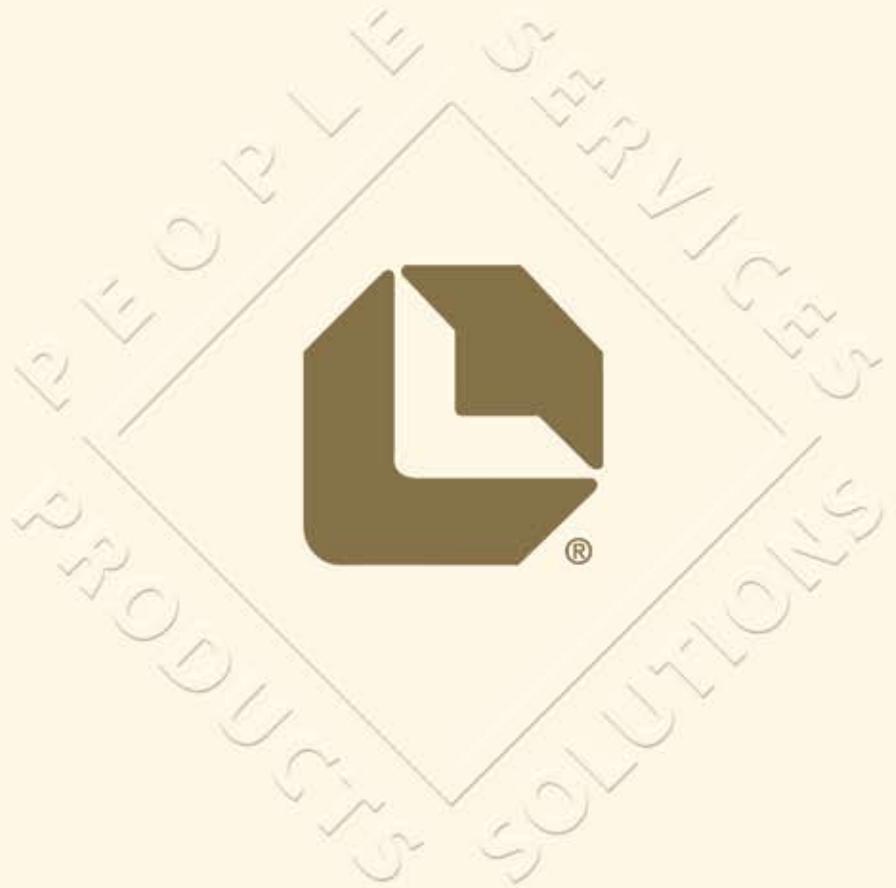


# LAWSON PRODUCTS, INC.

2006 ANNUAL REPORT

LAWSON FAMILY OF BUSINESSES  
*delivers* **CONFIDENCE** *through*



Delivering **CONFIDENCE** Through  
People, Services, Solutions & Products



At the **Lawson Family of Businesses** we believe that our competitive edge centers on our ability to deliver confidence to customers through:

**People** who have the knowledge, experience and commitment to meet customer needs.

**Services** which anticipate customer needs and make it easy to do business with our company.

**Solutions** which add value and improve our customers' businesses.

**Products** of the best quality to keep the operations of customers up and running.

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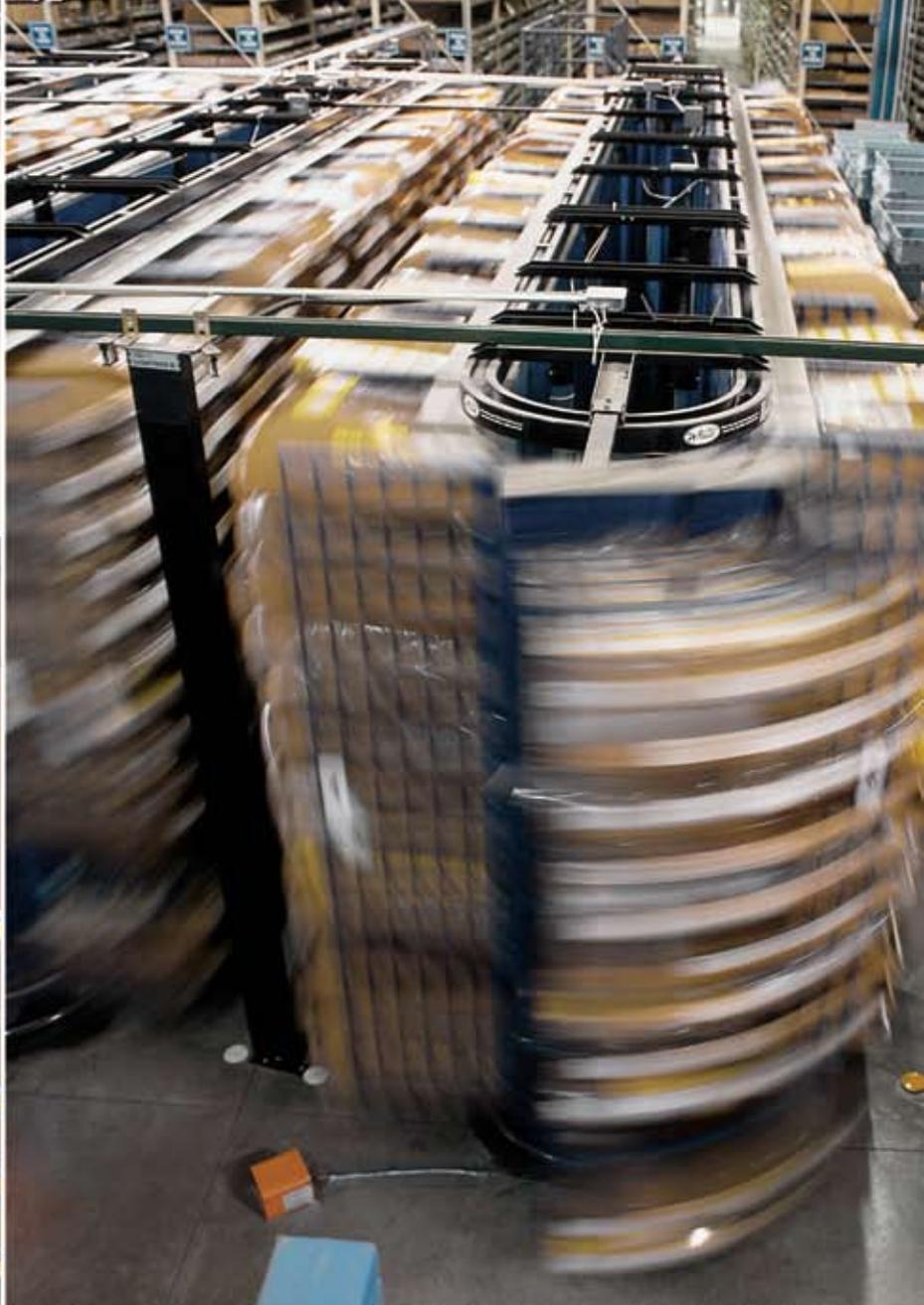
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# Five Year Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto included in the Annual Report on Form 10-K. The income statement data and balance sheet data are for, and as of the end of each of, the years in the five-year period ended December 31, 2006, and are derived from the audited Financial Statements of the Company.

<i>(Dollars in thousands, except per share data)</i>	2006	Percent Change	2005	2004	2003	2002
Net Sales <sup>1</sup>	<b>\$518,177</b>	15.1%	\$450,185	\$409,565	\$379,561	\$383,780
Income from Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Change	<b>24,403</b>	(33.2)%	36,555	33,047	27,796	27,421
Income from Continuing Operations Before Cumulative Effect of Accounting Change <sup>2</sup>	<b>12,985</b>	(39.5)%	21,460	21,444	19,480	16,679
Income (Loss) from Discontinued Operations <sup>3</sup>	<b>(12)</b>	(100.2)%	5,278	(19)	(3,284)	(4,232)
Income Before Cumulative Effect of Accounting Change	<b>12,973</b>	(51.5)%	26,738	21,425	16,196	12,447
Cumulative Effect of Accounting Change	<b>(361)</b>	n/m	—	—	—	—
Net Income <sup>2,4</sup>	<b>12,612</b>	(52.8)%	26,738	21,425	16,196	12,447
Basic Income (Loss) Per Share of Common Stock:						
Continuing Operations Before Cumulative Effect of Accounting Change	<b>\$1.46</b>	(38.1)%	\$2.36	\$2.28	\$ 2.05	\$1.74
Discontinued Operations	<b>(0.00)</b>	n/m	0.58	(0.00)	(0.35)	(0.44)
Cumulative Effect of Accounting Change	<b>(0.04)</b>	n/m	—	—	—	—
	<b>\$1.42</b>	(51.7)%	\$2.94	\$2.28	\$1.71	\$1.30
Diluted Income (Loss) Per Share of Common Stock:						
Continuing Operations Before Cumulative Effect of Accounting Change	<b>\$1.46</b>	(38.1)%	\$2.36	\$2.27	\$2.05	\$1.74
Discontinued Operations	<b>(0.00)</b>	n/m	0.58	(0.00)	(0.35)	(0.44)
Cumulative Effect of Accounting Change	<b>(0.04)</b>	n/m	—	—	—	—
	<b>\$1.42</b>	(51.7)%	\$2.94	\$2.27	\$1.70	\$1.30
Total Assets	<b>\$278,883</b>	(0.1)%	\$279,224	\$260,550	\$246,943	\$225,831
Noncurrent Liabilities	<b>45,139</b>	9.4%	41,256	37,271	36,714	31,765
Stockholders' Equity	<b>170,317</b>	(8.1)%	185,425	180,332	173,350	162,343
Return on Average Equity (percent)	<b>6.8</b>	(54.4)%	14.9	12.1	9.6	7.7
Return on Assets (percent)	<b>4.5</b>	(53.1)%	9.6	8.2	6.6	5.5
Stockholders' Equity Per Share <sup>5</sup>	<b>\$19.18</b>	(6.1)%	\$20.42	\$19.16	\$18.26	\$16.96
Cash Dividends Declared Per Share <sup>5</sup>	<b>0.80</b>	0.0 %	0.80	0.72	0.66	0.64
Basic Weighted Average Shares Outstanding	<b>8,878</b>	(2.2)%	9,082	9,410	9,492	9,570
Diluted Weighted Average Shares Outstanding	<b>8,880</b>	(2.4)%	9,099	9,430	9,511	9,596

<sup>1</sup> Net sales for 2006 and 2005 include the acquisition of Rutland Tool & Supply Co. ("Rutland") completed in December 2005 and exclude amounts from the Company's discontinued operations as discussed in Note C to the 2006 financial statements. Rutland accounted for \$54.8 million and \$4.1 million of net sales in 2006 and 2005, respectively.

<sup>2</sup> In 2006, includes \$3.2 million of legal fees related to the previously disclosed investigation, \$1.9 million of compensation expense related to stock performance rights ("SPRs"), \$1.9 million of increased income tax expense related to the elimination of tax deductions associated with the Company's customer loyalty and promotions programs in its MRO business for tax years 2005, 2004 and 2003, (many of the customer loyalty and promotion programs in place for these years were terminated or replaced early in 2006) and \$0.8 million for a loss on the sale of equipment.

<sup>3</sup> In 2005, the Company recorded a \$7.5 million after tax loss related to the operations and closing of its remaining UK business. Also in 2005, the Company realized an after tax gain of \$12.2 million related to operating income and the gain on the sale of the Company's investment in real estate. The loss from discontinued operations for 2003 primarily relates to a \$2.8 million pretax loss related to the sale of Lawson Products Limited, the Company's former UK MRO business. The 2002 losses from discontinued operations primarily relate to inventory write-offs in the Company's UK business.

<sup>4</sup> In 2003, income tax expense includes a \$2.2 million benefit to reflect the partial utilization of a capital loss generated by the sale of the Company's former UK MRO business. In 2003 and 2002, the Company recorded \$1.5 million and \$0.4 million respectively, of after tax charges for compensation arrangements related to management personnel reductions.

<sup>5</sup> These per share amounts were computed using basic weighted average shares outstanding for all periods presented.

n/m not meaningful

# Dear Fellow Shareholders,

The year 2006 was a progressive year for the Lawson Family of Businesses. Lawson realized a substantial increase in revenue and undertook significant improvements in its operating systems and distribution capabilities. Lawson's revenue increased over 15%.

Our Company enjoyed revenue growth in its MRO and OEM groups, including its Rutland Tool & Supply unit, acquired in December, 2005. Rutland added 80,000 stock keeping units to our product offering and serves customers through catalogs and branch stores. Its products are now available through our field sales forces, our inside sales team, and through our OEM sales mechanisms.

Compared to the previous year, reported income for 2006 declined as a result of several factors, including the profitable disposition of a long-term investment during 2005. Charges relating to modifications in business processes, accruals for long-term performance incentives, stock price based compensation, and severance arrangements also contributed to the decline. Costs related to the previously disclosed government and to our own internal investigation of discontinued customer loyalty programs, and the departure of a number of people relating to that circumstance, also affected Lawson's revenue and reported income.

During 2006, we made additional investments in marketing talent and

systems, in information systems, supply chain initiatives, and in our distribution facilities. Each of those is designed to help increase revenue or decrease operating expenses as we continue to move forward. Some of those investments are being funded from cost savings and process improvements.

**“Today, Lawson is a stronger company – a company of people who believe in and follow the path of the highest ethical conduct.”**

The year 2006 was a year of learning. Our sales and marketing managers throughout our organization developed an array of new mechanisms and knowledge systems. Implementation is underway. Our sales representatives have worked harder than ever to meet and exceed the requirements of our customers and to achieve established benchmarks. Good progress was made. Our operations and distribution people have endured a great deal of process improvements and moved more products and services through our facilities and systems than ever before.

That progress was all due to Our People and the effort they put forth. It is our people, their commitment to Lawson, and the corresponding trust and confidence we have in them, who have grown our businesses during this complicated period.

Our progress during 2006 as a Family of Businesses is reflected in a number of accomplishments. We broke through the \$500 million revenue milestone, achieving \$518 million of sales revenue in 2006. That's a \$68 million increase compared to 2005. When we looked a bit deeper, we found that our MRO and OEM business units added a great deal of new business to our revenue streams. Our veteran sales agents again achieved substantial increases in their average sales volumes and our inside sales teams grew revenue at double-digit levels. This effort generated more revenue for the Company to reinvest in its future and to build value for its shareholders. We did so while maintaining our strong balance sheet.

Toward the end of 2006, Lawson acquired nearly 500,000 shares of its stock, bringing outstanding shares to about 8,500,000. We finished the year with no long-term or short-term debt.

Recruiting, orientation, and education programs at the sales agent and sales management levels, combined with valuable assistance from our inside sales representatives, have helped to increase new agent success ratios in the form of revenue, earning power and retention. We accelerated the enhancement of Lawson's information technology capacities to better serve our sales and operational needs and better capture potential market opportunities. Together with our marketing professionals, our IT team developed improved websites and e-ordering mechanisms.

We commenced major investments in our distribution facilities, including the re-organization of our facility in Suwanee, Georgia, and the single largest facility expansion in our history in Reno, Nevada. These are significant steps in allowing us to provide same day or one day service throughout the North American markets for all products of all of our business units.

Organizational changes were completed at several levels, including the planned retirement of our President and Chief Operating Officer, Jeff Belford, our friend and colleague of nearly 30 years. With Jeff's help and guidance, Tom Neri, the originator and driver of our strategic planning process, has succeeded Jeff as our President and COO, effective January 5, 2007.

In that process, Tom and his team have reallocated responsibilities. Ken Malik assumed many operational responsibilities at corporate in addition to overseeing our OEM group of businesses. Mike Ruprich has become group head of our MRO units, including Lawson, Cronatron, Drummond and Kent. Michelle Russell has done excellent work in creating and implementing our Ethics & Compliance Committee, its charter, policies and handbook to help guide us in our activities. Michelle has also focused on process improvements in several areas of our business.

Stewart Howley is leading our cross-corporate marketing efforts and also has oversight of Rutland Tool & Supply. Dick Schwind has made progress in partnering with our

business units to coordinate our product purchasing activities and inventory controls. And, Scott Stephens, who joined us in accounting and finance a few years ago, has become our Chief Financial Officer.

Those people in their new roles, and others already in position, form the corporate management team led by Tom, and will drive Lawson forward in the coming years. Today, Lawson is a stronger company – a company of people who believe in and follow the path of the highest ethical conduct.

Lawson is a company having more depth and knowledge of our market opportunities than ever before and more talent to capture those market opportunities than ever before. We are a Company of better qualified sales representatives and sales managers, business unit managers and corporate officers than ever before. And, we believe we are a Company well positioned to guide ourselves into our future and to win in our markets.

Lawson's future comes down to being all about its customers. Being all about customers means providing and doing everything in our power to assure that the customer's business runs better and at the lowest overall cost. Everything our sales teams do and everything our distribution and operations teams do is directed to better serving the needs of each customer.

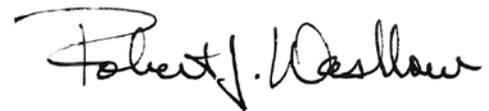
Fully servicing our customers - on time, all the time - through knowledgeable representatives with high quality products engineered specifically to keep machinery and equipment running and

**“Fully servicing our customers - on time, all the time - through knowledgeable representatives with high quality products...”**

production lines flowing - that's what builds customers' confidence in the Lawson Family of Businesses. That is what differentiates Lawson from its competition - the highest level of superior service in our industry.

We thank our customers for their continued confidence. We thank our employees and sales representatives for their continued efforts. We thank our shareholders for their continued support.

Sincerely,



**Robert J. Washlow**  
*Chairman of the Board & Chief Executive Officer  
Lawson Products, Inc.*

April, 2007





# Corporate Information

## **CORPORATE HEADQUARTERS**

Lawson Products, Inc.  
1666 East Touhy Avenue • Des Plaines, Illinois  
60018  
847-827-9666  
[www.lawsonproducts.com](http://www.lawsonproducts.com)

## **PROFESSIONAL SERVICES**

### **Auditors**

Ernst & Young LLP

### **Legal Counsel**

McDermott, Will & Emery  
Vedder, Price, Kaufman & Kamholz

## **FORM 10-K**

A copy of the Company's 2006 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.

## **SHARE OWNER SERVICES**

Computershare Trust Company, N.A.  
P.O. Box 43078 • Providence, RI 02940-3078  
Telephone: (877)282-1168

(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.computershare.com>

Access your account via the internet: <http://gateway.computershare.com>

## **NASDAQ STOCK MARKET LLC**

The common stock of Lawson Products is part of the NASDAQ Global Select Market (Nasdaq: LAWS). 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.



## BOARD OF DIRECTORS

**Robert J. Washlow**

Chairman of the Board  
Chief Executive Officer

**Lee S. Hillman**

Chairman, Compensation Committee  
(Executive Chairman and Chief Executive Officer, Power Plate International and President, Liberation Investment Advisory Group)

**Robert G. Rettig**

(Consultant)

**Sidney L. Port**

Founder and Vice Chairman  
of the Board of Directors

**Ronald B. Port, M.D.**

Chairman, Variance Committee  
(Retired Physician)

**Mitchell H. Saranow**

Chairman, Nominating and  
Governance Committee  
(Chairman, Saranow Group LLC,  
a private investment firm)

**James T. Brophy**

(Private Investor)

**Thomas S. Postek**

Chairman, Audit Committee  
(Geneva Investment Management  
of Chicago)

**Wilma J. Smelcer**

Chairwoman, Management  
Development Committee  
(Former Trustee of Goldman Sachs  
Mutual Fund Complex and Former  
Chairman, Bank of America, Illinois)

## CORPORATE MANAGEMENT

**Robert J. Washlow**

Chairman of the Board  
Chief Executive Officer

**Peter A. Alsberg**

Senior Vice President,  
Chief Information Officer

**Neil E. Jenkins**

Executive Vice President, Secretary  
and General Counsel

**Richard J. Schwind**

Senior Vice President  
Corporate Procurement  
and Global Account

**Thomas J. Neri**

President and  
Chief Operating Officer

**Stewart A. Howley**

Senior Vice President,  
Chief Marketing Officer

**Kenneth E. Malik**

Group President,  
OEM & International

**James J. Smith**

Vice President,  
Human Resources

**Roger F. Cannon**

Executive Vice President, Chief Officer,  
Field Sales Strategy and Development

**William G. Holmes**

Vice President,  
Treasurer

**Michael W. Ruprich**

Group President, MRO

**Scott F. Stephens**

Senior Vice President,  
Chief Financial Officer

# Lawson Family of Businesses

*Delivering Confidence Through People, Services, Solutions & Products*

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## LAWSON PRODUCTS, DIVISION

Provides abrasives, electrical items, fasteners, fittings, hardware, hoses, hydraulics, pneumatics, supplies and tools, together with engineering consultations and inventory control solutions for the maintenance and repair requirements of customers.

**James W. Degnan**  
President



## CRONATRON WELDING SYSTEMS, INC.

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

**Susan J. Collins**  
President



## DRUMMOND AMERICAN CORPORATION

Provides specialty chemical solutions and inventory control systems to industrial and commercial maintenance and repair operations, food service and housekeeping industries.

**R. Stephen Broome**  
President



## KENT AUTOMOTIVE

Offers a broad range of specialty, high performance, problem-solving products and systems for the automotive collision and mechanical repair aftermarket.

**Thomas E. Pavlick**  
Vice President and General Manager



## ASSEMBLY COMPONENT SYSTEMS, INC.

Provides original equipment manufacturers with just-in-time inventories of custom-ordered component parts using in-plant or vendor-managed inventory systems through electronic commerce mechanisms.

**Kenneth E. Malik**  
Group President, OEM & International

*“The Family of Businesses is getting closer to their customers, helping them to achieve their goals through new avenues in web technology and inventory management control.”*

**- Kenneth E. Malik**  
Group President, OEM & International

“Focusing more on the customer, our newly implemented Market Knowledge Center enables us to perform complex market analytics and make more fact-based decisions. This allows us to identify trends in the market and focus resources and investments on the most critical issues and most profitable opportunities.”

- **Stewart A. Howley**  
Senior Vice President and  
Chief Marketing Officer

#### AUTOMATIC SCREW MACHINE PRODUCTS COMPANY, INC.

Manufacturer of specialized machined parts for the OEM and MRO marketplaces.

**Michael L. Selby**  
President



#### C.B. LYNN COMPANY

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

**Richard J. Schwind**  
Senior Vice President



#### SPECTRUM INDUSTRIAL SOLUTIONS

A customized Inventory Management Systems and Solutions provider, servicing customers in-plant, utilizing a wide array of channel options to support uptime goals, achieve supply chain initiatives, system efficiencies, and to provide total cost effectiveness.

**Warren Ludvigsen**  
Vice President



#### RUTLAND TOOL AND SUPPLY COMPANY

Markets and distributes a broad range of industrial tools, cutting tools, abrasives, machinery, precision instruments, shop supplies and safety products serving industrial machine shops, metalworking shops and maintenance and service departments through catalogs, flyers, showrooms and web solutions.

**Andrew S. Verey**  
President



“Rutland made significant gains and did it in the first year after being acquired. They accomplished this even with significant changes in their leadership team. No small task.”

- **Michael W. Ruprich**  
Group President, MRO

LAWSON FAMILY OF BUSINESSES  
CONFIDENCE  
delivers

# Profile

## *Lawson Family of Businesses*

*Delivering Confidence  
Through People,  
Services, Solutions  
& Products*

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

The Company offers to customers over 900,000 products including fasteners, parts, chemical specialties, hardware, welding supplies, metal working supplies, 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 1,800 sales representatives in the United States, Puerto Rico, Canada and Mexico. Lawson Products was founded in 1952 by Sidney L. Port, Vice Chairman of the Board of Directors.

