

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report under Section 13 or 15(d) of
The Securities Exchange Act of 1934

For Quarter Ended September 30, 1997

Commission file no. 0-10546

LAWSON PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2229304

(State or other jurisdiction of
incorporation or organization)(I.R.S. Employer
Identification No.)1666 East Touhy Avenue, Des Plaines, Illinois
(Address of principal executive offices)60018
(Zip Code)

Registrant's telephone no., including area code: (847) 827-9666

Not applicable

Former name, former address and former fiscal year, if changed since last
report.

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date.
11,135,133 Shares, \$1 par value, as of November 10, 1997.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	September 30, 1997 (unaudited)	December 31, 1996
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 16,491	\$ 14,515
Marketable securities	10,017	14,266
Accounts receivable, less allowance for doubtful accounts	34,829	30,326
Inventories (Note B)	41,194	37,047
Miscellaneous receivables and prepaid expenses	6,400	6,340
Deferred income taxes	676	606
Total Current Assets	109,607	103,100
Marketable securities	14,870	13,453
Property, plant and equipment, less allowances for depreciation and amortization	40,144	40,053
Investments in real estate	3,481	3,305
Deferred income taxes	4,238	3,758
Other assets	12,467	11,493
Total Assets	\$ 184,807	\$ 175,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,468	\$ 6,007
Accrued expenses and other liabilities	16,793	15,850
Income taxes	2,405	2,493
Total Current Liabilities	24,666	24,350
Accrued liability under security bonus plans	13,784	12,887

Other		10,158	9,179
		23,942	22,066
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 - (1997 - 11,124,939 shares; 1996 - 11,311,464 shares)		11,125	11,311
Capital in excess of par value		520	512
Retained earnings		125,167	117,234
		136,812	129,057
Other		(613)	(311)
Total Stockholders' Equity		136,199	128,746
Total Liabilities and Stockholders' Equity	\$	184,807	\$ 175,162

See notes to condensed consolidated financial statements

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30, 1997		For the Nine Months Ended September 30, 1997	
	1996	1996	1996	1996
Net sales	\$ 71,420	\$ 66,303	\$207,693	\$185,890
Investment and other income	408	475	1,188	1,525
	71,828	66,778	208,881	187,415
Cost of goods sold (Note B)	24,331	22,856	71,167	60,286
Selling, general and administrative expenses	37,453	35,651	110,258	103,965
	61,784	58,507	181,425	164,251
Income before income taxes	10,044	8,271	27,456	23,164
Provision for income taxes	4,165	3,443	11,206	9,583
Net income	\$ 5,879	\$ 4,828	\$ 16,250	\$ 13,581
Net income per share of common stock	\$ 0.53	\$ 0.42	\$ 1.46	\$ 1.17
Cash dividends declared per share of common stock	\$ 0.14	\$ 0.13	\$ 0.40	\$ 0.39
Weighted average shares outstanding	11,125	11,601	11,158	11,609

See notes to condensed consolidated financial statements.

LAWSON PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)

For the

	Nine months ended	
	September 30,	
	1997	1996
Operating activities:		
Net income	\$ 16,250	\$ 13,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,746	2,981
Changes in operating assets and liabilities	(10,303)	(4,697)
Other	1,875	2,353
Net Cash Provided by Operating Activities	11,568	14,218
Investing activities:		
Additions to property, plant and equipment	(3,886)	(2,774)
Purchases of marketable securities	(118,637)	(318,335)
Proceeds from sale of marketable securities	121,302	327,600
Acquisition of Automatic Screw Machine Products, net of cash acquired	-	(10,506)
Other	40	100
Net Cash Used in Investing Activities	(1,181)	(3,915)
Financing activities:		
Purchases of treasury stock	(4,062)	(2,095)
Dividends paid	(4,366)	(4,535)
Other	17	9
Net Cash Used in Financing Activities	(8,411)	(6,621)
Increase in Cash and Cash Equivalents	1,976	3,682
Cash and Cash Equivalents at Beginning of Period	14,515	10,432
Cash and Cash Equivalents at End of Period	\$ 16,491	\$ 14,114

See notes to condensed consolidated financial statements.

Part I

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

A) As contemplated by the Securities and Exchange Commission, the accompanying consolidated financial statements and footnotes have been condensed and therefore, do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the Company's Annual Report to Stockholders for the year ended December 31, 1996. The Condensed Consolidated Balance Sheet as of September 30, 1997, the Condensed Consolidated Statements of Income for the three and nine month periods ended September 30, 1997 and 1996 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 1997 and 1996 are unaudited. In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) have been made, which are necessary to present fairly the results of operations for the interim periods. Operating results for the three and nine month periods ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997.

B) Inventories (consisting of primarily finished goods) at September 30, 1997 and cost of goods sold for the three and nine month periods ended September 30, 1997 and 1996 were determined through the use of estimated gross profit rates.

C) On April 30, 1996 the Company purchased substantially all of the assets and liabilities of Automatic Screw Machine Products Company (Automatic) for cash of approximately \$10,746,000. This transaction was accounted for as a purchase, accordingly, the accounts and transactions of Automatic have been included in the consolidated financial statements since the date of acquisition.

D) In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share," which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for the nine months ended September 30, 1997 and September 30, 1996 is not material.

Board of Directors
Lawson Products, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Lawson Products, Inc. and subsidiaries as of September 30, 1997 and the related condensed consolidated statements of income for the three month and nine month periods ended September 30, 1997 and 1996 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 1997 and 1996. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Lawson Products, Inc. as of December 31, 1996, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, not presented herein, and in our report dated February 21, 1997, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

October 17, 1997

Part I

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS

Net sales for the three and nine month periods ended September 30, 1997, increased 7.7% to \$71,420,000 and 11.7% to \$207,693,000 relative to the similar periods of 1996. The gains are primarily the result of both a gain in the number of orders processed and sales related to the business acquired in April, 1996.

Net income for the third quarter rose 21.8% to \$5,879,000 (\$.53 per share) from \$4,828,000 (\$.42 per share) while net income for the nine months ended September 30, 1997 increased 19.6% to \$16,250,000 (\$1.46 per share) from \$13,581,000 (\$1.17 per share) relative to the similar periods of 1996. The third quarter increase is attributable to the gains in net sales noted above and cost containment efforts. The nine month period also benefitted from gains in net sales and cost containment efforts, which more than offset lower gross margins. Per share net income for 1997 and 1996 was positively impacted by the Company's share repurchase program.

Cash flows provided by operations for the nine months ended September 30, 1997 decreased to \$11,568,000 from \$14,218,000 in the similar period of the prior year. This decline was due primarily to an increase in operating assets (principally accounts receivable and inventory) and a decrease in operating liabilities, which more than offset the gain in net income from the comparable period of 1996. Current investments and cash flows from operations are expected to be sufficient to finance the Company's future growth, cash dividends and capital expenditures. Additions to property, plant and equipment were \$3,886,000 and \$2,774,000, respectively, for the nine months ended September 30, 1997 and 1996. Capital expenditures during 1997 primarily reflect purchases of computer related equipment and costs incurred for the completion of the facilities expansion at the Company's specialty chemical subsidiary, Drummond American Corporation. This project, the total cost of which is approximately

\$3,000,000, was completed during the second quarter of 1997. Capital expenditures during 1996 primarily reflect purchases of computer related equipment.

During the second quarter of 1996, the Company purchased substantially all of the assets and liabilities of Automatic Screw Machine Products Company (Automatic), headquartered in Decatur, Alabama, at a cost of approximately \$10,746,000. Automatic is a manufacturer and distributor of production components.

In 1996, the Board of Directors authorized the purchase of up to 1,000,000 shares of the Company's common stock. During the first nine months of 1997, the Company expended \$4,062,000 to acquire 187,500 shares under the 1996 stock repurchase program. To date, 479,500 shares have been purchased relative to the 1996 stock repurchase program. During the first nine months of 1996, the Company spent \$2,095,000 to acquire the remaining 86,000 shares authorized under the 1994 stock repurchase program. All treasury shares purchased as of September 30, 1997 have been retired.

Part II

OTHER INFORMATION

Items 1, 2, 3, 4 and 5 are inapplicable and have been omitted from this report.

Item 6. Exhibits and Reports on Form 8-K.

(a) 15 Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information

27 Financial Data Schedule

(b) The registrant was not required to file Form 8-K for the most recently completed quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAWSON PRODUCTS, INC.
(Registrant)

Dated November 13, 1997

/s/ Bernard Kalish
Bernard Kalish
Chairman of the Board

Dated November 13, 1997

/s/ Joseph L. Pawlick
Joseph L. Pawlick
Vice President and Controller

Part I

October 17, 1997

Board of Directors
Lawson Products, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-17912 dated November 4, 1987) of Lawson Products, Inc. of our report dated October 17, 1997 relating to the unaudited condensed consolidated interim financial statements of Lawson Products, Inc. which are included in its Form 10-Q for the quarter ended September 30, 1997.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

ERNST & YOUNG LLP

This schedule contains summary financial information extracted from Lawson Product's, Inc. Form 10-Q and is qualified in its entirety by reference to such Form 10-Q filing.

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9-MOS	DEC-31-1997	SEP-30-1997
		16,491
		24,887
		34,829
		0
		41,194
	109,607	40,144
		0
	184,807	
24,666		0
	0	0
		11,125
184,807		125,074
		207,693
	1,188	71,167
		71,167
		0
		780
		17
		27,456
		11,206
	16,250	0
		0
		0
		16,250
		1.46
		1.46