705,000** | 4,107,664 |
| Cash value of life insurance | **15,795,812** | 14,760,461 |
| Deferred income taxes | **9,212,000** | 8,784,000 |
| Goodwill, less accumulated amortization (2000 – $304,632; 1999 – $124,533) | **2,431,347** | 3,611,447 |
| Other | **9,623,318** | 7,776,078 |
| | **38,168,309** | 43,734,426 |
| | **$222,721,466** | $215,990,877 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | **$ 6,730,250** | $ 8,248,929 |
| Accrued expenses and other liabilities | **24,517,530** | 25,844,991 |
| Income taxes | **2,614,768** | 4,331,935 |
| Total Current Liabilities | **33,862,548** | 38,425,855 |
| Noncurrent liabilities and deferred credits: | | |
| Accrued liability under security bonus plans | **17,968,018** | 16,494,190 |
| Deferred compensation and other liabilities | **10,978,435** | 11,030,843 |
| | **28,946,453** | 27,525,033 |
| 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 – 2000 – 9,706,404 shares; 1999 – 10,203,922 shares | **9,706,404** | 10,203,922 |
| Capital in excess of par value | **761,725** | 717,004 |
| Retained earnings | **151,065,840** | 140,200,567 |
| | **161,533,969** | 151,121,493 |
| Foreign currency translation adjustment | **(1,621,504)** | (1,053,504) |
| Unrealized (loss) gain on marketable securities | **—** | (28,000) |
| Accumulated other comprehensive income | **(1,621,504)** | (1,081,504) |
| | **159,912,465** | 150,039,989 |
| | **$222,721,466** | $215,990,877 |

*See notes to consolidated financial statements*

# Consolidated Statements of Income

| | *Year ended December 31,* | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| Net sales | **$348,967,486** | $328,987,099 | $301,831,128 |
| Cost of goods sold | **117,256,150** | 109,370,225 | 99,686,906 |
| Gross profit | **231,711,336** | 219,616,874 | 202,144,222 |
| Selling, general and administrative expenses | **188,468,661** | 178,210,549 | 167,608,758 |
| Special charges | **—** | 2,932,365 | 2,621,124 |
| Provision for doubtful accounts | **1,419,120** | 1,065,811 | 983,367 |
| Operating Income | **41,823,555** | 37,408,149 | 30,930,973 |
| Interest and dividend income | **1,072,730** | 1,312,312 | 1,458,548 |
| Interest expense | **(7,959)** | (7,351) | (47,957) |
| Gain from sale of partnership interest | **3,502,336** | — | — |
| Other income – net | **1,175,011** | 1,556,871 | 1,248,665 |
| | **5,742,118** | 2,861,832 | 2,659,256 |
| Income Before Income Taxes | **47,565,673** | 40,269,981 | 33,590,229 |
| Federal and state income taxes (benefit): | | | |
| Current | **20,012,000** | 18,275,000 | 16,034,000 |
| Deferred | **(582,000)** | (1,933,000) | (1,918,000) |
| | **19,430,000** | 16,342,000 | 14,116,000 |
| Net Income | **$ 28,135,673** | $ 23,927,981 | $ 19,474,229 |
| Net Income Per Share of Common Stock: | | | |
| Basic | **$2.85** | $2.29 | $1.77 |
| Diluted | **$2.85** | $2.29 | $1.76 |

*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, 1998 | $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 loss 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) | |
| Net income | | | 28,135,673 | | $28,135,673 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on marketable securities | | | | 28,000 | 28,000 |
| Adjustment for foreign currency translation | | | | (568,000) | (568,000) |
| Other comprehensive loss for the year | | | | | (540,000) |
| Comprehensive income for the year | | | | | $27,595,673 |
| Cash dividends declared | | | (5,875,305) | | |
| Stock issued under employee stock plans | 3,750 | 80,625 | | | |
| Purchase and retirement of common stock | (501,268) | (35,904) | (11,395,095) | | |
| Balance at December 31, 2000 | $ 9,706,404 | $761,725 | $151,065,840 | $(1,621,504) | |

*See notes to consolidated financial statements*

# Consolidated Statements of Cash Flows

| | *Year ended December 31,* | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| Operating activities | | | |
| Net income | **$ 28,135,673** | $ 23,927,981 | $ 19,474,229 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **5,986,466** | 5,977,205 | 5,197,571 |
| Amortization | **677,197** | 550,254 | 300,814 |
| Provision for allowance for doubtful accounts | **1,419,120** | 1,065,811 | 983,367 |
| Deferred income taxes | **(582,000)** | (1,933,000) | (1,918,000) |
| Deferred compensation and security bonus plans | **3,922,781** | 4,651,635 | 4,190,541 |
| Payments under deferred compensation and security bonus plans | **(2,420,361)** | (2,263,293) | (3,414,210) |
| Losses/(Gains) from sale of marketable securities | **803** | (902,960) | (50,776) |
| Income from investments in real estate | **(695,000)** | (544,000) | (763,000) |
| Gain from sale of investment in real estate | **(3,502,336)** | — | — |
| Changes in operating assets and liabilities (Exclusive of effect of acquisition): | | | |
| Accounts receivable | **(1,134,140)** | (4,276,788) | (2,524,428) |
| Inventories | **256,152** | (2,886,074) | (4,881,840) |
| Prepaid expenses and other assets | **(3,730,055)** | (5,757,891) | (6,121,144) |
| Accounts payable and accrued expenses | **(2,770,387)** | 4,290,592 | 4,753,798 |
| Income taxes payable | **(1,717,167)** | 1,049,135 | 1,642,005 |
| Other | **(961,691)** | 368,539 | (798,019) |
| Net Cash Provided by Operating Activities | **22,885,055** | 23,317,146 | 16,070,908 |
| Investing activities | | | |
| Additions to property, plant and equipment | **(3,392,458)** | (6,462,348) | (5,377,660) |
| Purchases of marketable securities | **(75,344,146)** | (122,774,913) | (196,265,030) |
| Proceeds from sale of marketable securities | **61,987,598** | 130,451,955 | 204,848,618 |
| Proceeds from sale of investment in real estate | **7,400,000** | — | — |
| Proceeds from life insurance policies | **—** | — | 438,819 |
| Acquisition of business, net of cash acquired of $4,850 | **—** | (10,519,909) | — |
| Other | **200,000** | 490,000 | 440,000 |
| Net Cash Provided by (Used in) Investing Activities | **(9,149,006)** | (8,815,215) | 4,084,747 |
| Financing Activities | | | |
| Purchases of common stock | **(11,932,267)** | (10,519,700) | (10,348,469) |
| Proceeds from exercise of stock options | **84,375** | — | 13,327 |
| Dividends paid | **(5,951,058)** | (5,879,340) | (6,196,361) |
| Net Cash Used in Financing Activities | **(17,798,950)** | (16,399,040) | (16,531,503) |
| Increase (Decrease) in Cash and Cash Equivalents | **(4,062,901)** | (1,897,109) | 3,624,152 |
| Cash and Cash Equivalents at Beginning of Year | **11,974,611** | 13,871,720 | 10,247,568 |
| Cash and Cash Equivalents at End of Year | **$ 7,911,710** | $ 11,974,611 | $ 13,871,720 |

*See notes to consolidated financial statements*

# 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 seven operating units with which it conducts its business; however, these units have been aggregated into one reportable segment. The Company's principal operations are in the United States, however, the Company does have foreign operations as follows:

| | *Year ended December 31* | | |
|---|---|---|---|
| *(In thousands)* | **2000** | **1999** | **1998** |
| Revenues[1]: | | | |
| Canada | $7,980 | $7,154 | $6,516 |
| United Kingdom | 2,743 | 3,023 | 2,917 |
| Mexico | 2,273 | 2,335 | 2,292 |
| Long-lived Assets: | | | |
| Canada | 2,155 | 2,312 | 2,273 |
| United Kingdom | 439 | 693 | 693 |
| Mexico | 86 | 86 | 135 |

[1] *Revenue amounts in 1999 and 1998 have been restated to reflect shipping revenues.*
*See Shipping and Handling Fees and Costs in note B.*

**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 and title passes to customers.

*Shipping and Handling Fees and Costs:* In the fourth quarter of 2000, the Company adopted Emerging Issues Task Force (EITF) No. 00-10 "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 requires companies to reflect all amounts billed to customers in sales transactions as part of net sales. Costs related to shipping and handling fees are included on the Income Statement in the caption Selling, general and administrative expenses and totaled $10,521,000, $10,017,000 and $9,308,000 in 2000, 1999 and 1998, respectively.

*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.

*Investment in Real Estate:* The Company's investment in real estate representing a limited partnership interest is 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 Investment 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 (APB) 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, 2000, 1999 and 1998.

*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 1998 and 1999 financial statements to conform with the 2000 presentation.

*New Accounting Standards:* In June 1998, the Financial Accounting Standards Board (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 No. 133 will require the Company to recognize all derivatives on the consolidated balance sheet at fair value. The adoption of Statement No. 133 will not 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 to the original equipment marketplace. The former business operations of SunSource and Hillman are being conducted through the Company's new subsidiary, ACS/SIMCO.

**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 $1,033,000 and $323,000 were made in 2000 and 1999, respectively.

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 $626,000 and $1,069,000 were made in 2000 and 1999 against this accrual, respectively. 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* |
|---|---|---|---|---|
| **2000** | | | | |
| Obligations of states and political subdivisions | $ 3,454 | $5 | $ 5 | $ 3,454 |
| Foreign government securities | 7,797 | – | – | 7,797 |
| Other debt securities | 19,122 | – | – | 19,122 |
| Total debt securities | $30,373 | $5 | $ 5 | $30,373 |
| **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 |

The gross realized gains on sales of marketable securities totaled: $1,000, $992,000 and $52,000 in 2000, 1999 and 1998, respectively, and the gross realized losses totaled $2,000, $89,000 and $1,000, respectively. The net adjustment to unrealized holding gains included as a separate component of stockholders' equity, net of taxes, totaled $28,000 and $105,000 in 2000 and 1998, respectively, while in 1999, the net adjustment to unrealized holding losses included as a separate component of stockholders' equity, net of taxes, totaled $696,000.

The amortized cost and estimated fair value of marketable securities at December 31, 2000, 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 | $29,970 | $29,973 |
| Due after one year through five years | 403 | 400 |
| Total debt securities | $30,373 | $30,373 |

**NOTE F – PROPERTY, PLANT AND EQUIPMENT**

The cost of property, plant and equipment consists of:

| | **2000** | **1999** |
|---|---|---|
| Land | $ 6,649,440 | $ 6,683,222 |
| Buildings and improvements | 39,145,917 | 38,863,186 |
| Machinery and equipment | 28,955,498 | 27,363,448 |
| Furniture and fixtures | 5,231,947 | 5,293,762 |
| Vehicles | 217,345 | 260,895 |
| Construction in Progress | 775,682 | 3,750 |
| | $80,975,829 | $78,468,263 |

**NOTE G – INVESTMENT IN REAL ESTATE**

The Company is a limited partner in one real estate limited partnership. An officer and member of the Board of Directors of the Company has a 1.5% interest as a general partner in this partnership. This interest is subordinated to the Company's interests in distributable cash.

In the fourth quarter of 2000, the Company sold its interest in a real estate partnership for $7,400,000 to the general partners, of which one is an officer and member of the Board of Directors, resulting in an after-tax gain to the Company of $2,136,000. A special committee of outside directors of the Board of Directors approved the sales price after receiving independent appraisals of the property sold.

**NOTE H – ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following:

| | **2000** | **1999** |
|---|---|---|
| Salaries, commissions and other compensation | $ 7,490,351 | $ 8,051,216 |
| Accrued special charges | 2,671,088 | 4,032,000 |
| Accrued and withheld taxes, other than income taxes | 2,344,955 | 2,196,971 |
| Accrued profit sharing contributions | 2,606,254 | 2,646,677 |
| Accrued self-insured health benefits | 1,300,000 | 1,574,878 |
| Cash dividends payable | 1,455,961 | 1,531,713 |
| Other | 6,648,921 | 5,811,536 |
| | $24,517,530 | $25,844,991 |

**NOTE I – STOCK PLANS**

In 2000, the Company granted 71,250 Stock Appreciation Rights (SARs) pursuant to an incentive plan adopted in 2000. These SARs have a weighted average exercise price of $26.50 per share. These SARs vest at 20% per year and entitle the employee to receive a cash payment equal to the difference between the SAR price and the market value of the Company's common stock when the SARs are surrendered. No SARs are exercisable at December 31, 2000. No compensation expense for the SARs was incurred in 2000.

The Company also has an Incentive Stock Plan As Amended (Plan), which provides for the issuance of shares of Common Stock to non-employee directors, officers and key employees pursuant to stock options, SARs, stock purchase agreements and stock awards. 641,027 shares of Common Stock were available for issuance under the Plan as of December 31, 2000.

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, 1998 | $24.38 | 294,579 |
| Granted | 26.75 | 9,000 |
| Exercised | 24.19 | (889) |
| Canceled or expired | 26.89 | (27,500) |
| Outstanding December 31, 1998 | 23.34 | 275,190 |
| Granted | 22.44 | 9,000 |
| Exercised | — | — |
| Canceled or expired | 23.56 | (9,700) |
| Outstanding December 31, 1999 | 24.18 | 274,490 |
| Granted | 23.56 | 11,000 |
| Exercised | 22.50 | (3,750) |
| Canceled or expired | 27.50 | (97,050) |
| Outstanding December 31, 2000 | $22.86 | 184,690 |
| Exercisable options at | | |
| December 31, 2000 | $22.72 | 162,190 |
| December 31, 1999 | $24.42 | 220,439 |
| December 31, 1998 | $24.97 | 169,488 |

As of December 31, 2000, the Company had the following outstanding options:

| Exercise Price | $22.44-$23.56 | $26.75 | $27.00 |
|---|---|---|---|
| Options Outstanding | 174,690 | 9,000 | 1,000 |
| Weighted Average Exercise Price | $22.64 | $26.75 | $27.00 |
| Weighted Average Remaining Life | 5.8 | 7.3 | 6.6 |
| Options Exercisable | 156,940 | 4,500 | 750 |
| Weighted Average Exercise Price | $22.58 | $26.75 | $27.00 |

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:

| | **2000** | **1999** | **1998** |
|---|---|---|---|
| Risk-free interest rate | 5.22% | 6.79% | 4.97% |
| Dividend yield | 2.00% | 2.00% | 2.00% |
| Stock price volatility factor | .19 | .18 | .18 |
| Weighted average expected life (years) | 8 | 8 | 8 |
| Weighted average fair value of options granted | $6.25 | $6.95 | $6.80 |

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:

| | **2000** | **1999** | **1998** |
|---|---|---|---|
| Net income – as reported | $28,135,673 | $23,927,981 | $19,474,229 |
| Net income – pro forma | 27,968,000 | 23,565,000 | 19,123,000 |
| Basic earnings per share – as reported | 2.85 | 2.29 | 1.77 |
| Diluted earnings per share – as reported | 2.85 | 2.29 | 1.76 |
| Basic earnings per share – pro forma | 2.84 | 2.26 | 1.73 |
| Diluted earnings per share – pro forma | 2.83 | 2.26 | 1.73 |

**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 plan also has a 401(k) defined contribution saving feature. This feature, available to all participants, was provided to give employees a pre-tax investment vehicle to save for retirement. The Company does not match the contributions made by plan participants.

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 $5,222,000, $5,051,000 and $4,845,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

**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: | **2000** | **1999** |
|---|---|---|
| Compensation and benefits | $12,257,000 | $12,327,000 |
| Inventory | 1,847,000 | 1,237,000 |
| Net operating loss carryforwards of subsidiary | 4,718,000 | 4,169,000 |
| Accounts receivable | 519,000 | 486,000 |
| Other | 873,000 | 583,000 |
| Total Deferred Tax Assets | 20,214,000 | 18,802,000 |
| Valuation allowance for deferred tax assets | (4,718,000) | (4,169,000) |
| Net Deferred Tax Assets | 15,496,000 | 14,633,000 |

| Deferred Tax Liabilities: | | |
|---|---|---|
| Property, plant & equipment | 883,000 | 1,060,000 |
| Investment(s) in real estate | 1,949,000 | 3,063,000 |
| Other | 1,595,000 | 337,000 |
| Total Deferred Tax Liabilities | 4,427,000 | 4,460,000 |
| Total Net Deferred Tax Assets | $11,069,000 | $10,173,000 |

Net deferred tax assets include the tax impact of items in comprehensive income of $873,000 and $583,000 at December 31, 2000 and 1999, respectively.

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

| | **2000** | **1999** | **1998** |
|---|---|---|---|
| United States | $49,259,320 | $41,494,677 | $36,288,309 |
| Foreign | (1,693,647) | (1,224,696) | (2,698,080) |
| | $47,565,673 | $40,269,981 | $33,590,229 |

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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current: | | | |
| Federal | $16,945,000 | $15,187,000 | $13,136,000 |
| State | 3,067,000 | 3,088,000 | 2,898,000 |
| | 20,012,000 | 18,275,000 | 16,034,000 |
| Deferred benefit | (582,000) | (1,933,000) | (1,918,000) |
| | $19,430,000 | $16,342,000 | $14,116,000 |

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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Statutory federal rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) resulting from: | | | |
| State income taxes, net of federal income tax benefit | 4.2 | 5.0 | 5.6 |
| Foreign losses | 1.5 | 1.5 | 2.7 |
| Other items, net | .1 | (.9) | (1.3) |
| Provision for income taxes | 40.8% | 40.6% | 42.0% |

Income taxes paid for the years ended December 31, 2000, 1999, and 1998 amounted to $21,212,000, $17,157,000 and $14,359,000, respectively.

**NOTE L – COMMITMENTS**

The Company's minimum rental commitments, principally for equipment, under noncancelable leases in effect at December 31, 2000, amounted to approximately $2,955,000. Such rentals are payable as follows: 2001 – $1,834,000; 2002 – $788,000; 2003 – $228,000 and 2004 and thereafter – $105,000.

Total rental expense for the years ended December 31, 2000, 1999 and 1998 amounted to $2,783,000, $2,203,000 and $1,655,000, 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)* | 2000 | 1999 | 1998 |
| Numerator: | | | |
| Net income | $28,136 | $23,928 | $19,474 |
| Denominator: | | | |
| Denominator for basic income per share – weighted average shares | 9,860 | 10,444 | 11,024 |
| Effect of dilutive securities: Stock option plans | 14 | 2 | 18 |
| Denominator for diluted income per share – adjusted weighted average shares | 9,874 | 10,446 | 11,042 |
| Basic income per share | $2.85 | $2.29 | $1.77 |
| Diluted income per share | $2.85 | $2.29 | $1.76 |

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**NOTE N – SUMMARY OF UNAUDITED QUARTERLY RESULTS OF OPERATIONS**

Unaudited quarterly results of operations for the years ended December 31, 2000 and 1999 are summarized as follows:

| | *Quarter ended* | | | |
|---|---|---|---|---|
| **2000** | **Mar. 31** | **Jun. 30** | **Sept. 30** | **Dec. 31[1,2]** |
| *(In thousands, except per share data)* | | | | |
| Net sales[3] | $86,280 | $89,632 | $88,064 | $84,991 |
| Cost of goods sold[3] | 29,946 | 30,458 | 30,094 | 26,758 |
| Income before income taxes | 10,908 | 11,381 | 10,736 | 14,541 |
| Provision for income taxes | 4,463 | 4,664 | 4,358 | 5,945 |
| Net income | 6,445 | 6,717 | 6,378 | 8,596 |
| Net income per share of common stock | | | | |
| Basic | .64 | .68 | .66 | .89 |
| Diluted | .64 | .68 | .65 | .88 |
| Diluted weighted average shares outstanding | 10,093 | 9,895 | 9,718 | 9,729 |

| | *Quarter ended* | | | |
|---|---|---|---|---|
| **1999** | **Mar. 31** | **Jun. 30[4,5]** | **Sept. 30** | **Dec. 31[2,4]** |
| *(In thousands, except per share data)* | | | | |
| Net sales[3] | $76,567 | $80,859 | $85,028 | $86,533 |
| Cost of goods sold[3] | 25,877 | 26,716 | 29,630 | 27,147 |
| 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 |

1 *The fourth quarter includes a gain of $2,136,000, net of income taxes, relative to the sale of the Company's interest in a real estate investment.*

2 *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 $1,349,000 and $1,689,000 in 2000 and 1999, respectively.*

3 *Net sales and cost of goods sold amounts in 2000 and 1999 have been restated to reflect a shipping revenue reclassification. See Shipping and Handling Fees and Costs in note B.*

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

5 *The second quarter of 1999 reflects a $554,000 gain, net of income taxes, on the sale of marketable securities.*

**NOTE O – SUBSEQUENT EVENT**

In January 2001, the Company agreed to purchase certain assets of Premier Farnell's Cleveland-based North American Industrial Products and Kent Automotive Divisions for approximately $27,000,000 plus approximately $8,000,000 for related inventories. The all-cash transaction is expected to close on March 30, 2001. Under the agreement, Lawson will acquire the field sales, telephone sales and customer service professionals, the customer accounts, certain administrative executives, and use of various intellectual properties, including trade marks and trade names of the Industrial Products and Kent Automotive divisions in certain territories. Lawson will combine its existing operations with Premier Farnell's Premier Fastener, Rotanium Products, Certanium Alloys, CT Engineering, JI Holcomb and Kent Automotive business units in the United States, Canada, Mexico, Central America and the Caribbean. This acquisition is not expected to require a significant investment by the Company in facilities or equipment.

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

**RESULTS OF OPERATIONS**

Net sales for 2000 and 1999 rose 6.1% and 9.0%, respectively, over the immediately preceding years. The sales gain for 2000 resulted from the addition of new customers, a higher average order size throughout Lawson's businesses and from the mid-year 1999 acquisition of our subsidiary, ACS/SIMCO. The advance for 1999 resulted from the addition of new customers, increased orders, a higher average order size throughout Lawson's businesses and from the acquisition in July 1999, of ACS/SIMCO. In 2000, the Company adopted Emerging Issues Task Force (EITF) No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF 00-10 required companies to reflect all amounts billed to customers in sales transactions as part of net sales. Previously, the Company recorded substantially all freight revenue within selling, general and administrative expenses. Prior year amounts have been reclassified to conform to the requirements of EITF 00-10. The reclassification had no impact on net income in any year.

Net income for 2000 increased 17.6% over 1999 to $28.1 million, while diluted net income per share in 2000 advanced 24.5% to $2.85 from $2.29 in 1999. Sales gains, the after-tax gain on the sale of the Company's interest in a real estate investment of $2.1 million, and cost containment efforts were primarily responsible for the increase in net income in 2000 over 1999. Excluding the $2.1 million gain noted above, net income was approximately $26.0 million ($2.63 per diluted share), an advance of 3.4% over 1999 net income, exclusive of a $1.8 million special charge, for compensation arrangements related to management personnel reductions and a gain of $600,000 from the sale of marketable securities. 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 the special charge and gain from the sale of marketable securities noted above, 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. Per share net income for 2000, 1999 and 1998 was positively affected by the Company's share repurchases discussed below.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flows provided by operations for 2000, 1999 and 1998 were $22.9 million, $23.3 million and $16.1 million, respectively. The slight decrease in 2000 was due primarily to the negative impact of lower operating liabilities which more than offset the gain in net income noted above. The increase in 1999 resulted principally from the increase in net income noted above, lower payments made under deferred compensation and security bonus plans and higher depreciation and amortization levels. Current investments and cash flows from operations have continued to be sufficient to fund operating requirements, cash dividends and capital improvements. Such internally generated funds, along with a new $50 million unsecured line of credit, are also expected to finance the Company's future growth and working capital requirements.

Capital expenditures for 2000, 1999 and 1998, respectively, were $3.4 million, $6.5 million and $5.4 million. Consistent with prior years, capital expenditures were incurred primarily for new facilities, improvement of existing facilities and for the purchase of related equipment. Capital expenditures during 2000 primarily reflect purchases of computer related equipment, while in 1999, additions to property, plant and equipment primarily reflect costs incurred relative to the construction of a new Lawson outbound facility in Suwanee, Georgia and purchases of computer related equipment. In 1998, construction was completed relative to the facilities expansion of the Company's specialty chemical subsidiary, at a cost of approximately $3 million.

In 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 to the original equipment marketplace. The former business operations of SunSource and Hillman are conducted by ACS/SIMCO.

In 2000, the Company purchased 501,268 shares of its own common stock for approximately $11.9 million. Of these purchases, 412,668 shares were acquired relative to the 1999 Board authorization of 500,000 shares and 88,600 shares represented the remaining shares relative to a 1998 stock repurchase authorization of 500,000 shares. During 1999, 411,400 shares of the 1998 stock repurchase authorization noted above were purchased 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 shares were purchased for approximately $10.3 million in 1998. Funds to purchase these shares were provided by investments and cash flows from operations.

**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.

**SUBSEQUENT EVENTS**

In January 2001, the Company agreed to purchase certain assets of Premier Farnell's Cleveland-based North American Industrial Products and Kent Automotive Divisions for approximately $27,000,000 plus approximately $8,000,000 for related inventories. The all-cash transaction is expected to close on March 30, 2001. Under the agreement, the Company will acquire the field sales, telephone sales and customer service professionals, the customer accounts, certain administrative executives, and use of various intellectual properties, including trademarks and trade names of the Industrial Products and Kent Automotive divisions in certain territories. The Company will combine its existing operations with Premier Farnell's Premier Fastener, Rotanium Products, Certanium Alloys, CT Engineering, JI Holcomb and Kent Automotive business units in the United States, Canada, Mexico, Central America and the Caribbean. This acquisition is not expected to require a significant investment by the Company in facilities or equipment.

# 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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Chicago, Illinois
February 23, 2001

# Corporate Information

## BOARD OF DIRECTORS

**Sidney L. Port**
Chairman, Executive Committee
Chairman, Nominating Committee

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

**James T. Brophy**
(Private Investor)
Chairman, Audit Committee

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

**Robert M. Melzer**
(Business Consultant)

**Ronald B. Port, M.D.**
(Retired Physician)

**Robert G. Rettig**
(Consultant)
Chairman, Compensation Committee

**Mitchell H. Saranow**
(The Saranow Group, L.L.C.)
Chairman, Financial Strategies Committee

**Jerome Shaffer**
Vice President and Treasurer

### ANNUAL MEETING

The annual meeting of stockholders will be held at 10:00 a.m. Tuesday, May 15, 2001 at Corporate Headquarters.

### FORM 10-K

A copy of the Company's 2000 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
www.lawsonproducts.com

### PROFESSIONAL SERVICES

**Auditors**
Ernst & Young

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

**Public Relations Counsel**
Herbert H. Rozoff

## EXECUTIVE OFFICERS

**Sidney L. Port**
Chairman, Executive Committee
Chairman, Nominating Committee

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

**Jeffrey B. Belford**
Office of the President
Chief Operating Officer

**Roger F. Cannon**
Office of the President
Chief Sales Officer

**Stanley Belsky**
President
OEM Businesses

**Jerome Shaffer**
Vice President and Treasurer

**Joseph L. Pawlick**
Chief Financial Officer

**Neil E. Jenkins**
Secretary and Corporate Counsel

**James J. Smith**
Vice President
Human Resources

**Daniel N. Luber**
Vice President
Corporate Planning and Development

**Victor Galvez**
Controller

**William Holmes**
Assistant Treasurer

### SHARE OWNER SERVICES

First Chicago Trust Company,
a Division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
Telephone: In 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

## GROUP OFFICERS

**Robert Blecha**
Vice President
Revenue Management - MRO

**George H. Buckingham**
Vice President
Sales - MRO

**Dennis Coomes**
Vice President
Sales - MRO

**James Degnan**
Vice President
Operations

**John M. Del Sasso**
Vice President
Distribution - MRO

**George Goff**
Vice President
Manpower Development - MRO

**Barney Ruehl**
Vice President
Sales Education - MRO

**James L. Schmidt**
Vice President
Administration - MRO

**Robert J. Spedale**
Vice President
Purchasing

### NASDAQ NATIONAL 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.

## SUBSIDIARY OFFICERS

**CRONATRON WELDING SYSTEMS INC.**

**Susan Collins**
President and Chief Operating Officer

**Robert Davis**
Vice President - Sales

**DRUMMOND AMERICAN CORPORATION**

**Daniel J. Jozwiak**
President and Chief Operating Officer

**ACS/SIMCO**

**Richard Schwind**
President and Chief Operating Officer

**ASSEMBLY COMPONENT SYSTEMS**

**Stanley Belsky**
President and Chief Operating Officer

**AUTOMATIC SCREW MACHINE PRODUCTS COMPANY**

**Clint Snyder**
Vice President and General Manager

**C.B. LYNN COMPANY**

**Scott McCullough**
Vice President and General Manager

**LAWSON PRODUCTS, INC. ONTARIO**

**Scott R. Aimers**
Vice President and General Manager

**LAWSON PRODUCTS DE MEXICO**

**Carlos Lopez**
Managing Director

**LAWSON PRODUCTS LIMITED - UK**

**Vernon Pearce**
Director UK Operations

## LAWSON DOMESTIC DISTRIBUTION CENTERS

**RENO, NEVADA**

**Frank J. Capallupo**
Vice President and General Manager

**FAIRFIELD, NEW JERSEY**

**Gerard Cropanese**
General Manager

**SUWANEE, GEORGIA**

**Todd Henry**
General Manager

**DALLAS, TEXAS**

**Dean Keith**
Vice President and General Manager

**ADDISON, ILLINOIS**

**Michele Schneider**
General Manager

**DES PLAINES, ILLINOIS**

**Robert W. Tucibat, II**
General Manager

# 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: Provides 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 CORPORATION

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 COMPANY, INC.

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

### C.B. LYNN COMPANY

A custom solutions provider for obtaining special items and non-stock items supplemental to those products, parts and supplies regularly inventoried by the Family of Businesses.

# Profile of Lawson Products

Lawson Products is an international seller and distributor of systems, services and products to the industrial, commercial and institutional maintenance, repair and replacement marketplace. The Company also manufactures, sells and distributes production and specialized component parts to the original equipment marketplace including the automotive, appliance, aerospace, construction and transportation industries.

The Company offers to customers over 400,000 products including fasteners, parts, chemical specialties, hardware, welding supplies and accessories, pneumatics, hydraulic and other flexible hose fittings, tools, safety items and electrical and shop supplies.

Customers are currently served from seventeen strategically located facilities by approximately 2,100 independent sales agents and 70 tele-sales and customer service 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.



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