

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2021**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 0-10546



LAWSON PRODUCTS, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2229304
(I.R.S. Employer
Identification No.)

8770 W. Bryn Mawr Avenue, Suite 900, Chicago, Illinois 60631
(Address of principal executive offices)

Registrant's telephone number, including area code:
(773) 304-5050

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$1.00 par value	LAWS	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the registrant's voting stock held by non-affiliates on June 30, 2021, based upon the closing price of the registrant's Common Stock on that date, was approximately \$237,752,000.

As of January 31, 2022, 9,115,584 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated into this Form 10-K by reference:

Part III incorporates information by reference to the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

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“Safe Harbor” Statement under the Securities Litigation Reform Act of 1995: This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. The terms “aim,” “anticipate,” “believe,” “contemplates,” “continues,” “could,” “ensure,” “estimate,” “expect,” “forecasts,” “if,” “intend,” “likely,” “may,” “might,” “objective,” “outlook,” “plan,” “positioned,” “potential,” “predict,” “probable,” “project,” “shall,” “should,” “strategy,” “will,” “would,” and other words and terms of similar meaning and expression are intended to identify forward-looking statements. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management’s current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of this Form 10-K.

The Company undertakes no obligation to update any such factors, assumptions and uncertainties or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new

information, future events or otherwise. Any references to our website in this Annual Report on Form 10-K are not and should not be considered an incorporation of information included on our website into this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS.

Lawson Products, Inc. (“Lawson”, the “Company”, “we”, “our”, or “us”) was incorporated in Illinois in 1952, and reincorporated in Delaware in 1982. Lawson serves the industrial, commercial, institutional and government Maintenance, Repair and Operations (“MRO”) market.

Vision

Our vision is to be our customers' first choice for maintenance, repair and operational solutions that improve their operating performance. We plan to achieve our vision by working closely with our customers to maintain and enhance their operations by providing them with quality products, superior service and innovative solutions.

Industry and Competition

The MRO market is comprised of companies that buy and stock products in bulk and supply these products to customers on an as needed basis. The customer benefits from our knowledge and the convenience of ordering smaller quantities maintained by us. We estimate that total current annual revenue generated by the North American MRO marketplace exceeds \$150 billion.

There is a significant amount of competitive fragmentation by geography and product within the industry. We encounter competition from several national distributors and manufacturers and a large number of regional and local distributors. Some competitors have greater financial and personnel resources, handle more extensive lines of merchandise, operate larger facilities and price some merchandise more competitively than we do.

Segments

We operate in two reportable segments: the Lawson operating segment and the Bolt operating segment.

Lawson Segment

Through the Lawson operating segment, we deliver quality products to our customers and offer them extensive product knowledge, product application expertise and Vendor Managed Inventory (“VMI”) services. Our broad geographic sales coverage allows us to serve large multi-location customers throughout the U.S. and Canada. We compete for business primarily by offering a value-added service approach in which our highly trained sales representatives manage the product inventory for our customers. The VMI model makes it less likely that our customers will unintentionally run out of a product while optimizing their inventory levels.

Sales orders are primarily generated from our sales representatives on behalf of customers; however, customers can also order directly from our website or through our customer service team via fax or phone. We ship products to customers in all 50 states, Puerto Rico, Canada, Mexico and the Caribbean. We normally ship to our customers within one day of order placement.

Our MRO distribution process normally entails the purchase of product from suppliers in bulk for delivery to our packaging and distribution facility in McCook, Illinois (“McCook Facility”) for possible repackaging, labeling or cross-docking. Product is then either stocked at the McCook Facility or delivered to one of our strategically located distribution centers. As orders are received, product is picked, packed and shipped to our customers. Many factors affect the efficiency of this process including the physical design of the distribution centers, the extent of automation, routing logistics, the number of times the product needs to be handled, transportation costs and the flexibility to meet the specific requirements of our customers.

Bolt Segment

The Bolt operating segment primarily delivers products to its customers through 14 branches located in Alberta, Saskatchewan, Manitoba, and British Columbia, Canada. Bolt generates sales from walk up business at its branch locations and through its sales team, phone, fax or the Internet. Bolt inventory is delivered to the packaging and distribution facility in Calgary, Alberta, and then distributed to each branch location. Sales generated via its sales team or through phone, fax or Internet orders are primarily shipped from one of the branch locations to the customer. The majority of Bolt's customers are located in the geographic vicinity of the branches. Bolt generally does not offer VMI services to its customers. Bolt generated 11.0% of the Company's annual 2021 sales. Bolt product offerings are listed on the Bolt website and are available in each of the branch locations.

Proposed Combination with TestEquity and Gexpro Services

On December 29, 2021, Lawson entered into:

- an Agreement and Plan of Merger (the "TestEquity Merger Agreement") by and among (1) LKCM TE Investors, LLC (the "TestEquity Equityholder"), (2) TestEquity Acquisition, LLC, an indirect wholly-owned subsidiary of the TestEquity Equityholder ("TestEquity"), (3) Lawson and (4) Tide Sub, LLC, a wholly-owned subsidiary of Lawson ("Merger Sub 1"), pursuant to the terms and subject to the conditions of which Merger Sub 1 will merge with and into TestEquity, with TestEquity surviving the merger as a wholly-owned subsidiary of Lawson (the "TestEquity Merger"); and

- an Agreement and Plan of Merger (the "Gexpro Services Merger Agreement" and, together with the TestEquity Merger Agreement, the "Merger Agreements") by and among (1) 301 HW Opus Investors, LLC, (the "Gexpro Services Stockholder"), (2) 301 HW Opus Holdings, Inc., a wholly-owned subsidiary of the Gexpro Services Stockholder ("Gexpro Services"), (3) Lawson and (4) Gulf Sub, Inc., a wholly-owned subsidiary of Lawson ("Merger Sub 2"), pursuant to the terms and subject to the conditions of which Merger Sub 2 will merge with and into Gexpro Services, with Gexpro Services surviving the merger as a wholly-owned subsidiary of Lawson (the "Gexpro Services Merger" and, together with the TestEquity Merger, the "Mergers").

TestEquity is a distributor of parts and services to the industrial, commercial, institutional and governmental electronics manufacturing and test and measurement market. TestEquity operates through three brands, TestEquity, Jensen Tools and Techni-Tool.

Gexpro Services is a provider of supply chain solutions, specializing in developing and implementing Vendor Managed Inventory (VMI) and kitting programs to high-specification manufacturing customers. Gexpro Services provides critical products and services to customers throughout the lifecycle of highly technical Original Equipment Manufacturer (OEM) products.

The combination of Lawson, TestEquity and Gexpro Services (the "Combined Company") is intended to bring together three complementary distribution businesses under a holding company structure. We believe that the Mergers and related transactions will advance our strategic objectives of expanding our offerings and services into the large, fragmented distribution industry and thereby enhance our financial performance, including through revenue and earnings growth driven by acquisition opportunities, organic revenue growth opportunities and cost synergies expected to be available to the Combined Company following the Mergers. We expect that the holding company structure will enable each of Lawson, TestEquity and Gexpro Services to maintain their respective high-touch, value-added service delivery models and customer relationships in their specialty distribution businesses under the leadership of their separate business unit management teams, with oversight from our leadership team. At the same time, we expect that the Mergers and the holding structure will enable us to leverage best practices, back-office resources and technologies across the three companies to help drive cost synergies and efficiencies and that the Combined Company will have the ability to utilize its combined financial resources to accelerate a strategy of expansion through both business acquisitions and organic growth across the new platform.

Pursuant to the Merger Agreements, Lawson has agreed to issue up to an aggregate of 12,000,000 shares of Lawson common stock in consideration for the Mergers as follows:

- **TestEquity Merger:** In connection with the TestEquity Merger, 3,300,000 shares of Lawson common stock would be issued to the TestEquity Equityholder upon the closing of the TestEquity Merger, and up to an additional 700,000 shares of Lawson common stock would potentially be issuable to the TestEquity Equityholder on or after the closing date of the TestEquity Merger upon satisfaction of the conditions of, and in accordance with, two earnout mechanisms.

• **Gexpro Services Merger:** In connection with the Gexpro Services Merger, 7,000,000 shares of Lawson common stock would be issued to the Gexpro Services Stockholder upon the closing of the Gexpro Services Merger, and up to an additional 1,000,000 shares of Lawson common stock would potentially be issuable to the Gexpro Services Stockholder on or after the closing date of the Gexpro Services Merger upon satisfaction of the conditions of, and in accordance with, two earnout mechanisms.

The Mergers, if completed, will be consummated substantially concurrently. We refer to the transactions contemplated by the Merger Agreements, including the Mergers and the share issuances, as the “Transactions.”

Entities affiliated with Luther King Capital Management Corporation (“LKCM”) and J. Bryan King, including private investment partnerships for which LKCM serves as investment manager, beneficially own a majority of the ownership interests in the TestEquity Equityholder (which will be entitled to receive all of the shares of Lawson common stock issued by Lawson as consideration in the TestEquity Merger) and the Gexpro Services Stockholder (which will be entitled to receive all of the shares of Lawson common stock issued by Lawson as consideration in the Gexpro Services Merger).

The consummation of the Mergers is subject to certain closing conditions, including, among others, (1) receipt of the requisite Lawson stockholder approvals under the Merger Agreements and (2) receipt of proceeds of debt financing in an amount sufficient for the payment of certain payoff indebtedness, transaction expenses and other fees and expenses in connection with the Mergers.

On February 22, 2022, the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, expired with respect to the Mergers.

The Merger Agreements contain certain termination rights for the parties, including, among other rights, termination rights if the Mergers are not completed on or before September 30, 2022 (subject to certain limitations) or any of the requisite Lawson stockholder approvals are not obtained at a duly convened stockholders meeting. If the TestEquity Merger Agreement is terminated under certain circumstances, Lawson will be obligated to pay TestEquity a termination fee of \$4,000,000, and if the Gexpro Services Merger Agreement is terminated under certain circumstances, Lawson will be obligated to pay Gexpro Services a termination fee of \$6,000,000.

Lawson expects to complete the Mergers in the second quarter of 2022.

Debt Financing Commitment Letter

In contemplation of the Mergers, on February 7, 2022 Lawson entered into an amended and restated commitment letter (the “Debt Financing Commitment Letter”) with JPMorgan Chase Bank, N.A. (the “Initial Arranger”). Through the Debt Financing Commitment Letter, Lawson has requested that the Initial Arranger agree to arrange and syndicate senior secured credit facilities in an aggregate principal amount of up to \$500 million for Lawson and certain of its affiliates, consisting of a revolving credit facility in an initial aggregate principal amount of \$200 million, an initial term loan facility in an initial aggregate principal amount of \$250 million and a delayed draw term loan facility in an aggregate principal amount of \$50 million. Pursuant to the Debt Financing Commitment Letter, the Initial Arranger agreed to (1) provide up to \$125 million of the facilities and (2) use commercially reasonable efforts to assemble a syndicate of financial institutions identified by the Initial Arranger and agreed to by Lawson to provide the balance of the necessary commitments for the facilities, in each case upon the terms and subject to the conditions set forth in the Debt Financing Commitment Letter.

Lawson would intend to use the proceeds of the initial term loan facility and the revolving facility, if executed, to refinance Lawson’s existing credit agreement and certain existing indebtedness of TestEquity and Gexpro Services in connection with the closing of the Mergers, finance the working capital needs and general corporate purposes of Lawson and its subsidiaries (including TestEquity and Gexpro Services) after the Mergers and pay certain fees and expenses. Lawson would intend to use the proceeds of the delayed draw term loan facility, if executed, to finance certain potential acquisitions by TestEquity and/or Gexpro Services, if completed, and pay certain fees and expenses.

The commitments of the Initial Arranger are subject to (1) the condition that the portion of the facilities not being provided by the Initial Arranger (which remaining portion is \$375 million) shall be provided by other lenders identified by the Initial Arranger in consultation with Lawson and reasonably acceptable to Lawson and (2) various other conditions.

The Transactions subject us to a number of risks that are more fully discussed in Item 1A. Risk Factors, “Risk Factors Relating to the Merger Transactions” and “Risk Factors Relating to the Debt Financing Expected to be Incurred in Connection with the Merger” below.

Customers

During 2021, the Lawson segment sold products to over 69,000 distinct customers and the Bolt segment sold products to approximately 12,000 distinct customers in addition to the walk up customers at its 14 branch locations. Our largest customer accounted for approximately three percent of consolidated net sales. In 2021, approximately 81% of our consolidated net sales were generated in the United States and approximately 19% in Canada. Our customers operate in a variety of industries including automotive repair, commercial vehicle maintenance, government, manufacturing, food processing, distribution, construction, oil and gas, mining, wholesale, service and others. Although seasonality is not significant in our business, due to fewer selling days and less activity during the holiday season, net sales in the fourth quarter are historically lower than the first three quarters of the year.

Our customers include a wide range of purchasers of industrial supply products from small repair shops to large national and governmental accounts. Historically, we have been very effective selling to and servicing small and medium sized customer locations that value our service approach.

Products

Our product offerings are listed on our websites and in catalogs distributed to our customers. Sales percentages by broad product categories of our product mix in 2021 were as follows:

Product Category	Percentage
Fastening systems	22%
Cutting tools and abrasives	15%
Fluid power	13%
Specialty chemicals	10%
Electrical	10%
Aftermarket automotive supplies	7%
Safety	5%
Welding and metal repair	2%
Other	16%
	<u>100%</u>

The Lawson segment offers over 192,000 different products for sale of which over 135,000 products are maintained in our distribution centers. We strive to carry sufficient inventory to ensure product availability and rapid processing of customer orders. Accurate forecasting of customer demand is essential to establish the proper level of inventory for each product. Inventory levels need to be sufficient to meet customer demand while avoiding the costs of stocking excess items.

During 2021, our Lawson segment purchased products from approximately 3,000 suppliers and no single supplier accounted for more than three percent of our purchases. The loss of one of our core suppliers could affect our operations by hindering our ability to provide full service to our customers.

Our quality control department tests our product offerings to ensure they meet our customers' specifications. We recommend solutions to help customers maximize product performance and avoid costly product failures. Our engineering department provides technical support for our products and offers on-site problem solutions. It also develops and presents product safety and technical training seminars tailored to meet our customers' needs. Safety Data Sheets are maintained electronically and are available to our customers on our website.

Bolt offers approximately 40,000 different core products for sale of which approximately 19,000 products are maintained in the Calgary distribution center. The majority of inventory is kept in the Calgary distribution center, with each branch maintaining appropriate inventory levels for their business needs.

Human Capital Resources

General Employee Information

Our organization supports a culture of continuous improvement and emphasizes the importance of addressing the needs of our customers. We require our employees to act with integrity in every aspect of our business while encouraging them to be results driven, team oriented and progressive.

As of December 31, 2021, our combined workforce included approximately 1,840 individuals, comprised of approximately 1,230 in sales and marketing, approximately 480 in operation and distribution and approximately 130 in management and administration. Approximately 1,680 of the 1,840 individuals are within the Lawson segment and the remaining are within Bolt. Approximately 9% of the workforce is covered by two collective bargaining agreements. We believe that our relations with our employees and their collective bargaining organizations are good.

Sales Team

On December 31, 2021, the Lawson sales and marketing team consisted of approximately 1,230 individuals focused on servicing existing customers, identifying new customers, providing customer service support and providing on-site customer service. Of the total sales team, 1,037 are sales representatives who are primarily organized into geographical regions. The performance of each region is the responsibility of a Regional Sales Director. Each region is further divided into geographically defined districts. The performance of each district is the responsibility of a District Sales Manager who reports to the Regional Sales Director. Our District Sales Managers work with the sales representatives to generate sales from new and existing customers. Lawson also has a team dedicated to the acquisition of larger national and mid-market accounts and a team dedicated to serving governmental accounts. The national accounts are comprised of multi-location customers with a national scope.

Sales force growth is a driver of our business. Increased sales coverage throughout the United States and Canada directly impacts our success as an organization. The Company is focused on identifying and recruiting individuals who are a good fit for our sales organization and providing them the tools needed to succeed. When these employees are hired, they participate in a training program to learn the products and processes of Lawson and also the history, values and culture of the Company. This sales training program allows the new sales representatives to assimilate into the Company and learn the most successful ways to call on potential customers, maintain relationships with existing customers, and provide the proper products and VMI services to ensure that the customers' needs are met.

The Lawson sales team receives education in the best uses of products, enabling them to provide customized solutions to address customers' needs including technical expertise and on-site problem resolution. The VMI services Lawson offers primarily consist of ordering the right products in the optimal quantity for the customer and stocking the product for customers when the product is delivered. The sales team also periodically provides product presentations to customers that are designed to demonstrate how the products can improve their productivity. Additionally, Lawson sales representatives offer customized storage systems for improved organization and a more efficient work-flow.

While recruitment of new sales representatives is important, the goal of this process is to ensure the sales representatives who are brought on board will be members of the Lawson team for the long term. Our experience has proven that a sales representative becomes more successful and generates more sales for the Company the longer they are a part of Lawson. Longer tenured sales representatives form deeper relationships with customers, which results in customers relying on the Lawson sales representative for a larger share of their MRO needs. Reducing sales force churn and ensuring sales representatives can grow and reach their full potential over the long term is a focus of the Lawson leadership team. The sales leadership team is in regular contact with Regional Sales Directors, District Sales Managers and experienced sales representatives to discuss the challenges our sales representatives face in generating sales and how the Company can support them. The Company regularly reviews the performance of sales representatives and determines how to manage underperforming sales representatives and territories.

The majority of Bolt sales are made from its 14 branch locations. Bolt has approximately 24 sales territory managers who serve companies and professional tradespeople throughout Western Canada. In 2017, Bolt began requiring members of the sales teams to be certified as Certified Sales Professionals for the Canadian Professional Sales Association. All newly-hired sales team members are required to receive and maintain the same certification.

In response to the ongoing COVID-19 pandemic, the Company continues to have the majority of its corporate workforce work remotely and the Company monitors local, state and federal COVID-19 requirements so that its business operations and sales representative activities operate in accordance with these rules. The Company will continue to navigate through the COVID-19 pandemic with a focus on the safety of its team members.

Strategic Focus

In 2022, we intend to grow our sales organically, pursue acquisitions and further improve our operations to make Lawson our customers' first choice for MRO products, VMI services and solutions that improve their operating performance.

Our sales are impacted by the size of our sales team, their productivity and their territorial coverage. Our plan to expand the sales force is designed by identifying under-served territories that offer the greatest growth potential, locate and recruit talented sales representatives, provide them with the proper training, and successfully integrate them into our organization.

To acquire the best new sales talent and prepare them for success, we have developed an extensive talent acquisition strategy. We use both internal and external resources to identify and recruit the best available sales talent. As we increase our sales coverage, we anticipate a short-term decrease in average sales per day per sales representative, as new representatives build customer relationships in their territories. However, we believe that these short-term investments will result in future opportunities as we leverage the positive impact of top-line growth against our operating costs which are fixed to a significant extent.

We are also focused on increasing the productivity of our sales representatives. We strive to empower our sales representatives with the training, technology and support they need to maximize their sales potential while providing our customers with superior service and making it easy for them to do business with us.

In addition to organic growth, we plan to continue to actively pursue acquisition opportunities that we believe will be financially accretive to our organization. Lawson plans to continue to explore growth opportunities in the MRO space that provide different channels to reach customers, increase sales and generate positive results.

In order to improve our operations, we utilize a Lean Six Sigma approach, which is a set of tools that allow a project team to analyze and improve selected business processes. The project teams work with the process owners to develop statistical measures to evaluate the effectiveness of the process, document the current components and process flow, examine the root cause of defects and effect on current operations, design and implement new ways to improve performance and then measure the results for effectiveness. The Lean Six Sigma process is ingrained in our culture as we have had over 120 employees complete Lean Six Sigma training over the past six years and plan to continue this training program in the years to come.

We believe our emphasis on continuous improvement will lead to further reductions in error rates, increased processing speed, reduction in cycle times, standardization of procedures and elimination of waste. This will enable us to become a more efficient and effective organization which provides our customers with the best purchasing experience possible.

Available Information

We file or furnish annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and file or furnish amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act and Section 16 reports with the Securities and Exchange Commission ("SEC"). The public can obtain copies of these materials by accessing the SEC's website at <http://www.sec.gov>. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC, we make copies available to the public free of charge through our website at www.lawsonproducts.com or by calling (773) 304-5050. Information on our website is not incorporated by reference into this report. We also make available on our website our Code of Ethics, Corporate Governance Principles and the charters of the committees of our Board of Directors.

Executive Officers of the Registrant

The executive officers of Lawson as of February 1, 2022 were as follows:

Name	Age	Year First Named to Present Office	Position
Michael G. DeCata	64	2012	President and Chief Executive Officer
Ronald J. Knutson	58	2014	Executive Vice President, Chief Financial Officer, and Treasurer
Matthew J. Brown	58	2017	Senior Vice President, Sales
Richard D. Pufpaf	49	2021	Senior Vice President, Corporate Secretary, General Counsel and Chief Compliance Officer
David S. Lambert	48	2021	Vice President, Controller and Chief Accounting Officer

Biographical information for the past five years relating to each of our executive officers is set forth below.

Mr. DeCata was elected President and Chief Executive Officer in September 2012. Mr. DeCata previously served in a consulting capacity for several private equity firms, including Hamilton Robison Capital Partners from 2009 until 2012. Mr. DeCata previously served on the Board of Directors of Crescent Electric Supply Company from 2008 to 2013.

Mr. Knutson was elected Executive Vice President, Chief Financial Officer, Treasurer and Controller in April 2014 and has served as Executive Vice President, Chief Financial Officer since July 2012.

Mr. Brown was elected Senior Vice President, Sales in March 2017 and served as Vice President of Field Sales since January 2016. Mr. Brown held several levels of sales leadership roles for the Company since 2001 with the most recent title of Senior Director of Sales from 2014 to 2016.

Mr. Pufpaf was elected Senior Vice President, Corporate Secretary, General Counsel and Chief Compliance Officer in 2021. Mr. Pufpaf joined Lawson in 2011, and throughout the past 11 years, has held several leadership roles for the Company, including Assistant General Counsel, Chief Compliance Officer, Assistant Corporate Secretary and Vice President, Compensation & Benefits.

Mr. Lambert was elected to Vice President, Controller and Chief Accounting Officer in June 2021. Prior to joining the Company, Mr. Lambert served as the Corporate Controller, and previously the Assistant Controller, of Univar Solutions, a chemical distribution company, publicly traded on the NYSE from June 2017 through June 2021. Prior to that, Mr. Lambert served as the Director of Corporate Accounting and Reporting of Donnelley Financial Solutions, a financial compliance company, publicly traded on the NYSE from September 2016 through June 2017. Prior to these roles, Mr. Lambert held progressive roles within finance and accounting at several other publicly traded companies.

ITEM 1A. RISK FACTORS.

In addition to the other information in this Annual Report on Form 10-K for the fiscal year ended December 31, 2021, the following factors should be considered in evaluating Lawson's business. Our operating results depend upon many factors and are subject to various risks and uncertainties. The material risks and uncertainties known to us and described below may negatively affect our business operations or affect our financial results. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations or affect our financial results.

Business Risks

A significant portion of our inventory may become obsolete.

Our business strategy requires us to carry a significant amount of inventory in order to meet rapid processing of customer orders. If our inventory forecasting and production planning processes result in inventory levels exceeding the levels demanded by customers or should our customers decrease their orders with us, our operating results could be adversely affected due to costs of carrying the inventory and additional inventory write-downs for excess and obsolete inventory.

Work stoppages and other disruptions at transportation centers or shipping ports, along with other supply chain disruptions, may adversely affect our ability to obtain inventory and make deliveries to our customers.

Our ability to rapidly process customer orders is an integral component of our overall business strategy. Interruptions at our company operated facilities or disruptions at a major transportation center or shipping port, due to events such as severe weather, labor interruptions, natural disasters, acts of terrorism or other events, could affect our ability to maintain core products in inventory, deliver products to our customers on a timely basis or adversely affect demand for our products, which may in turn adversely affect our results of operations. Similarly, other supply chain disruptions have impacted our ability to maintain certain core products in inventory and deliver products to customers on a timely basis, and may continue to impact our ability to do so. Such supply chain disruptions may adversely affect our business, financial condition and results of operations.

Changes in our customers, product mix and pricing strategy could cause our gross margin percentage to decline in the future.

From time to time, we have experienced overall changes in the product mix demand of our customers. When customers or product mix changes, there can be no assurance that we will be able to maintain our historical gross profit margins. Changes in these items, as well as volume of orders, prices charged, additional freight costs or lower productivity levels, could cause our gross profit margin percentage to decline. Our gross margin percentage may also come under pressure in the future if we increase the percentage of national accounts in our customer base, as sales to these customers are generally at lower margins.

Disruptions of our information and communication systems could adversely affect the Company.

We depend on our information and communication systems to process orders, purchase and manage inventory, maintain cost-effective operations, sell and ship products, manage accounts receivable collections and serve our customers. Disruptions in the operation of information and communication systems can occur due to a variety of factors including power outages, hardware failure, programming faults and human error. Disruptions in the operation of our information and communication systems, whether over a short or an extended period of time or affecting one or multiple distribution centers, could have a material adverse effect on our business, financial condition and results of operations.

Cyber attacks or other information security incidents could have a material adverse effect on our operating results and financial condition, subject us to additional legal costs and damage our reputation in the marketplace.

We are increasingly dependent on digital technology to process and record financial and operating data and communicate with our employees and business partners. During the normal course of business we receive, retain and transmit certain confidential information that our customers provide to purchase products or services or to otherwise communicate with us.

Our technologies, systems and networks (and those of our business partners) have been and may in the future be the target of cyber attacks and/or information security incidents that may have resulted in, or may in the future result in, the unauthorized release, misuse, loss or destruction of proprietary, personal and other information, or other disruption of our business operations. For example, on February 8, 2022, Lawson became aware that its computer network was the subject of a cyber incident potentially involving unauthorized access. It is possible that certain confidential business information and personnel

records may have been compromised. Lawson has engaged a cybersecurity forensics firm to assist in the investigation of the incident and to assist in securing its computer network.

Depending on the nature of any information that may have been compromised, Lawson may be required to notify the parties whose information was compromised of the incident as well as various governmental agencies and may be required to take other actions in the future, such as offering credit monitoring services. Lawson is continuing to investigate the incident as well as potential corrective and remedial actions to take in respect of the incident. The Company is in the early stage of the investigation, and at this time, is unable to estimate the cost of any remediation that may be required.

Such attacks or incidents could have a material adverse effect on our operating results and financial condition, subject us to additional legal costs and damage our reputation in the marketplace. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and fix any information security vulnerabilities.

The inability to successfully recruit, integrate and retain productive sales representatives could adversely affect our operating results.

We have committed to a plan to increase the size of our sales force. A successful expansion in our sales force requires us to identify under-served territories that offer the greatest potential growth opportunity, locate and recruit talented sales representatives, provide them with the proper training, and successfully integrate them into our organization. This expansion will require significant investment in capital and resources. The failure to identify the optimal sales territories, recruit and retain quality sales representatives and provide them with sufficient support could adversely affect our operating results.

It is also critical to retain the experienced and productive sales representatives that have historically contributed to our success. Failure to retain a sufficient number of talented, experienced and productive sales representatives could adversely affect our financial and operating results.

Failure to retain talented employees, managers and executives could negatively impact our operating results.

Our success depends on, among other things, our ability to attract, develop and retain talented employees, including executives and other key managers. The loss of certain key executives and managers or the failure to attract and develop talented employees could have a material adverse effect on our business.

The inability of management to successfully implement changes in operating processes could lead to disruptions in our operations.

We are continually striving to improve operational efficiencies throughout our organization and to identify and initiate changes intended to improve our internal operations. The implementation of changes to our current operations involve a risk that the changes may not work as intended, may disrupt related processes, may not be properly applied or may not result in accomplishing the intended efficiencies. Failure to successfully manage the implementation of these changes could lead to disruptions in our operations.

The inability to successfully integrate additional acquisitions into our organization could adversely affect our operations and operating results.

One of our growth strategies is to actively pursue additional acquisition opportunities which complement our business model. However, there are risks associated with pursuing acquisitions, which include the incurrence of significant transaction costs without the guarantee that such transactions will be completed. Further, we may fail to successfully identify the right opportunities and/or to successfully integrate the acquired businesses, operations, technologies, systems and/or personnel with those of Lawson, which could adversely affect our operations and our operating results.

The Company operates in highly competitive markets.

The MRO marketplace is highly competitive. Our competitors include large and small companies with similar or greater market presence, name recognition, and financial, marketing, and other resources. We believe the competition will continue to challenge our business with their product selection, financial resources and services.

Changes that affect governmental and other tax-supported entities could negatively impact our sales and earnings.

A portion of our sales are derived from the United States military and other governmental and tax-supported entities. These entities are largely dependent upon government budgets and require adherence to certain laws and regulations. A decrease in the levels of defense and other governmental spending or the introduction of more stringent governmental regulations and oversight, could lead to reduced sales or an increase in compliance costs which would adversely affect our financial position and results of operations.

Financial Risks

Failure to adequately fund our operating and working capital needs through cash generated from operations and cash available through our Credit Agreement could negatively impact our ability to invest in the business and maintain our capital structure.

Our business requires investment in working capital and fixed assets. We fund these investments from cash generated from operations and funds available from our Credit Agreement. Failure to generate sufficient cash flow from operations or from our Credit Agreement could cause us to have insufficient funds to operate our business. Adequate funds may not be available when needed or may not be available on favorable terms.

Failure to meet the covenant requirements of our Credit Agreement could lead to higher financing costs and increased restrictions and reduce or eliminate our ability to borrow funds.

Our Credit Agreement contains financial and other restrictive covenants. These covenants could adversely affect us by limiting our financial and operating flexibility as well as our ability to plan for and react to market conditions and to meet our capital needs. Failure to meet these covenant requirements could lead to higher financing costs and increased restrictions, reduce or eliminate our ability to borrow funds, or accelerate the payment of our existing indebtedness. If we require more liquidity than is currently available to us under our Credit Agreement, we may need to raise additional funds through debt or equity offerings which may not be available when needed or may not be available on terms favorable to us. Should funding be insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Common Stock Risks

The market price of our common stock may decline.

The price of our common stock could decrease if our financial performance is inadequate or does not meet investors' expectations, if there is deterioration in the overall market for equities, if large amounts of shares are sold in the market, if there is index trading, or if investors have concerns that our business, financial condition, results of operations and capital requirements are negatively impacted by an economic downturn.

Luther King Capital Management has significant influence over the Company, and this influence could delay or deter a change in control or other business combination or otherwise cause us to take actions with which you may disagree.

On December 31, 2021, Luther King Capital Management ("LKCM") beneficially owned 47.7% of the outstanding common stock of the Company. J. Bryan King, a director of the Company, is the Principal of LKCM. As a result, LKCM has significant influence over the outcome of matters requiring a stockholder vote, including the election of directors, and the approval of significant matters and its interests may not align with the interests of other stockholders. This concentration of ownership could also have the effect of delaying, determining or preventing a change of control or other business combination that might be beneficial to our stockholders.

Legal and Regulatory Risks

A violation of federal, state or local environmental protection regulations could lead to significant penalties and fines or other remediation costs.

Our product offerings include a wide variety of industrial chemicals and other products which are subject to a multitude of federal, state and local regulations. These environmental protection laws change frequently and affect the composition, handling, transportation, storage and disposal of these products. Failure to comply with these regulations could lead to severe penalties and fines for each violation.

Additionally, a facility we own in Decatur, Alabama, was found to contain hazardous substances in the soil and groundwater as a result of historical operations prior to our ownership. We retained an environmental consulting firm to further investigate the contamination, including measurement and monitoring of the site. The Company concluded that further remediation was required, and accordingly, has made an accrual for the estimated cost of this environmental matter. A remediation plan was approved by the Alabama Department of Environmental Management and the remediation of the affected area is ongoing. Additional procedures may be required that could negatively impact our operating results.

Our results of operations could be affected by changes in taxation.

Our results of operations could be affected by changes in tax rates, audits by taxing authorities or changes in laws, regulations and their interpretation. Changes in applicable tax laws and regulations could affect our ability to realize our deferred tax assets, which could adversely affect our results of operations.

Risk Factors Relating to COVID-19 and Other Infectious Diseases

The coronavirus strain that began to spread in 2020 ("COVID-19") has created a worldwide pandemic which has continued to affect our business and could have further undetermined material adverse effects on our revenues, operating results and financial condition.

The COVID-19 pandemic has resulted in lost revenue to our Company, limitations on our ability to source high demand product, limitations on our sales force to perform certain functions due to state or federal stay-at-home orders, a slow-down of customer demand for our products and limitations on the ability of some customers to pay us on a timely basis. The impact of the COVID-19 pandemic on our operational and financial performance includes affecting our ability to execute our business strategies and initiatives in the expected time frame. The extent of the effect of the COVID-19 pandemic on us will depend on future developments, including the duration and spread of the COVID-19 pandemic and related restrictions on travel, transports and person to person contact, all of which are uncertain and cannot be predicted at the present time. On a broader scale, the COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. An extended period of global supply chain and economic disruption could materially affect our sales, workforce, supply chains, results of operations, and financial condition.

Our business was defined by the state of Illinois as an essential business, allowing us to operate during the pandemic when other companies faced temporary closures during the first year of the pandemic. If the COVID-19 pandemic worsens and our status as an essential business changes, our business could be required to temporarily close as well as any or all of our facilities (including distribution facilities and/or the Bolt branch locations), which would negatively impact our operations. Other disruptions to our supply chain such as reduced capacity or temporary shutdowns of freight carriers could also negatively impact Company performance.

Our sales results may be negatively impacted in the future by any social distancing guidelines and government mandated shelter in place orders that would prevent our sales representatives from visiting customers in person, or that would otherwise reduce customer visits to our Bolt branch locations. The reduction of operations and temporary shut down by many of our customers in response to COVID-19 has also negatively impacted our sales and ability to collect on existing credit balances, and we may continue to be impacted by those reductions and shut downs until the pandemic ends.

Further, vendors who are negatively impacted by COVID-19 may temporarily shut down operations or have difficulty obtaining inventory, which could negatively impact our ability to fulfill customer orders. As a result, the Company may be negatively impacted by the COVID-19 pandemic and the various federal, state and local restrictions enacted to combat the pandemic.

Certain items on our balance sheet require judgments on their valuation, including intangible assets and goodwill. These valuations are based on assumptions that take future financial performance into account. COVID-19 may have a negative impact to our future financial performance that would require us to revise assumptions about future financial performance and impair the value of these assets. It is reasonably possible that estimates made based on future operating results and cash flows of the Company may be materially and adversely impacted in the near term as a result of the COVID-19 pandemic, including impairment losses related to goodwill.

In addition, the increased number of employees working remotely as a result of COVID-19 can exacerbate the risks mentioned in regards to internal controls and cybersecurity.

General Risks

Our results of operations may be adversely impacted by a downturn in the economy or in certain sectors of the economy.

Any decline or uncertainty in the strength of the economy may lead to a decrease in customer spending and may cause certain customers to cancel or delay placing orders. In the first quarter of 2020, the economy experienced a significant decline due to the response of businesses and state governments to the onset of the COVID-19 pandemic. Subsequently, the economy partially recovered from the initial downturn. Some of our customers may file for bankruptcy protection, preventing us from collecting on accounts receivable and may result in our stocking excess inventory. Contractions in the credit markets may also cause some of our customers to experience difficulties in obtaining financing, leading to lower sales, delays in the collection of receivables and result in an increase in bad debt expense.

Adverse economic conditions could also affect our key suppliers and contractors. This could lead to us incurring additional expenses or result in delays in shipping products to our customers. Economic uncertainty can make it difficult to accurately predict future order activity and affect our ability to effectively manage inventory levels. There are no assurances that we would be able to establish alternative financing or obtain financing with terms similar to our present Credit Agreement.

Changes in energy costs, tariffs and the cost of raw materials used in our products could impact our cost of goods and distribution and occupancy expenses, which may result in lower operating margins.

Increases in the cost of raw materials used in our products (e.g., steel, brass, copper), tariffs and increases in energy costs will raise the production costs of our vendors. Those vendors have typically looked to pass the higher costs along to us through price increases. If we are unable to fully pass such increased prices and costs through to our customers or to modify our activities, the impact would have an adverse effect on our operating profit margins. Low oil prices may result in weaker demand from oil and gas customers in the future, resulting in lower net sales. Changes in trade policies could affect our sourcing of product and ability to secure sufficient product and/or impact the cost or price of our products, with potentially negative impacts on our reported gross profits and results of operations.

Supply chain constraints, inflationary pressure, and labor shortages could impact our cost of goods, which may result in lower gross margins.

Our businesses have been and may continue to be impacted by supply chain constraints, resulting in inflationary pressure on material costs, longer lead times, port congestion, and increased freight costs. This results in challenges in acquiring and receiving inventory in a timely fashion and fulfilling customer orders. In addition, we have been and may continue to be impacted by labor shortages. This results in challenges in fulfilling customer orders and can have a negative impact on our operating results as we may be required to utilize higher-cost temporary labor. While we have instituted various price increases during 2021 in response to rising supplier costs, as well as increased transportation and labor costs, there can be no assurance that future cost increases or decreases, if any, can be partially or fully passed on to customers, or that the timing of such sales price increases or decreases will match our supplier cost increases or decreases. As a result, we are unable to predict the impact of these constraints on our business, financial condition and results of operations.

The Company is exposed to the risk of foreign currency changes.

Two of our subsidiaries are located and operate in Canada using the Canadian dollar as its functional currency. Operating results denominated in foreign currencies are translated into U.S. dollars when consolidated into our financial statements. Therefore, we are exposed to market risk relating to the change in the value of the Canadian dollar relative to the U.S. dollar that could adversely affect our financial position and operating results.

Risk Factors Relating to the Merger Transactions

Except as contemplated by the earnout provisions in the Merger Agreements, the number of shares of Lawson common stock to be issued in the Transactions will not be adjusted if there is a change in the value of the businesses or assets of Lawson, TestEquity and/or Gexpro Services before the Transactions are completed.

Except as contemplated by the earnout provisions in the Merger Agreements, the number of shares of Lawson common stock to be issued in the Transactions will not be adjusted if there is a change in the value of the businesses or assets of Lawson, TestEquity and/or Gexpro Services before the Transactions are completed. Although Lawson will not be required to consummate the TestEquity Merger or the Gexpro Services Merger if there has been any “Material Adverse Effect” (as specified in the TestEquity Merger Agreement or the Gexpro Services Merger Agreement, respectively) with respect to TestEquity or Gexpro Services, respectively, Lawson will not be permitted to terminate either of the Merger Agreements or re-solicit the vote of Lawson’s stockholders because of any changes in the market price of Lawson common stock or any changes in the value of TestEquity or Gexpro Services that do not constitute such a “Material Adverse Effect” with respect to TestEquity or Gexpro Services, respectively.

Completion of the Transactions will result in the issuance of a significant number of additional shares of Lawson common stock, which could have a negative effect on the price of Lawson common stock.

The Transactions will result in the issuance of an aggregate of up to 12,000,000 shares of Lawson common stock in connection with the Transactions. The issuance of such a significant number of shares of Lawson common stock could have a negative effect on the market price of Lawson common stock. Such downward pressure could also encourage short sales by certain investors, which could place further downward pressure on the market price of Lawson common stock.

In addition, Lawson has agreed to grant the TestEquity Equityholder and the Gexpro Services Stockholder with certain registration rights with respect to the shares of Lawson common stock that Lawson would issue in the Transactions. Any sales of those shares, or the anticipation of the possibility of such sales, could create downward pressure on the market price of Lawson common stock.

As a result of the issuance of Lawson common stock in the Transactions, entities affiliated with LKCM and J. Bryan King (including the TestEquity Equityholder and the Gexpro Services Stockholder) will beneficially own a significant majority of the outstanding shares of Lawson common stock.

After giving pro forma effect to the issuance of shares of Lawson common stock in connection with the Transactions, entities affiliated with LKCM and Mr. King (including the TestEquity Equityholder and the Gexpro Services Stockholder) would beneficially own in the aggregate a significant majority of the outstanding shares of Lawson common stock, ranging from (1) approximately 75% (assuming the issuance of only the minimum aggregate number of shares of Lawson common stock issuable in connection with the Mergers) to (2) approximately 77% (assuming the issuance of the maximum aggregate number of shares of Lawson common stock issuable in connection with the Mergers, including the full issuance of the maximum earnout shares potentially issuable) of the outstanding shares of Lawson common stock. This would be up from the approximately 47.7% of the outstanding shares of Lawson common stock that entities affiliated with LKCM and Mr. King beneficially owned as of December 31, 2021. Thus, entities affiliated with LKCM and Mr. King, as a group, would be able to exercise an even more significant influence over matters requiring a stockholder vote, including the election of directors and the approval of other significant matters, than they are currently able to exercise. The interests of LKCM and such other affiliated entities and persons may not align with the interests of other stockholders. This concentration of ownership could also have the effect of delaying or preventing a change of control or other business combination that might be beneficial to Lawson’s stockholders.

In addition, as a result of this issuance, Lawson expects that it will qualify as a “controlled company,” as that term is defined by Rule 5615(c) of the NASDAQ Listing Rules and, accordingly, Lawson believes that it will be generally exempt from the requirements of Rule 5615(c) of the NASDAQ Listing Rules that would otherwise require Lawson to have:

- a majority of the Lawson board of directors comprised of independent directors;
- a compensation committee comprised solely of independent directors; and

- director nominees selected, or recommended for the Lawson board of directors' selection, either by (1) independent directors constituting a majority of the Lawson board of directors' independent directors in a vote in which only independent directors participate or (2) a nominating committee comprised solely of independent directors.

As a result of the issuance of Lawson common stock in the Transactions, existing stockholders will experience substantial dilution of their ownership percentage and voting power (except that entities affiliated with LKCM and Mr. King will, on a collective basis, significantly increase their beneficial ownership and voting percentage of outstanding Lawson common stock).

If the Transactions are completed and Lawson issues shares of Lawson common stock in the Transactions, existing stockholders will experience substantial dilution of their ownership percentage and voting power (except that entities affiliated with LKCM and Mr. King will, on a collective basis, significantly increase their beneficial ownership and voting percentage of outstanding Lawson common stock).

There may be difficulties in combining certain operations of TestEquity's and Gexpro Services' respective businesses into Lawson's operations, and the failure to successfully combine those operations within Lawson's expected timetable could adversely affect the Combined Company's future results and the market price of Lawson's common stock.

The Mergers involve the combination of businesses that currently operate as independent businesses. Lawson will be required to devote significant management attention and resources to combining certain business operations of TestEquity and Gexpro Services with Lawson's business operations. In addition, the pursuit of the Transactions and the preparation for the completion of the Transactions have placed, and will continue to place, a significant burden on the management and internal resources of Lawson, TestEquity and Gexpro Services. There is a significant degree of difficulty and management distraction inherent in the process of closing the Transactions, which could cause an interruption of, or loss of momentum in, the activities of each company's existing businesses, regardless of whether the Transactions are eventually completed. Both before and after the closing of the Transactions, the management teams of Lawson, TestEquity and Gexpro Services will be required to devote considerable amounts of time to this process, which may decrease the time they will have to manage their respective existing businesses, service existing customers, attract new customers and develop new products, services and strategies. One potential consequence of such distractions could be the failure of management to realize other opportunities that could be beneficial to Lawson, TestEquity or Gexpro Services, respectively.

If Lawson's, TestEquity's or Gexpro Services' management is not able to effectively manage the process leading up to and following the closing of the Transactions, or if any significant business activities are interrupted as a result of the process, the businesses of Lawson, TestEquity and/or Gexpro Services could suffer.

Furthermore, it is possible that the closing process could result in the loss of key employees of Lawson, TestEquity or Gexpro Services. If Lawson is not able to successfully complete the Transactions and fully realize the anticipated savings and synergies in a timely manner, or the cost to achieve these synergies is greater than expected, Lawson may not fully realize the anticipated benefits (or any benefits) of the Transactions, or it may take longer than expected to realize any benefits. The failure to fully or timely realize the anticipated benefits could have a negative effect on the market price of Lawson common stock.

Each of Lawson, TestEquity and Gexpro Services will be subject to business uncertainties and contractual restrictions while the Transactions are pending that could materially and adversely affect each of the companies and their businesses.

Uncertainty about the effect of the Transactions on employees, customers, suppliers and others having business relationships with Lawson, TestEquity and/or Gexpro Services may have a material and adverse effect on Lawson, TestEquity and/or Gexpro Services, regardless of whether the Transactions are eventually completed, and, consequently, on the Combined Company. These uncertainties may impair Lawson's, TestEquity's and/or Gexpro Services' ability to attract, retain and motivate key personnel until the Transactions are completed, or the Merger Agreements are terminated, and for a period of time thereafter. These uncertainties could also cause customers, suppliers and others that deal with Lawson, TestEquity or Gexpro Services to seek to change existing business relationships with Lawson, TestEquity or Gexpro Services. Employee retention and recruitment may be challenging for Lawson, TestEquity and Gexpro Services during the pendency of the Transactions, as employees and prospective employees may experience uncertainty about their future roles with the Combined Company. Furthermore, no assurance can be given that after the Transactions the Combined Company will be able to attract or retain key management personnel or other key employees to the same extent that Lawson, TestEquity and Gexpro Services have been previously able to attract or retain their own employees. For each of Lawson, TestEquity and Gexpro Services, the

departure of existing key employees or the failure of potential key employees to accept employment with the Combined Company, despite Lawson's, TestEquity's and Gexpro Services' retention and recruiting efforts, could have a material adverse impact on Lawson's and the Combined Company's business, financial condition and operating results, regardless of whether the Transactions are eventually completed.

In addition, the Merger Agreements restrict Lawson from making certain acquisitions and taking other specified actions without the consent of TestEquity or Gexpro Services until the respective Merger is consummated or the respective Merger Agreement is terminated. These restrictions may prevent Lawson from pursuing otherwise attractive business opportunities and making other changes to its business before completion of the Transactions or termination of the Merger Agreements.

Lawson may fail to complete the Transactions if certain closing conditions, many of which are outside Lawson's control, are not satisfied.

The completion of the Transactions is subject to multiple closing conditions, including the receipt of the requisite Lawson stockholder approvals under the Merger Agreements and the receipt of proceeds of debt financing in an amount sufficient for the payment of certain payoff indebtedness, transaction expenses and other fees and expenses in connection with the Mergers. Many of these closing conditions are outside of Lawson's control. If any of these conditions is not satisfied or waived, the Transactions may not be completed and Lawson may not realize the anticipated benefits of the Transactions. Lawson can make no assurances that the Transactions will be completed on the terms or timeline currently contemplated, or at all.

Failure to complete the Transactions could result in material adverse consequences to Lawson's business and operations.

If the conditions to the closing of the Transactions are not met, or if the Transactions are not completed for any other reason, Lawson would be subject to a number of risks, including the following:

- The market price of Lawson common stock may decline;
- Lawson and its stockholders would not realize the anticipated benefits of the Transactions, including any anticipated synergies from combining the businesses of Lawson, TestEquity and Gexpro Services;
- Lawson may be required to pay a termination fee of \$4.0 million if the TestEquity Merger Agreement is terminated under certain circumstances;
- Lawson may be required to pay a termination fee of \$6.0 million if the Gexpro Services Merger Agreement is terminated under certain circumstances; and
- Lawson would remain liable for significant transaction costs that would be payable even if the Transactions are not completed.

For these and other reasons, failure to complete the Transactions could adversely affect Lawson's business, financial condition, results of operations and stock price.

Lawson has incurred and will continue to incur significant transaction costs in connection with the Transactions.

Lawson has incurred and expects to continue to incur significant, non-recurring costs in connection with consummating the Transactions. Non-recurring transaction costs include, but are not limited to, fees paid to legal, accounting and financial advisors, filing fees and other costs. Additional unanticipated costs may be incurred in the combination process. Some of these costs will be incurred even if Lawson does not complete the Transactions.

Lawson's estimates and judgments related to the acquisition accounting models used to record the purchase price allocation may be inaccurate.

Lawson's management will make significant accounting judgments and estimates for the application of acquisition accounting under GAAP and the underlying valuation models. The Combined Company's business, operating results and financial condition could be materially and adversely impacted in future periods if Lawson's accounting judgments and estimates related to these models prove to be inaccurate.

The Combined Company may be required to recognize impairment charges for goodwill and other intangible assets.

As a result of the Transactions, the Combined Company is expected to have an amount of goodwill and other intangible assets on its balance sheet that is significantly greater than the amount of goodwill and other intangible assets on Lawson's December 31, 2021 consolidated balance sheet. In accordance with GAAP, Lawson's management periodically assesses Lawson's goodwill and other intangible assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to the Combined Company's business, an inability to effectively integrate acquired businesses, unexpected significant changes, planned changes in use of the assets, divestitures and market capitalization declines may impair goodwill and other intangible assets. Any charges relating to such impairments could materially and adversely affect the Combined Company's results of operations in the periods recognized, which could result in an adverse effect on the market price of Lawson common stock.

TestEquity's and Gexpro Services' international operations will subject the Combined Company to additional legal and regulatory regimes if the Mergers are completed.

TestEquity currently has business operations and/or sales in a number of foreign countries, including Canada, Mexico and the United Kingdom, and Gexpro Services currently has business operations and/or sales in a number of foreign countries, including Hungary and China. If the Mergers are consummated, Lawson and/or certain subsidiaries within the Combined Company will be subject to a wider array of foreign legal and regulatory regimes (including tax regimes) than those to which Lawson and/or certain of its subsidiaries are currently subject, and the amount of revenue generated outside of the United States by the Combined Company will be significantly more than the revenue generated outside the United States by Lawson currently. Compliance with diverse legal and regulatory requirements, including in connection with the movement or repatriation of cash, may be costly, time-consuming and require significant resources. Violations could result in significant fines or monetary damages, sanctions, prohibitions or restrictions on doing business and damage to the Combined Company's reputation. In addition, operating in additional countries around the world will require the Combined Company to manage the potential conflicts between locally accepted business practices in any given jurisdiction and Lawson's obligations to comply with laws and regulations with respect to such jurisdictions, in addition to the jurisdictions where Lawson currently operates, including anti-corruption laws or regulations applicable to Lawson, such as the U.S. Foreign Corrupt Practices Act (the "FCPA") and the UK Bribery Act 2010 (the "UKBA"). The U.S., U.K. and other foreign agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the FCPA, the UKBA, and other laws, rules, sanctions, embargoes and regulations, including those established by the Office of Foreign Assets Control ("OFAC"). Any violation of these legal requirements, even if prohibited by Lawson's policies, procedures and controls, could subject the Combined Company to criminal or civil enforcement actions, penalties for non-compliance or otherwise have an adverse effect on its business and reputation.

Litigation relating to the Transactions could prevent or delay the closing of the Transactions and/or result in the payment of damages following the closing of the Transactions.

Lawson and members of the Lawson board of directors are and may in the future be parties, among others, to litigation related to the Merger Agreements and the Transactions. Among other remedies, the stockholders in the pending litigation seek, and other stockholders could seek, damages and/or seek to enjoin the Transactions. The outcome of any legal proceedings are difficult to predict and any such lawsuits could prevent or delay the closing of the Transactions and/or result in substantial costs to Lawson. The existence of litigation relating to the Transactions may also create uncertainty relating to the Transactions and may be costly and distracting to management. Further, the defense or settlement of any lawsuit or claim that remains unresolved at the time the Mergers are completed may adversely affect the Combined Company's business, financial condition, results of operations and cash flows. See Note 15 - Commitments and Contingencies to our consolidated financial statements, included in Part II, Item 8. Financial Statements and Supplementary Data, for a description of certain of our pending legal proceedings relating to the Transactions, which are incorporated herein by reference.

If any pending or future lawsuit challenging the Transactions is successful in obtaining an injunction preventing the parties to the Merger Agreements from consummating the Transactions, such injunction may delay or prevent the consummation of the Transactions.

As a result of the Transactions, Lawson's ability to use its net operating losses and certain other tax attributes generated prior to the Transactions may be subject to limitation.

As a result of the Transactions, Lawson's ability to use its net operating losses and certain other tax attributes generated prior to the Transactions may be subject to limitation.

TestEquity and Gexpro Services are private companies and may not have in place the financial organization, reporting and internal controls necessary for a public company.

TestEquity and Gexpro Services are private companies and may not have in place the financial organization, reporting and controls which are required for a U.S. public company. The cost of implementing this type of financial organization, reporting and controls in respect of TestEquity and Gexpro Services and integrating their financial reporting processes with those of Lawson may be significant. Furthermore, if the limitations in TestEquity's or Gexpro Services' financial organization, reporting and controls, or any failure to effectively integrate their financial reporting processes with those of Lawson, cause the Combined Company to miss an SEC reporting deadline or otherwise not comply with an applicable law or regulation, the Combined Company might, among other things, have a material weakness in its internal controls or violate its indebtedness covenants.

Risk Factors Relating to the Debt Financing Expected to be Incurred in Connection with the Mergers

The Combined Company is expected to have a significant amount of indebtedness, which could adversely affect the Combined Company's business, financial condition, and results of operations following the Transactions.

Lawson expects that the Combined Company will have a significant amount of indebtedness after the completion of the Transactions, which is expected to include new indebtedness under the anticipated arrangements described in the section entitled "Debt Financing Commitment Letter" in Part I. Item 1. Business. In addition, Lawson would have the ability to incur a significant amount of additional indebtedness. The Combined Company's indebtedness could have significant consequences on the Combined Company's future operations, including:

- events of default if the Combined Company fails to comply with the financial and other covenants contained in the agreements governing the Combined Company's debt instruments, which could result in all of the debt becoming immediately due and payable or require the Combined Company to negotiate an amendment to financial or other covenants that could cause the Combined Company to incur additional fees and expenses;
- reducing the availability of the Combined Company's cash flow to fund working capital, capital expenditures, investments, acquisitions and other general corporate purposes, and limiting the Combined Company's ability to obtain additional financing for these purposes;
- limiting the Combined Company's flexibility in planning for, or reacting to, and increasing the Combined Company's vulnerability to, changes in its business, the industries in which the Combined Company operates, and the overall economy;
- limiting the Combined Company's ability to buy back common stock or pay dividends;
- placing the Combined Company at a competitive disadvantage compared to any of the Combined Company's competitors that have less debt or are less leveraged; and
- increasing the Combined Company's vulnerability to the impact of adverse economic and industry conditions.

The Combined Company's ability to meet its payment and other obligations under its debt instruments will depend on the Combined Company's ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond the Combined Company's control. Lawson cannot assure that the Combined Company will generate cash flow from operations, or that future borrowings will be available to the Combined Company, in an amount sufficient to enable the Combined Company to meet its indebtedness obligations and to fund other liquidity needs following the completion of the Transactions.

Failure to adequately fund the Combined Company's operating and working capital needs through cash generated from operations and cash available through the Combined Company's financing arrangements could negatively impact the Combined Company's ability to invest in its business and maintain its capital structure.

The Combined Company's business will require investment in working capital and fixed assets. Lawson expects the Combined Company to fund these investments from cash generated from operations and funds available from the Combined

Company's anticipated new financing arrangements. Failure to generate sufficient cash flow from operations or from such anticipated new financing arrangements could cause the Combined Company to have insufficient funds to operate its business. Adequate funds may not be available when needed or may not be available on favorable terms.

Failure to meet the covenant requirements of the Combined Company's financing arrangements could lead to higher financing costs and increased restrictions and reduce or eliminate the Combined Company's ability to borrow funds.

Lawson expects that the Combined Company's anticipated new financing arrangements will contain financial and other restrictive covenants. These covenants could adversely affect the Combined Company by limiting its financial and operating flexibility as well as its ability to plan for and react to market conditions and to meet its capital needs. Failure to meet these covenant requirements could lead to higher financing costs and increased restrictions, reduce or eliminate the Combined Company's ability to borrow funds, or accelerate the payment of the Combined Company's indebtedness. TestEquity has been in default of certain debt covenants of its term loan and revolving line of credit agreements. In connection therewith, on September 6, 2019, February 28, 2020, March 27, 2020, October 9, 2020 and June 30, 2021, TestEquity entered into forbearance agreements with its lender. Such term loan and revolving line of credit agreements are expected to be terminated in connection with the closing of the TestEquity Merger.

If the Combined Company requires more liquidity than is expected to be available to it under its financing arrangements, the Combined Company may need to raise additional funds through debt or equity offerings which may not be available when needed or may not be available on terms favorable to the Combined Company. Should funding be insufficient at any time in the future, the Combined Company may be unable to develop or enhance its products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on the Combined Company's business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

At December 31, 2021, we owned or leased the following facilities:

Location	Segment	Function	Approximate Square Footage	Own/Lease	Lease Expiration
United States					
Chicago, Illinois	Lawson	Headquarters	86,300	Lease	March 2023
McCook, Illinois	Lawson	Packaging/Distribution	306,800	Lease	June 2025
Reno, Nevada	Lawson	Distribution	105,200	Lease	June 2024
Suwanee, Georgia	Lawson	Distribution	91,200	Own	
Decatur, Alabama ⁽¹⁾	Lawson	Lease	88,200	Own	
Dayton, OH	Lawson	Distribution	4,500	Lease	Monthly
Greenville, TX	Lawson	Distribution	123,200	Lease	February 2022
Dallas, TX	Lawson	Offices	3,800	Lease	January 2022
Dallas, TX	Lawson	Distribution	80,000	Lease	January 2029
Canada					
Mississauga, Ontario	Lawson	Distribution	78,000	Own	
Calgary, Alberta ⁽²⁾	Lawson/Bolt	Distribution	43,700	Lease	March 2022
Calgary, Alberta (Foothills)	Bolt	Branch	11,200	Lease	April 2024
Calgary, Alberta (South)	Bolt	Branch	10,300	Lease	November 2023
Calgary, Alberta (North)	Bolt	Branch	6,900	Lease	January 2024
Edmonton, Alberta (North)	Bolt	Branch	6,000	Lease	February 2027
Edmonton, Alberta (South)	Bolt	Branch	5,600	Lease	September 2023
Fort McMurray, Alberta	Bolt	Branch	7,500	Lease	February 2024
Lethbridge, Alberta	Bolt	Branch	3,400	Own	
Medicine Hat, Alberta	Bolt	Branch	4,900	Own	
Port Kells, British Columbia	Bolt	Branch	12,000	Lease	August 2023
Prince Albert, Saskatchewan	Bolt	Branch	4,300	Lease	October 2025
Red Deer, Alberta	Bolt	Branch	4,100	Lease	January 2024
Regina, Saskatchewan	Bolt	Branch	4,800	Lease	December 2029
Saskatoon, Saskatchewan	Bolt	Branch	10,800	Lease	April 2031
Winnipeg, Manitoba	Bolt	Branch	7,500	Lease	September 2025

(1) In connection with the sale of a discontinued business, we have agreed to lease the Decatur facility prior to the sale of the property.

(2) Lawson and Bolt manage separate distribution operations out of the same physical location.

While we believe that our facilities are adequate to meet our current needs, we will continue to assess the location and operation of our facilities to determine whether they meet the strategic needs of our business.

ITEM 3. LEGAL PROCEEDINGS.

See Note 15 - Commitments and Contingencies to our consolidated financial statements, included in Part II. Item 8. Financial Statements and Supplementary Data, which is incorporated herein by reference, for a description of certain of our pending legal proceedings, which are incorporated herein by reference. In addition, the Company is involved in legal actions that arise in the ordinary course of business. It is the opinion of management that the resolution of any currently pending litigation will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**Stock Price Data**

The Company's Common Stock is traded on the NASDAQ Global Select Market under the symbol of "LAWS". On January 31, 2022, the closing sales price of our common stock was \$48.66 and the number of stockholders of record was 272. We did not issue dividends in either 2021 or 2020 and the Company currently has no plans to issue dividends in the foreseeable future. Dividends are subject to certain restrictions based on terms detailed in our Credit Agreement. Information about our equity compensation plans may be found in Item 12 of this report which is hereby incorporated by reference.

Repurchased Shares of Stock

The following table summarizes the repurchases of the Company's Common Stock for the three months ended December 31, 2021. These shares were purchased for the sole purpose of satisfying tax withholding obligations of certain employees upon the vesting of market stock units granted to them by the Company. No shares were repurchased in the open market during the fourth quarter under the Company's \$7.5 million repurchase program that was authorized in 2019.

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1 to October 31, 2021	—	\$ —	—	\$ 4,512,000
November 1 to November 30, 2021	—	—	—	4,512,000
December 1 to December 31, 2021	20,290	48.54	—	4,512,000
Three months ended December 31, 2021	<u>20,290</u>		<u>—</u>	

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a distributor of products and services to the industrial, commercial, institutional, and governmental maintenance, repair and operations ("MRO") marketplace. We operate in two reportable segments: Lawson and Bolt. The Lawson operating segment primarily distributes MRO products to its customers through a network of sales representatives throughout the U.S. and Canada. The Bolt operating segment primarily distributes its MRO products through a network of 14 branches located in Alberta, Saskatchewan, Manitoba and British Columbia, Canada.

Sales Drivers

The North American MRO market is highly fragmented. We compete for business with several national distributors as well as a large number of regional and local distributors. The MRO business is influenced by the overall strength of the manufacturing sector of the U.S. economy which has been significantly affected by the COVID-19 pandemic. One measure used to evaluate the strength of the industrial products market is the Purchasing Managers Index (PMI) published by the Institute for Supply Management. The PMI is a composite index of economic activity in the United States manufacturing sector and is available at <https://www.instituteforsupplymanagement.org>. A measure of that index above 50 generally indicates expansion of the manufacturing sector while a measure below 50 generally represents contraction. The average monthly PMI was 60.7 for the year ended December 31, 2021 compared to 52.5 for the year ended December 31, 2020.

Our sales are also influenced by the number of sales representatives and their productivity. One metric we use to measure sales rep productivity is Average Daily Sales ("ADS") in which we calculate our total sales divided by the number of selling days, which exclude weekends and holidays. Our sales are affected by the number and effectiveness of sales representatives and the amount of sales each representative can generate from providing products and services to our customers, which we measure as average sales per day per sales representative. We had an average of 1,072 sales representatives working for us in 2021 compared to an average of 1,012 in 2020, an increase of 5.9%. This was primarily driven by the inclusion of Partsmaster sales reps for the full year of 2021 compared to the four-month post-acquisition period in 2020.

Lawson segment ADS, including Partsmaster, increased 19.8% to \$1,471 million in the full year 2021 compared to \$1,228 million in the prior year. Partsmaster contributed \$57.8 million of revenue and operating income of \$1.6 million in the full year 2021, compared to \$22.6 million of revenue and \$0.8 million of operating income in the four-month post-acquisition period of 2020. Excluding the impact of Partsmaster, Lawson segment ADS increased 9.1% in 2021 compared to the prior year, primarily driven by improved business conditions and fewer COVID-19 related restrictions compared to the full year of 2020. We plan to continue concentrating our efforts on increasing the productivity and size of our sales team.

Supply Chain Disruptions

Along with the broader economy, we are experiencing additional pressure in our supply chain, labor shortages and inflation. This results in challenges in acquiring and receiving inventory in a timely fashion and fulfilling customer orders, which has offset some of the sales gains we recorded in 2021 compared to 2020. The supply chain disruptions have also led to increased product costs which have contributed to lower gross margins as a percentage of sales compared to the prior year. We have instituted various price increases during 2021 in response to rising supplier costs, as well as increased transportation and labor costs. Further discussion is included within the financial discussion of the *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Partsmaster Acquisition

In August 2020, we acquired Partsmaster, a leading Maintenance, Repair and Operations ("MRO") distributor from NCH Corporation, with approximately 200 sales representatives and approximately 16,000 customers throughout the United States and Canada. The purchase price of the acquisition was \$35.3 million in cash and the assumption of certain liabilities. We paid \$2.3 million at the time of the acquisition and paid the remaining \$33.0 million in May 2021. We also subleased the Partsmaster distribution center located in Greenville, TX from NCH and we currently fulfill orders from the facility. We will move out of the Greenville, TX facility and into a new distribution facility in Dallas, TX in the first quarter of 2022. The integration of Partsmaster into Lawson was substantially completed in July 2021.

Additional information related to the Partsmaster acquisition is provided in Note 3 - Acquisition in the notes to the consolidated financial statements.

COVID-19 Pandemic

Various events related to COVID-19 may impact revenue, product sourcing, sales functions, and customers' ability to pay timely.

The onset of the COVID-19 pandemic occurred in March 2020. This resulted in widespread closures of businesses, decreased travel and other substantial restrictions on economic activity beginning in the first quarter of 2020. The most severe restrictions were effective in the second quarter of 2020, particularly the month of April. These restrictions began to be relaxed subsequent to April 2020, which led to an improved business climate and increased economic activity throughout the remainder of the year. The relaxed restrictions continued during 2021, which led to increased business activity and contributed to improved operating results compared to the prior year 2020.

We will continue to closely monitor the overall economic and operating environment and we will take appropriate actions to protect the safety of our employees, customers and suppliers. While we believe that COVID-19 and supply chain disruptions continue to negatively impact our sales and cost control measures, our ability to effectively service our customers has continued to generate positive cash flow that has enabled us to maintain a strong financial position. We plan to continue to respond to pandemic developments in a prompt and disciplined manner with an emphasis on maintaining our strong financial position.

Proposed Combination with TestEquity and Gexpro Services

On December 29, 2021, Lawson entered into the Merger Agreements for the combination of Lawson, TestEquity and Gexpro Services. See "Proposed Combination with TestEquity and Gexpro Services" included in Part I. Item 1. Business, which section is incorporated herein by reference. In addition, upon closing of the Mergers, Lawson anticipates entering into a new credit arrangement consisting of a \$200 million revolving credit facility, a \$250 term loan facility, and a \$50 million delayed draw term loan facility, as contemplated by the debt financing commitment letter described in "Debt Financing Commitment Letter" included in Part I. Item 1. Business, which section is incorporated herein by reference.

Lawson expects to complete the Mergers in the second quarter of 2022.

RESULTS OF OPERATIONS FOR 2021 AS COMPARED TO 2020

(Dollars in thousands)	Year Ended December 31,				Year-to-Year Change	
	2021		2020		Amount	%
	Amount	% of Net Sales	Amount	% of Net Sales		
Revenue	\$ 417,733	100.0 %	\$ 351,591	100.0 %	\$ 66,142	18.8 %
Cost of goods sold	198,498	47.5	165,053	46.9	33,445	20.3
Gross profit	219,235	52.5	186,538	53.1	32,697	17.5
Operating expenses:						
Selling expenses	96,643	23.1	76,775	21.8	19,868	25.9
General and administrative expenses	110,605	26.5	89,213	25.5	21,392	24.0
Total operating expenses	207,248	49.6	165,988	47.3	41,260	24.9
Operating income	11,987	2.9	20,550	5.8	(8,563)	
Interest expense	(869)	(0.2)	(654)	(0.2)	(215)	
Other income, net	801	0.2	889	0.3	(88)	
Income before income taxes	11,919	2.9	20,785	5.9	(8,866)	
Income tax expense	2,513	0.6	5,672	1.6	(3,159)	
Net income	\$ 9,406	2.3 %	\$ 15,113	4.3 %	\$ (5,707)	

Non-GAAP Financial Measure - Adjusted Operating Income

The Company's management believes that certain non-GAAP financial measures may provide users of this financial information with additional meaningful comparisons between current results and results in prior operating periods. Management believes that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain infrequently occurring, seasonal or non-operational items that impact the overall comparability. These non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

Adjusted operating income is defined by us as GAAP operating income excluding stock-based compensation, severance expense, and other non-recurring items in the period in which these items are incurred. Operating income was \$12.0 million for 2021 inclusive of \$4.8 million of stock-based compensation compared to \$20.6 million in 2020 which included \$2.0 million of stock-based compensation. Excluding stock-based compensation, severance and other non-recurring items, adjusted operating income was \$27.5 million in 2021 compared to the prior year of \$27.4 million, driven by higher sales volume offset by lower gross margins and higher selling expenses and incentive compensation.

Reconciliation of GAAP Operating Income to Non-GAAP Adjusted Operating Income (Unaudited)

(Dollars in Thousands)	Twelve Months Ended December 31,	
	2021	2020
Operating income as reported per GAAP	\$ 11,987	\$ 20,550
Stock-based compensation ⁽¹⁾	4,838	2,009
Severance expense ⁽²⁾	264	2,077
Inventory reserves ⁽³⁾	1,368	—
Costs related to merger agreements ⁽⁴⁾	8,317	—
Acquisition related costs ⁽⁵⁾	687	880
Goodwill impairment ⁽⁶⁾	—	1,918
Non-GAAP adjusted operating Income	\$ 27,461	\$ 27,434

(1) Expense for stock-based compensation, of which a portion varies with the Company's stock price.

(2) Includes severance expense from actions taken in 2021 and 2020 along with 2020 severance and retention costs related to the Partsmaster acquisition.

(3) Includes expense for Partsmaster inventory rationalization plan and write-down of personal protective equipment inventory to net realizable value.

(4) Primarily costs related to the negotiation, review and execution of the merger agreements relating to Lawson's proposed business combination with TestEquity and Gexpro Services.

(5) Primarily signing bonus costs pertaining to the acquisition of Partsmaster.

(6) Represents the goodwill impairment related to the 2018 acquisition of Screw Products, Inc. as the carrying value of the reporting unit exceeded its estimated fair value.

Sales and Gross Profits

Sales and gross profit results by operating segment for the years ended December 31, 2021 and 2020 were as follows:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2021	2020	Amount	%
Net sales				
Lawson	\$ 371,668	\$ 312,803	\$ 58,865	18.8 %
Bolt	46,065	38,788	7,277	18.8 %
Consolidated	<u>\$ 417,733</u>	<u>\$ 351,591</u>	<u>\$ 66,142</u>	18.8 %
Gross profit				
Lawson	\$ 200,475	\$ 171,258	\$ 29,217	17.1 %
Bolt	18,760	15,280	3,480	22.8 %
Consolidated	<u>\$ 219,235</u>	<u>\$ 186,538</u>	<u>\$ 32,697</u>	17.5 %
Gross profit margin				
Lawson	53.9 %	54.7 %		
Bolt	40.7 %	39.4 %		
Consolidated	52.5 %	53.1 %		

Consolidated revenue in 2021 increased 18.8% to \$417.7 million from \$351.6 million in 2020. Average daily sales increased to \$1.664 million in 2021 compared to \$1.390 million in 2020 with two less selling days in 2021. The increased sales is partially driven by the inclusion of Partsmaster sales of \$57.8 million for the full year of 2021 compared to \$22.6 million of sales for the 2020 four-month post-acquisition period. Excluding Partsmaster, consolidated sales improved by 9.4% on a year over year basis. Additionally, sales in 2020 were negatively impacted by the onset of the COVID-19 pandemic, which led to widespread shutdowns of businesses and restrictions on other business activity throughout the year, particularly in the second quarter of 2020. The improved business environment in 2021 led to increased sales to strategic, core and Kent customers in the Lawson segment, as well as increased Bolt segment sales compared to the prior year. This was partially offset by supply chain disruptions which led to challenges of receiving inventory in a timely fashion and fulfilling customer orders, as well as lower sales among Government customers. Excluding a foreign currency effect of \$5.2 million, consolidated revenue increased by 17.3% for the year.

Gross profit increased to \$219.2 million in 2021 from \$186.5 million in 2020. The increased gross profit is driven by the inclusion of Partsmaster gross profit of \$36.4 million for the full year 2021 compared to \$13.2 million of gross profit from the fourth month post-acquisition period of 2020. Gross profit as a percent of sales decreased to 52.5% from 53.1% a year ago, driven primarily by increased freight and supplier costs due to supply chain disruptions. The organic Lawson MRO (excluding Bolt, Screw Products and Partsmaster) gross margin as a percent of sales decreased to 58.3% compared to the prior year organic gross margin percent of 59.8% prior to the effect of the reclassification of service costs associated with service revenue. This is primarily a result of additional inventory reserves of \$1.4 million primarily related to the integration of Partsmaster and the impact of the supply chain disruptions previously mentioned.

Selling, General and Administrative Expenses

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2021	2020	Amount	%
Selling expenses				
Lawson	\$ 92,726	\$ 73,706	\$ 19,020	25.8 %
Bolt	3,917	3,069	848	27.6 %
Consolidated	<u>\$ 96,643</u>	<u>\$ 76,775</u>	<u>\$ 19,868</u>	<u>25.9 %</u>
General and administrative expenses				
Lawson	\$ 99,556	\$ 79,837	\$ 19,719	24.7 %
Bolt	11,049	9,376	1,673	17.8 %
Consolidated	<u>\$ 110,605</u>	<u>\$ 89,213</u>	<u>\$ 21,392</u>	<u>24.0 %</u>

Selling expenses increased to \$96.6 million in 2021 from \$76.8 million in 2020 and, as a percent of sales increased to 23.1% in 2021 from 21.8% in 2020. The increased selling expense was driven by increased sales compared to the prior year, as well as the inclusion of selling expense of \$21.4 million for Partsmaster for the full year 2021 compared to selling expense of \$6.5 million for the 2020 four-month post-acquisition period. As a percent of sales, the increase was driven by the inclusion of Partsmaster with a higher sales cost and the return to more normalized sales activities in 2021.

General and administrative expenses increased to \$110.6 million in 2021 compared to \$89.2 million in 2020 primarily due to the inclusion of Partsmaster general and administrative expense of \$13.9 million for the full year 2021 compared to \$7.4 million in the 2020 post-acquisition period, as well as \$8.3 million of expense related to the negotiation, review and execution of the merger agreements relating to Lawson's proposed combination with TestEquity and Gexpro Services and a \$2.8 million increase in stock-based compensation expense, a portion of which varies with the Company stock price. The remaining increase was driven to support higher sales and temporary cost reductions put in place in 2020 that were re-established in 2021.

Goodwill Impairment

The Company performed a quantitative goodwill impairment analysis as of December 1, 2020 for the Screw Products reporting unit. The Company engaged a third-party valuation firm to determine the value of the Screw Products reporting unit and determined that the carrying value of the net assets exceeded the fair value of the reporting unit and accordingly recognized an impairment charge of \$1.9 million in 2020. The impairment charge is included in General and administrative expense. No impairment charges were recorded in 2021.

Interest Expense

Interest expenses increased \$0.2 million in 2021 over the prior year, due primarily to higher average outstanding balances under our credit agreement.

Other Income, Net

Other income, net was \$0.8 million in 2021 compared to other income, net of \$0.9 million in 2020. Other income, net in both years was driven by fluctuations in the Canadian currency exchange rate.

Income Tax Expense

Income tax expense was \$2.5 million resulting in a 21.1% effective tax rate for 2021 compared to income tax expense of \$5.7 million and a 27.3% effective tax rate for 2020. The lower effective tax rate in 2021 is due primarily to the release of a Canadian deferred taxes valuation allowance of \$1.2 million and higher stock compensation benefits.

LIQUIDITY AND CAPITAL RESOURCES

Available cash and cash equivalents were \$4.2 million on December 31, 2021 compared to \$28.4 million on December 31, 2020. The decrease in available cash is primarily due to the payment of the acquisition liability related to the purchase of Partsmaster for \$33.0 million in May 2021.

Net cash provided by operating activities for the year ended December 31, 2021 was \$5.4 million, primarily driven by reported operating earnings offset by increased working capital from increases in inventory and accounts receivable balances due to higher sales compared to the prior year.

Capital expenditures were \$8.2 million for the full year 2021 compared to \$1.7 million in 2020, primarily for improvements to our distribution centers and information technology.

Cash provided by financing activities was \$10.7 million for the full year 2021, primarily due to the net proceeds of \$11.9 million from our Revolving Credit Facility primarily driven by the final Partsmaster payment.

In 2019, our Board of Directors authorized a program in which we may repurchase up to \$7.5 million of our common stock from time to time in open market transactions, privately negotiated transactions or by other methods. We did not repurchase any shares of stock in 2021 under this plan.

The Company anticipates that outstanding stock performance rights with a value of \$10.7 million at December 31, 2021 will be paid out within the next twelve months prior to expiration.

Revolving Credit Facility

On December 31, 2021 we had \$11.9 million in outstanding borrowings and \$87.1 million of borrowing availability remaining, net of outstanding letters of credit, under our Revolving Credit Facility.

Along with certain standard terms and conditions, the Credit Agreement requires the Company to comply with certain financial covenants including an EBITDA to Fixed Charges Coverage Ratio and a Total Net Leverage Ratio. As of December 31, 2021, we were in compliance with all financial covenants. See Note 13 - Credit Agreement for further information on the Company Credit Agreement.

While we were in compliance with the financial covenants included in our Credit Agreement for the quarter ended December 31, 2021, failure to meet the covenant requirements of the Credit Agreement in future periods could lead to higher financing costs, increased restrictions, or reduce or eliminate our ability to borrow funds and could have a material adverse effect on our business, financial condition and results of operations.

We believe cash provided by operations and funds available under our Credit Agreement are sufficient to fund our operating requirements, strategic initiatives and capital improvements, although we cannot provide assurance that events beyond our control will not have a material adverse impact on our liquidity.

See "Debt Financing Commitment Letter", included in Part I. Item 1. Business, for a description of the potential new financing arrangement that will be executed in connection with the closing of the Transactions, which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

Also, as of December 31, 2021, we had contractual commitments to purchase approximately \$40.4 million of product from our suppliers and contractors. The contractual commitments have increased compared to prior years primarily due to supply chain disruptions.

CRITICAL ACCOUNTING ESTIMATES

We have disclosed our significant accounting policies in Note 2 to the consolidated financial statements. The following provides information on the accounts requiring more significant estimates.

Allowance for Doubtful Accounts — We evaluate the collectability of accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial down-grading of credit ratings), a specific reserve for bad debts is recorded against amounts due to reduce the receivable to the amount we believe will be collected. For all other customers, we recognize reserves for bad debts based on our historical experience of bad debt write-offs as a percent of accounts receivable outstanding. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations), the estimates of the recoverability of amounts due to us could be revised. At December 31, 2021, our reserve was 1.7% of our gross accounts receivable outstanding. A hypothetical change of one percent to our reserve as a percent of our gross accounts receivable would have affected our annual doubtful accounts expense by approximately \$0.5 million.

Inventory Reserves — Inventories consist principally of finished goods and are stated at the lower of cost (determined using the first-in-first-out method for the Lawson segment and weighted average for Partsmaster and the Bolt segment) or net realizable value. Most of our products are not exposed to the risk of obsolescence due to technology changes. However, some of our products do have a limited shelf life, and from time to time we add and remove items from our catalogs, brochures or website for marketing and other purposes.

To reduce our inventory to a lower of cost or market value, we record a reserve for slow-moving and obsolete inventory based on historical experience and monitoring of our current inventory activity. We use estimates to determine the necessity of recording these reserves based on periodic detailed analysis, using both qualitative and quantitative factors. As part of this analysis, we consider several factors including the inventories' length of time on hand, historical sales, product shelf life, product life cycle, product category and product obsolescence. In general, depending on the product category, we reserve inventory with low turnover at higher rates than inventory with higher turnover.

At December 31, 2021, our inventory reserve was \$7.7 million, equal to approximately 9.5% of our gross inventory. A hypothetical change of one percent to our reserve as a percent of total inventory would have affected our cost of goods sold by \$0.8 million.

Income Taxes — Deferred tax assets or liabilities reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of uncertain tax positions.

Goodwill Impairment — Goodwill represents the cost of business acquisitions in excess of the fair value of identifiable net tangible and intangible assets acquired. Goodwill is allocated to the appropriate reporting unit as reviewed by the Company's segment managers. The Company reviews goodwill for potential impairment annually on December 1st, or when an event or other circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. The first step in the multi-step process to determine if goodwill has been impaired and to what degree, is to review the relevant qualitative factors that could cause the fair value of the reporting unit to decrease below the carrying value of the reporting unit. The Company considers factors such as macroeconomic, industry and market conditions, cost factors, overall financial performance and other relevant factors that would affect the individual reporting units. If we determine that it is more likely than not that the fair value of the reporting unit is greater than the carrying value of the reporting unit, then no further impairment testing is needed. If we determine that it is more likely than not that the carrying value of the reporting unit is greater than the fair value of the reporting unit, the Company will move to the next step in the process. The Company

will estimate the fair value of the reporting unit and compare it to the reporting unit's carrying value. If the carrying value of the reporting unit exceeds its fair value, the Company will record an impairment of goodwill equal to the amount the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill previously recognized.

Revenue Recognition - For reporting purposes, the Company has two separate performance obligations including products and vendor managed inventory services. The allocation of product and service revenue as well as the estimation of service costs requires judgments and assumptions including the standalone selling prices, the period of time that it takes for the service obligation to be fulfilled and the amount of time spent on vendor managed inventory services during the sales process. Changes in various assumptions could increase or decrease the allocation of service revenue and related costs; however, would not materially impact total reported revenues or reported operating income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following information is presented in this item:

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Lawson Products, Inc.
Chicago, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Lawson Products, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Uncertain Tax Position

As described in Notes 2 and 10 to the consolidated financial statements, the Company recognizes the benefit of tax positions when a benefit is more likely than not to be sustained on its technical merits. The Company has recorded unrecognized tax benefits of \$3.9 million as of December 31, 2021. The Company operates in multiple jurisdictions

and is subject to transfer pricing compliance for intercompany transactions that are subject to audit by taxing authorities. The resolution of these audits may span multiple years. Tax law is complex and often subject to varied interpretations.

We identified the determination of uncertain tax positions related to transfer pricing from intercompany transactions as a critical audit matter. The principal considerations for our determination relate to: (i) auditing assumptions applied to the interpretation of tax laws and legal rulings in multiple tax paying jurisdictions, (ii) determining whether a transfer pricing tax position's technical merits are more likely than not to be sustained when measuring the amount of tax benefits that qualifies for recognition, and (iii) assessing whether intercompany transactions are based on the arm's length standard that may produce a range of arm's length outcomes. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of certain controls over the recognition and measurement of uncertain tax positions related to transfer pricing.
- Utilizing personnel with specialized knowledge and skill in taxation to evaluate the appropriateness of management's methods and assumptions used to estimate uncertain tax positions related to transfer pricing by: (i) evaluating the reasonableness of the Company's transfer pricing policies based on comparisons to comparable companies and precedents set by the various taxing authorities that govern the jurisdictions in which the Company operates, (ii) evaluating the reasonableness of the transfer pricing tax position's technical merits and management's judgements, assumptions, and conclusions reached regarding the more likely than not determination, and (iii) evaluating management's conclusions reached on the ranges of arm's length outcomes and results of the transfer pricing studies.

/s/BDO USA, LLP

We have served as the Company's auditors since 2013.

Chicago, Illinois
February 24, 2022

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

	December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,181	\$ 28,393
Restricted cash	198	998
Accounts receivable, less allowance for doubtful accounts of \$798 and \$654, respectively	47,031	44,515
Inventories, net	73,849	61,867
Miscellaneous receivables and prepaid expenses	7,517	7,289
Total current assets	132,776	143,062
Property, plant and equipment, less accumulated depreciation and amortization	18,828	15,800
Deferred income taxes	20,111	18,482
Goodwill	35,313	35,176
Cash value of life insurance	18,573	16,185
Intangible assets, net	16,165	18,503
Right of use assets	14,045	8,764
Other assets	346	332
Total assets	\$ 256,157	\$ 256,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued acquisition liability	\$ —	\$ 32,673
Accounts payable	21,089	22,262
Lease obligation	4,467	4,568
Accrued expenses and other liabilities	46,688	38,492
Total current liabilities	72,244	97,995
Revolving line of credit	11,900	—
Security bonus plan	10,578	11,262
Lease obligation	10,841	5,738
Deferred compensation	11,962	10,461
Deferred tax liability	1,671	2,841
Other liabilities	3,954	5,585
Total liabilities	123,150	133,882
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 - 9,363,093 and 9,287,625 shares, respectively		
Outstanding - 9,115,584 and 9,061,039 shares, respectively	9,363	9,288
Capital in excess of par value	22,118	19,841
Retained earnings	111,015	101,609
Treasury stock - 247,509 and 226,586 shares held, respectively	(10,033)	(9,015)
Accumulated other comprehensive income	544	699
Total stockholders' equity	133,007	122,422
Total liabilities and stockholders' equity	\$ 256,157	\$ 256,304

See notes to Consolidated Financial Statements

Lawson Products, Inc.
Consolidated Statements of Income and Comprehensive Income
(Dollars in thousands, except per share data)

	Year Ended December 31,	
	2021	2020
Revenue	\$ 417,733	\$ 351,591
Cost of goods sold	198,498	165,053
Gross profit	219,235	186,538
Operating expenses:		
Selling expenses	96,643	76,775
General and administrative expenses	110,605	89,213
Operating expenses	207,248	165,988
Operating income	11,987	20,550
Interest expense	(869)	(654)
Other income, net	801	889
Income before income taxes	11,919	20,785
Income tax expense	2,513	5,672
Net income	\$ 9,406	\$ 15,113
Basic income per share of common stock	\$ 1.04	\$ 1.68
Diluted income per share of common stock	\$ 1.01	\$ 1.62
Weighted average shares outstanding:		
Basic weighted average shares outstanding	9,073	9,020
Effect of dilutive securities outstanding	277	311
Diluted weighted average shares outstanding	9,350	9,331
Comprehensive income		
Net income	\$ 9,406	\$ 15,113
Other comprehensive income, net of tax:		
Adjustment for foreign currency translation	(155)	700
Comprehensive income	\$ 9,251	\$ 15,813

See notes to Consolidated Financial Statements

Lawson Products, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(Dollars in thousands)

	Common Stock			Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Outstanding Shares	\$1 Par Value	Capital in Excess of Par Value				
Balance at January 1, 2020	9,043,771	\$ 9,190	\$ 18,077	\$ 86,496	\$ (5,761)	\$ (1)	\$ 108,001
Net income	—	—	—	15,113	—	—	15,113
Adjustment for foreign currency translation	—	—	—	—	—	700	700
Stock-based compensation	—	—	1,847	—	—	—	1,847
Shares issued	97,454	98	(83)	—	—	—	15
Shares repurchased held in treasury	(80,186)	—	—	—	(3,254)	—	(3,254)
Balance at December 31, 2020	9,061,039	\$ 9,288	\$ 19,841	\$ 101,609	\$ (9,015)	\$ 699	\$ 122,422
Net income	—	—	—	9,406	—	—	9,406
Adjustment for foreign currency translation	—	—	—	—	—	(155)	(155)
Stock-based compensation	—	—	2,352	—	—	—	2,352
Shares issued	75,468	75	(75)	—	—	—	—
Shares repurchased held in treasury	(20,923)	—	—	—	(1,018)	—	(1,018)
Balance at December 31, 2021	9,115,584	\$ 9,363	\$ 22,118	\$ 111,015	\$ (10,033)	\$ 544	\$ 133,007

See notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2021	2020
Operating activities		
Net income	\$ 9,406	\$ 15,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,341	6,701
Stock-based compensation	4,838	1,479
Deferred income taxes	(2,824)	(167)
Reserve for obsolete and excess inventory	2,450	675
Goodwill impairment	—	1,918
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Accounts receivable	(2,966)	1,762
Inventories	(14,347)	1,425
Miscellaneous receivables, prepaid expenses and other assets	(2,720)	(2,899)
Accounts payable and other liabilities	2,441	5,788
Other	830	733
Net cash provided by operating activities	<u>5,449</u>	<u>32,528</u>
Investing activities		
Purchases of property, plant and equipment	(8,193)	(1,687)
Business acquisition, net of acquired cash	(33,000)	(2,300)
Net cash used in investing activities	<u>(41,193)</u>	<u>(3,987)</u>
Financing activities		
Net proceeds (payments) on revolving lines of credit	11,900	(2,271)
Shares repurchased held in treasury	(1,018)	(3,254)
Payment of financing lease principal	(222)	(257)
Proceeds from stock option exercises	—	15
Net cash provided by (used in) financing activities	<u>10,660</u>	<u>(5,767)</u>
Effect of exchange rate changes on cash and cash equivalents	72	320
(Decrease) increase in cash and cash equivalents and restricted cash	(25,012)	23,094
Cash, cash equivalents and restricted cash at beginning of year	29,391	6,297
Cash, cash equivalents and restricted cash at end of year	<u>\$ 4,379</u>	<u>\$ 29,391</u>
Cash and cash equivalents	<u>\$ 4,181</u>	<u>\$ 28,393</u>
Restricted cash	<u>198</u>	<u>998</u>
Total cash, cash equivalents and restricted cash	<u>\$ 4,379</u>	<u>\$ 29,391</u>
Supplemental disclosure of cash flow information		
Net noncash financing liability related to acquisition	—	(32,673)
Net cash paid for income taxes	4,364	5,377
Net cash paid for interest	968	398
Additions of property, plant and equipment included in accounts payable	311	64

See notes to Consolidated Financial Statements

Note 1 - Description of Business

Lawson Products, Inc. ("Lawson" or the "Company") is a North American distributor of products and services to the industrial, commercial, institutional and government maintenance, repair and operations ("MRO") marketplace. The Company has two reportable segments. The Lawson reportable segment distributes MRO products to customers primarily through a network of sales representatives offering vendor managed inventory ("VMI") service to customers throughout the United States and Canada. The Bolt reportable segment distributes MRO products primarily through its 14 branches located in Western Canada.

Recent Events

On December 29, 2021, Lawson entered into:

- an Agreement and Plan of Merger (the "TestEquity Merger Agreement") by and among (1) LKCM TE Investors, LLC (the "TestEquity Equityholder"), (2) TestEquity Acquisition, LLC, an indirect wholly-owned subsidiary of the TestEquity Equityholder ("TestEquity"), (3) Lawson and (4) Tide Sub, LLC, a wholly-owned subsidiary of Lawson ("Merger Sub 1"), pursuant to the terms and subject to the conditions of which Merger Sub 1 will merge with and into TestEquity, with TestEquity surviving the merger as a wholly-owned subsidiary of Lawson (the "TestEquity Merger"); and

- an Agreement and Plan of Merger (the "Gexpro Services Merger Agreement" and, together with the TestEquity Merger Agreement, the "Merger Agreements") by and among (1) 301 HW Opus Investors, LLC, (the "Gexpro Services Stockholder"), (2) 301 HW Opus Holdings, Inc., a wholly-owned subsidiary of the Gexpro Services Stockholder ("Gexpro Services"), (3) Lawson and (4) Gulf Sub, Inc., a wholly-owned subsidiary of Lawson ("Merger Sub 2"), pursuant to the terms and subject to the conditions of which Merger Sub 2 will merge with and into Gexpro Services, with Gexpro Services surviving the merger as a wholly-owned subsidiary of Lawson (the "Gexpro Services Merger" and, together with the TestEquity Merger, the "Mergers").

The Mergers are intended to bring together three complementary distribution businesses under a holding company structure.

Pursuant to the Merger Agreements, Lawson has agreed to issue up to an aggregate of 12,000,000 shares of Lawson common stock in consideration for the Mergers as follows:

- **TestEquity Merger:** In connection with the TestEquity Merger, 3,300,000 shares of Lawson common stock would be issued to the TestEquity Equityholder upon the closing of the TestEquity Merger, and up to an additional 700,000 shares of Lawson common stock would potentially be issuable to the TestEquity Equityholder on or after the closing date of the TestEquity Merger upon satisfaction of the conditions of, and in accordance with, two earnout mechanisms.

- **Gexpro Services Merger:** In connection with the Gexpro Services Merger, 7,000,000 shares of Lawson common stock would be issued to the Gexpro Services Stockholder upon the closing of the Gexpro Services Merger, and up to an additional 1,000,000 shares of Lawson common stock would potentially be issuable to the Gexpro Services Stockholder on or after the closing date of the Gexpro Services Merger upon satisfaction of the conditions of, and in accordance with, two earnout mechanisms.

The consummation of the Mergers is subject to certain closing conditions, including, among others, (1) receipt of the requisite Lawson stockholder approvals under the Merger Agreements and (2) receipt of proceeds of debt financing in an amount sufficient for the payment of certain payoff indebtedness, transaction expenses and other fees and expenses in connection with the Mergers.

The Mergers, if completed, will be consummated substantially concurrently. We refer to the transactions contemplated by the Merger Agreements, including the Mergers and the share issuances, as the "Transactions."

The Merger Agreements contain certain termination rights for the parties, including, among other rights, termination rights if the Mergers are not completed on or before September 30, 2022 (subject to certain limitations) or any of the requisite Lawson stockholder approvals are not obtained at a duly convened stockholders meeting. If the TestEquity Merger Agreement is terminated under certain circumstances, Lawson will be obligated to pay TestEquity a termination fee of

\$4,000,000, and if the Gexpro Services Merger Agreement is terminated under certain circumstances, Lawson will be obligated to pay Gexpro Services a termination fee of \$6,000,000.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation — The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts and transactions of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition — The Company recognizes two revenue streams: revenues from the sale of product and revenues from the performance of VMI services. The Company offers VMI services only in conjunction with product sales. The Company does not bill product sales and services separately. A portion of selling expenses is allocated to cost of sales for reporting purposes based upon the estimated time spent on such services. Product revenue includes product sales and billings for freight and handling charges. Sales and associated cost of goods sold are generally recognized when products are shipped and title passes to customers. We accrue for returns based on historical evidence of return rates. Service revenue and associated cost of sales are recognized when services are performed. A portion of service revenue and cost of service is deferred, as not all services are performed in the same period as billed. The Company has adopted the practical expedient within ASC 340 to recognize incremental costs to obtain a contract, primarily employee related costs, as expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less. The Company also operates as a lessor and recognizes lease revenue on a straight-line basis over the life of each lease. The Company has adopted the practical expedient not to separate the non-lease components that would be within the scope of ASC 606 from the associated lease component as the relevant criteria under ASC 842 are met.

Cash Equivalents — The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount of the Company's cash equivalents at December 31, 2021 approximates fair value.

Allowance for Doubtful Accounts — The Company evaluates the collectability of accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial down-grading of credit ratings), a specific reserve for bad debts is recorded against amounts due to reduce the receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes reserves for bad debts based on the Company's historical experience of bad debt write-offs as a percent of accounts receivable outstanding. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations), the estimates of the recoverability of amounts due the Company could be revised.

Inventories — Inventories principally consist of finished goods stated at the lower of cost or net realizable value using the first-in-first-out method for the Lawson segment and weighted average for the Bolt segment as well as Partsmaster. To reduce the cost basis of inventory to a lower of cost or net realizable value, a reserve is recorded for slow-moving and obsolete inventory based on historical experience and monitoring of current inventory activity. Estimates are used to determine the necessity of recording these reserves based on periodic detailed analysis using both qualitative and quantitative factors. As part of this analysis, the Company considers several factors including the inventories length of time on hand, historical sales, product shelf life, product life cycle, product category and product obsolescence.

Property, Plant and Equipment — Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed primarily by the straight-line method for buildings, machinery and equipment, furniture and fixtures and vehicles. The Company estimates useful lives of 20 to 40 years for buildings and improvements and 3 to 10 years for machinery and equipment, furniture and fixtures and vehicles. Amortization of financing and capital leases is included in depreciation expense.

Depreciation expense was \$5.0 million and \$4.4 million for 2021 and 2020 respectively. Capitalized software is amortized over estimated useful lives of 3 to 5 years using the straight-line method. Amortization expense of capitalized software was \$0.8 million for 2021 and \$0.6 million for 2020.

Cash Value of Life Insurance — The Company has invested funds in life insurance policies on certain current and former employees. The cash surrender value of the policies is invested in various investment instruments and is recorded as an asset on our Consolidated Balance Sheets. The Company records these funds at contractual value. The change in the cash surrender value of the life insurance policies, which is recorded as a component of General and administrative expenses in the Consolidated Statements of Income and Comprehensive Income, is the change in the policies' contractual values.

Deferred Compensation — The Company's Executive Deferral Plan ("Deferral Plan") allows certain executives to defer payment of a portion of their earned compensation. The deferred compensation is recorded in an Account Balance, which is a bookkeeping entry made by the Company to measure the amount due to the participant. The Account Balance is equal to the participant's deferred compensation, adjusted for increases and/or decreases in the amount that the participant has designated to one or more bookkeeping portfolios that track the performance of certain mutual funds. Lawson adjusts the deferred compensation liability to equal the contractual value of the participants' Account Balances. These adjustments are the changes in contractual value of the individual plans and are recorded as a component of General and administrative expenses in the Consolidated Statements of Income and Comprehensive Income.

Stock-Based Compensation — Compensation based on the share value of the Company's common stock is valued at its fair value at the grant date and the expense is recognized over the vesting period. Fair value is re-measured each reporting period for liability-classified awards that may be redeemable in cash. We account for forfeitures of stock-based compensation in the period in which they occur.

Goodwill — The Company had \$35.3 million and \$35.2 million of goodwill in 2021 and 2020, respectively. Goodwill represents the cost of business acquisitions in excess of the fair value of identifiable net tangible and intangible assets acquired. Goodwill is allocated to the appropriate reporting unit as reviewed by the Company's segment managers. The Company has four reporting units; Lawson MRO, Bolt, Screw Products, and Partsmaster. The Company reviews goodwill for potential impairment annually on December 1st, or when an event or other circumstances change that would more likely than not reduce the fair value of the asset below its carrying value.

The first step in the multi-step process to determine if goodwill has been impaired and to what degree is to review the relevant qualitative factors that could cause the fair value of the reporting unit to decrease below the carrying value of the reporting unit. Related to the Lawson MRO, Bolt, and Partsmaster reporting units, the Company performed a qualitative assessment as of December 1, 2021 and determined that it was more likely than not the fair value of the reporting units exceeded the carrying value of the reporting units. The goodwill related to the Screw Products reporting unit was fully impaired in 2020.

Intangible Assets — The Company's intangible assets consist of trade names and customer relationships. Intangible assets are amortized over a weighted average of 12 and 11 year estimated useful lives for trade names and customer relationships, respectively. The Company amortizes trade name intangible assets on a straight-line basis and customer relationship intangible assets on a basis consistent with their estimated economic benefit.

Impairment of Long-Lived Assets — The Company reviews its long-lived assets, including property, plant and equipment and definite life intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Recoverability is measured by a comparison of the assets' carrying amount to their expected future undiscounted net cash flows. If such assets are considered to be impaired, the impairment to be recognized is measured based on the amount by which the carrying amount of the asset exceeds its fair value. No impairments occurred in 2020 or 2021.

Income Taxes — Deferred tax assets or liabilities reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not (i.e. greater than 50% likely) that some or all of the deferred tax assets will not be realized. The determination of the amount of a valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, (3) the impact of tax planning strategies and (4) the ability to carry back deferred tax assets to offset prior taxable income. In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, projections of future taxable income and the feasibility of ongoing tax planning strategies. The projections of future taxable income include a number of estimates and assumptions regarding our volume, pricing and costs. Additionally, valuation allowances related to deferred tax assets can be impacted by changes to tax laws. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of uncertain tax positions.

Earnings from the Company's foreign subsidiaries are considered to be indefinitely reinvested. A distribution of these non-U.S. earnings in the form of dividends or otherwise would subject the Company to foreign withholding taxes and may subject the Company to U.S. federal and state taxes.

The Company recognizes the benefit of tax positions when a benefit is more likely than not (i.e., greater than 50% likely) to be sustained on its technical merits. Recognized tax benefits are measured at the largest amount that is more likely than not to be sustained, based on cumulative probability, in final settlement of the position. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of Income tax expense in the Consolidated Statements of Income and Comprehensive Income.

Leases — Leases are categorized as either operating or financing leases at commencement. For both classes of leases, a Right Of Use ("ROU") asset and corresponding lease liability are recognized at commencement. Operating leases consist of the Company headquarters, distribution centers, and Bolt branches. Financing leases consist of equipment such as forklifts and copiers. The value of the lease assets and liabilities are the present value of the total cash payments for each lease. The Company uses its incremental borrowing rate to discount the total cash payments to present value for each lease. The Company will review each lease to determine if there is a more appropriate discount rate to apply. Upon commencement, rent expense is recognized on a straight line basis for each operating lease. Each financing lease ROU asset is amortized on a straight line basis over the lease period. Prior to acquisition, Partsmaster participated in a leasing program where they actively leased parts washer machines to customers. The Company will continue the leasing program for the foreseeable future. These leases are classified as operating leases. The leased machines are recognized as a component of Property, plant and equipment in the Consolidated Balance Sheets and the leasing revenue is recognized on a straight line basis.

Earnings per Share — Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution from the exercise or conversion of outstanding stock options, market stock units and restricted stock awards into common stock. For the years ended December 31, 2021 and December 31, 2020 no options to purchase shares of common stock were excluded from the computation of diluted earnings per share because all of the options were in the money.

Foreign Currency — The accounts of foreign subsidiaries are measured using the local currency as the functional currency. All balance sheet amounts are translated into U.S. dollars using the exchange rates in effect at the applicable period end. Components of income or loss are translated using the average exchange rate for each reporting period.

Gains and losses resulting from changes in the exchange rates from translation of the subsidiary accounts in local currency to U.S. dollars are reported as a component of Accumulated other comprehensive income or loss in the Consolidated Balance Sheets. Gains and losses resulting from the effect of exchange rate changes on transactions denominated in currencies other than the functional currency are included as a component of net income or loss upon settlement of the transaction.

Gains and losses resulting from foreign intercompany transactions are included as a component of net income or loss each reporting period unless the transactions are of a long-term-investment nature and settlement is not planned or anticipated in the foreseeable future, in which case the gains and losses are recorded as a component of Accumulated other comprehensive income or loss in the Consolidated Balance Sheets.

Treasury Stock — The Company repurchased no shares of its common stock in 2021 through its previously announced stock repurchase plan. The Company repurchased 47,504 of its common stock in 2020 through its previously announced stock repurchase plan. The Company repurchased 20,923 and 32,682 shares of its common stock in 2021 and 2020, respectively from employees upon the vesting of restricted stock to offset the income taxes owed by those employees. The Company accounts for treasury stock using the cost method and includes treasury stock as a component of stockholders' equity. The cost of the common stock repurchased and held in treasury was \$1.0 million and \$3.3 million in 2021 and 2020, respectively.

Acquisitions — The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions for the purchase price allocation process to value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill.

Use of Estimates — Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported for service revenue, service cost, allowance for doubtful accounts, inventory reserves, goodwill and intangible assets valuation, and income taxes in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Recent Accounting Pronouncements - Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which revises the requirements for how an entity should measure credit losses on financial instruments. The pronouncement is effective for smaller reporting companies in fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, and the new guidance will be applied on a prospective basis. The Company is still evaluating the effect the adoption of the new standard will have on its financial statements.

Note 3 - Acquisition

On August 31, 2020, the Company acquired Partsmaster from NCH Corporation. Partsmaster is a leading MRO solutions provider that serves approximately 16,000 customers with approximately 200 sales representatives. The acquisition was made primarily to expand the Company's sales coverage, expand product lines, add experienced sales representatives, and leverage the Company's infrastructure.

The purchase price was \$35.3 million in cash plus the assumption of certain liabilities. The Company paid \$2.3 million of the purchase price in cash at closing and paid the remaining \$33.0 million in May 2021.

The payment obligation was discounted to present value and recognized as an Accrued acquisition liability of \$32.7 million as of December 31, 2020 in the Company's Consolidated Balance Sheet. Interest expense of \$0.3 million was recorded in the year ended December 31, 2021. Payment was guaranteed under the Purchase Agreement and included the issuance of a \$33.0 million irrevocable standby letter of credit. The letter of credit was released upon payment of the acquisition liability in May 2021.

The purchase price of the acquisition was allocated to the fair value of Partsmaster's assets and liabilities at the acquisition date. The fair market value appraisals of the majority of the assets and liabilities was determined by a third party valuation firm using management estimates and assumptions including intangible assets of \$5.0 million for customer relationships and \$2.8 million for trade names, and their estimated useful lives of 10 and 5 years, respectively. The \$15.8 million allocated to goodwill reflects the purchase price less the fair market value of the identifiable net assets. The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after Lawson's acquisition of Partsmaster. The entire amount of goodwill is expected to be deductible for tax purposes.

The accounting for this acquisition was completed as of June 30, 2021. Partsmaster contributed \$57.8 million of revenue and \$1.6 million of operating income in the year ended December 31, 2021, compared to \$22.6 million of revenue and \$0.8 million of operating income in the four-month post-acquisition period of 2020.

A summary of the purchase price allocation of the acquisition is as follows (Dollars in thousands):

Cash paid and liabilities assumed	
Cash paid	\$ 34,523
Accounts payable and accrued expenses	4,086
Lease obligation	620
Deferred compensation	2,938
	<u>\$ 42,167</u>
Fair value of assets acquired	
Goodwill	\$ 15,816
Inventories	7,797
Accounts receivable	7,706
Customer relationships	4,961
Trade names	2,775
Property, plant and equipment	2,121
Right of use asset	620
Other assets	371
	<u>\$ 42,167</u>

The unaudited pro forma revenue and net income for the Company for the year ended December 31, 2020 assuming the Partsmaster acquisition closed on January 1, 2019, was \$396.7 million and \$16.5 million, respectively.

The pro forma disclosures include adjustments for amortization of intangible assets, implied interest expense and acquisition costs to reflect results as if the acquisition of Partsmaster had closed on January 1, 2019 rather than on the actual acquisition date. This pro forma information utilizes certain estimates, is presented for illustrative purposes only and is not intended to be indicative of the actual results of operations. In addition, future results may vary significantly from the results reflected in the pro forma information. The unaudited pro forma financial information does not reflect the impact of future positive or negative events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

Note 4 - Revenue Recognition

As part of the Company's revenue recognition analysis, it concluded that it has two separate performance obligations, and accordingly, two separate revenue streams: products and services. Under the definition of a contract as defined by ASC 606, the Company considers contracts to be created at the time an order to purchase product is agreed upon regardless of whether or not there is a written contract.

Performance Obligations

Lawson has two operating segments; the Lawson segment and the Bolt Supply segment.

The Lawson segment has two distinct performance obligations offered to its customers: a product performance obligation and a service performance obligation. Although the Company has identified that it offers its customers both a product and a service obligation, the customer only receives one invoice per transaction with no price allocation between these obligations. The Company does not price its offerings based on any allocation between these obligations.

Lawson generates revenue primarily from the sale of MRO products to its customers. Revenue related to product sales is recognized at the time that control of the product has been transferred to the customer; either at the time the product is shipped or the time the product has been received by the customer. The Company does not commit to long-term contracts to sell customers a certain minimum quantity of products.

The Lawson segment, including the Partsmaster acquisition, offers a VMI service proposition to its customers. A portion of these services, primarily related to stocking of product and maintenance of the MRO inventory, is provided a short period of time after control of the purchased product has been transferred to the customer. Since some components of VMI service have not been provided at the time the control of the product transfers to the customer, that portion of expected consideration is deferred until the time that those services have been provided.

The Bolt Supply segment does not provide VMI services for its customers or provide services in addition to product sales to customers. Revenue is recognized at the time that control of the product has been transferred to the customer which is either upon delivery or shipment depending on the terms of the contract.

The Company has elected not to disclose the disaggregated components of revenue and cost of sales in its Consolidated Statements of Income and Comprehensive Income and in the related notes to the consolidated financial statements.

Disaggregated revenue by product type follows:

Product Category	Unaudited Year Ended December 31,	
	2021	2020
Fastening systems	22%	22%
Cutting tools and abrasives	15%	14%
Fluid power	13%	13%
Specialty chemicals	10%	11%
Electrical	10%	10%
Aftermarket automotive supplies	7%	7%
Safety	5%	6%
Welding and metal repair	2%	2%
Other	16%	15%
	100%	100%

Lawson as Lessor

Partsmaster leases parts washer machines to customers through its Torrents leasing program. These leases are classified as operating leases. The leased machines are recognized as a component of Property, plant and equipment in the Consolidated Balance Sheets and the leasing revenue is recognized on a straight line basis. The Torrents machine leasing program generated \$3.5 million of revenue in 2021 compared to \$0.9 million of revenue in 2020 post-acquisition. The carrying value of the Torrents leasing assets as of December 31, 2021 is \$1.2 million. The Company has adopted the practical expedient not to separate the non-lease components that would be within the scope of ASC 606 from the associated lease component as the relevant criteria under ASC 842 are met.

Note 5 — Restricted Cash

The Company has agreed to maintain \$0.2 million in a guaranteed investment certificate as collateral for an outside party that is providing certain commercial credit card services for Bolt. The Company is restricted from withdrawing this balance without the prior consent of the outside party during the term of the agreement. The Company previously agreed to maintain \$0.8 million in a money market account as collateral for an outside party that provided certain commercial credit card processing services for the Company, however this agreement ended in the third quarter 2021 and the \$0.8 million is now unrestricted.

Note 6 – Inventories, net

Inventories, net, consisting primarily of purchased goods which are offered for resale, were as follows:

	(Dollars in thousands)	
	December 31,	
	2021	2020
Inventories, gross	\$ 81,569	\$ 67,137
Reserve for obsolete and excess inventory	(7,720)	(5,270)
Inventories, net	\$ 73,849	\$ 61,867

Note 7 - Property, Plant and Equipment

Components of property, plant and equipment were as follows:

	(Dollars in thousands)	
	December 31,	
	2021	2020
Land	\$ 2,660	\$ 2,650
Buildings and improvements	16,228	15,765
Machinery and equipment	27,971	26,814
Capitalized software	21,715	23,013
Furniture and fixtures	5,855	5,725
Vehicles	196	151
Construction in progress	5,964	752
	80,589	74,870
Accumulated depreciation and amortization	(61,761)	(59,070)
	<u>\$ 18,828</u>	<u>\$ 15,800</u>

Note 8 - Goodwill

Goodwill activity related to acquisitions is included in the table below:

	(Dollars in Thousands)		
	Goodwill By Reportable Segment		
	Lawson	Bolt	Total
Beginning balance January 1, 2020	\$ 7,369	\$ 13,554	\$ 20,923
Impact of foreign exchange	85	270	355
Acquisition ⁽¹⁾	15,816	—	15,816
Impairment ⁽²⁾	(1,918)	—	(1,918)
Balance at December 31, 2020	21,352	13,824	35,176
Impact of foreign exchange	32	105	137
Balance at December 31, 2021	<u>\$ 21,384</u>	<u>\$ 13,929</u>	<u>\$ 35,313</u>

(1) The \$15.8 million addition to goodwill in 2020 was due to the allocation of the purchase price from the Partsmaster acquisition.

(2) The Company performed a quantitative goodwill impairment analysis as of December 1, 2020 for the Screw Products reporting unit. The Company engaged a third party valuation firm to determine the value of the Screw Products reporting unit, and determined that the carrying value of the net assets exceeded the fair value of the reporting unit, and accordingly, recognized an impairment charge of \$1.9 million. The goodwill related to the Screw Products reporting unit was fully impaired in 2020.

Although the Company believes the projected future operating results and cash flows and related estimates regarding the values were based on reasonable assumptions, it is reasonably possible that estimates made may be materially and adversely impacted in the future, including impairment losses related to goodwill.

Note 9 - Intangible assets

The gross carrying amount and accumulated amortization by intangible asset class were as follows:

	(Dollars in thousands) December 31, 2021			(Dollars in thousands) December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade names	\$ 11,388	\$ (3,866)	\$ 7,522	\$ 11,289	\$ (2,733)	\$ 8,556
Customer relationships	12,427	(3,784)	8,643	12,349	(2,402)	9,947
	<u>\$ 23,815</u>	<u>\$ (7,650)</u>	<u>\$ 16,165</u>	<u>\$ 23,638</u>	<u>\$ (5,135)</u>	<u>\$ 18,503</u>

Amortization expense of \$2.5 million and \$1.7 million related to intangible assets was recorded in General and administrative expenses for 2021 and 2020, respectively. The estimated aggregate amortization expense for each of the next five years are as follows:

Year	(Dollars in thousands) Amortization
2022	\$ 2,649
2023	2,584
2024	2,482
2025	2,145
2026	1,566
Thereafter	4,739
	<u>\$ 16,165</u>

Note 10 – Income Taxes

Income from operations before income taxes consisted of the following:

	(Dollars in thousands) Year Ended December 31,	
	2021	2020
United States	\$ 5,421	\$ 16,226
Canada	6,498	4,559
Total	<u>\$ 11,919</u>	<u>\$ 20,785</u>

Provision (benefit) for income taxes from operations for the years ended December 31, consisted of the following:

	(Dollars in thousands)	
	Year Ended December 31,	
	2021	2020
Current income tax expense:		
U.S. federal	\$ 3,042	\$ 3,858
U.S. state	777	710
Canada	1,133	1,288
Total	<u>\$ 4,952</u>	<u>\$ 5,856</u>
Deferred income tax expense (benefit):		
U.S. federal	\$ (817)	\$ 236
U.S. state	(394)	52
Canada	(1,228)	(472)
Total	<u>\$ (2,439)</u>	<u>\$ (184)</u>
Total income tax expense (benefit):		
U.S. federal	\$ 2,225	\$ 4,094
U.S. state	383	762
Canada	(95)	816
Total	<u>\$ 2,513</u>	<u>\$ 5,672</u>

The reconciliation between the effective income tax rates and the statutory federal rates for operations are as follows:

	Year Ended December 31,	
	2021	2020
Statutory Federal rate	21.0 %	21.0 %
Increase (decrease) resulting from:		
Change in valuation allowance - current period activity	—	(2.2)
Change in valuation allowance - reversal	(10.3)	—
Foreign rate differential	1.9	—
Stock compensation	(3.7)	(2.0)
Compensation deduction limitation	0.9	1.5
State and local taxes, net	3.3	3.8
Asset basis true-up	5.5	—
Meals & entertainment	1.2	0.6
Change in uncertain tax positions	0.4	4.6
Provision to return differences	0.2	(0.1)
Other items, net	0.7	0.1
Provision for income taxes	<u>21.1 %</u>	<u>27.3 %</u>

Global Intangible Low Taxed Income (GILTI) is a deemed amount of income derived from controlled foreign corporations (CFC) in which a US person is a 10% direct or indirect shareholder. The Company owns two Canadian CFC's, which are subject to GILTI inclusion. However, the Company can utilize a foreign tax credit to fully offset a significant portion of all the tax from the GILTI inclusion based on foreign taxes paid in Canada.

At December 31, 2021, the Company had \$3.5 million of U.S. federal net operating loss carryforwards which are subject to expiration beginning in 2030 and \$6.5 million of various state net operating loss carryforwards which expire at varying dates through 2034.

After recording pre-tax losses for many years, Lawson's Canadian subsidiary recorded pre-tax profits in 2019 and 2020. Lawson's Canadian subsidiary continued to generate pre-tax profits in 2021 and have utilized some of the net operating loss carryforwards. Based on available evidence, we now believe it is more likely than not that we will be able to utilize Lawson's Canadian subsidiary deferred tax assets to offset future taxable income. Lawson released the \$1.2 million valuation allowance on the Lawson Canada deferred tax assets as of December 31, 2021.

As a result of acquisitions completed in recent years, the Company recorded \$21.4 million of tax deductible goodwill that may result in a tax benefit in future periods.

Deferred income tax assets and liabilities contain the following temporary differences:

	(Dollars in thousands)	
	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforward	\$ 4,073	\$ 5,431
Compensation and benefits	11,407	10,980
Inventory reserve	2,222	1,772
Transaction costs	2,077	—
Accounts receivable reserve	203	167
Leased assets	1,302	1,061
Property, plant & equipment	2,046	—
Intangible assets	202	—
Other	58	329
Total deferred tax assets	23,590	19,740
Deferred tax liabilities:		
Intangible assets and goodwill	1,771	1,948
Lease liabilities	2,647	1,366
Property, plant and equipment	134	(975)
Other	598	503
Total deferred liabilities	5,150	2,842
Net deferred tax assets before valuation allowance	18,440	16,898
Valuation allowance	—	(1,257)
Net deferred tax assets	\$ 18,440	\$ 15,641

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(Dollars in thousands)	
	December 31,	
	2021	2020
Balance at beginning of year	\$ 3,686	\$ 3,242
Additions for tax positions of current year	—	15
Additions for tax positions of prior years	554	1,413
Reductions for tax positions of prior year	—	—
Lapse of statute of limitations	(539)	(984)
Balance at end of year	\$ 3,701	\$ 3,686

The recognition of the unrecognized tax benefits would have a favorable effect on the effective tax rate. Due to the uncertainty of both timing and resolution of income tax examinations, the Company is unable to determine whether any amounts included in the December 31, 2021 balance of unrecognized tax benefits represent tax positions that could significantly change during the next twelve months. The unrecognized tax benefits are recorded as a component of Other

liabilities in the Consolidated Balance Sheets. Interest and penalties related to unrecognized tax benefits are recorded as a component of Income tax expense in the Consolidated Statements of Income and Comprehensive Income. Including the impact of interest and the impact of net operating losses, the unrecognized tax benefit is \$3.9 million and \$3.7 million as of December 31, 2021 and December 31, 2020, respectively, which is recorded in Other liabilities on the Consolidated Balance Sheets.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. As of December 31, 2021, the Company was subject to U.S. federal income tax examinations for the years 2018 through 2020 and income tax examinations from various other jurisdictions for the years 2014 through 2020.

Note 11 - Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	(Dollars in thousands)	
	December 31,	
	2021	2020
Accrued stock-based compensation (stock performance rights)	\$ 16,732	\$ 14,437
Accrued compensation	10,199	9,794
Accrued and withheld taxes, other than income taxes	4,113	3,788
Accrued costs related to merger agreements	3,103	—
Accrued profit sharing	212	240
Accrued severance	192	1,103
Deferred revenue	800	822
Accrued health benefits	614	732
Other	10,723	7,576
	<u>\$ 46,688</u>	<u>\$ 38,492</u>

Note 12 - Leases

The Company leases property used for distribution centers, office space, and Bolt branch locations throughout the U.S. and Canada, along with various equipment located in distribution centers and corporate headquarters.

The expenses generated by the leasing activity of Lawson as lessee for the years ended December 31, 2021 and December 31, 2020 were as follows:

Lease Type	Classification	(Dollars in Thousands)	
		Year Ended December 31,	
		2021	2020
Consolidated Operating Lease Expense ⁽¹⁾	Operating expenses	\$ 5,881	\$ 4,999
Consolidated Financing Lease Amortization	Operating expenses	192	226
Consolidated Financing Lease Interest	Interest expense	15	28
Consolidated Financing Lease Expense		<u>207</u>	<u>254</u>
Net Lease Cost		<u>\$ 6,088</u>	<u>\$ 5,253</u>

⁽¹⁾ Includes short term lease expense, which is immaterial

The value of the net assets and liabilities generated by the leasing activity of Lawson as lessee as of December 31, 2021 and December 31, 2020 were as follows:

Lease Type	(Dollars in Thousands)		
	2021	Year Ended December 31, 2020	
Total ROU operating lease assets ⁽¹⁾	\$ 13,662	\$ 8,246	
Total ROU financing lease assets ⁽²⁾	383	518	
Total lease assets	<u>\$ 14,045</u>	<u>\$ 8,764</u>	
Total current operating lease obligation	\$ 4,313	\$ 4,360	
Total current financing lease obligation	154	208	
Total current lease obligations	<u>\$ 4,467</u>	<u>\$ 4,568</u>	
Total long term operating lease obligation	\$ 10,713	\$ 5,498	
Total long term financing lease obligation	128	240	
Total long term lease obligation	<u>\$ 10,841</u>	<u>\$ 5,738</u>	

⁽¹⁾ Operating lease assets are recorded net of accumulated amortization of \$8.0 million and \$5.9 million as of December 31, 2021 and December 31, 2020, respectively

⁽²⁾ Financing lease assets are recorded net of accumulated amortization of \$0.6 million and \$0.4 million as of December 31, 2021 and December 31, 2020, respectively

The value of the lease liabilities generated by the leasing activities of Lawson as lessee as of December 31, 2021 were as follows (Dollars in thousands):

Year Ended December 31,	Operating Leases	Financing Leases	Total
2022	\$ 4,725	\$ 165	\$ 4,890
2023	3,944	100	4,044
2024	3,015	30	3,045
2025	1,739	—	1,739
2026	724	—	724
Thereafter	1,983	—	1,983
Total lease payments	16,130	295	16,425
Less: Interest	1,104	13	1,117
Present value of lease liabilities	<u>\$ 15,026</u>	<u>\$ 282</u>	<u>\$ 15,308</u>

(1) Of the \$16.1 million future minimum operating lease commitments outstanding at December 31, 2021, \$1.3 million relates to a lease for the Company's headquarters which expires in March 2023

(2) The Company has an operating lease for the McCook Facility which expires in June 2025 and includes future minimum lease payments of \$6.5 million

The weighted average lease terms and interest rates of the leases held by Lawson as of December 31, 2021 are as follows:

Lease Type	Weighted Average Term in Years	Weighted Average Interest Rate
Operating Leases	4.5	4.1%
Financing Leases	2.1	4.8%

The cash outflows of the leasing activity of Lawson as lessee for the year ending December 31, 2021 are as follows (Dollars in thousands):

Cash Flow Source	Classification	Amount
Operating cash flows from operating leases	Operating activities	\$ 4,846
Operating cash flows from financing leases	Operating activities	15
Financing cash flows from financing leases	Financing activities	222

In March 2021 the Company signed a three year extension for their lease at the McCook distribution center ("McCook"). The lease extension created a right of use asset of \$5.3 million and a lease liability of \$5.3 million.

Refer to Note 4 - Revenue Recognition for a discussion on Lawson activities as lessor.

Note 13 – Credit Agreement

In October 2019, the Company entered into a Revolving Credit Agreement (the "Credit Agreement" or "Revolving Credit Facility") with J.P. Morgan Chase Bank, N.A. as administrative agent, and including CIBC Bank USA and Bank of America, N.A. as other lenders. The Revolving Credit Facility matures on October 11, 2024 and provides \$100.0 million of revolving commitments. The Credit Agreement allows borrowing capacity to increase to \$150.0 million subject to meeting certain criteria and additional commitments from its lenders.

The Credit Agreement consists of borrowings designated as alternate base rate loans, Canadian prime rate loans, Eurodollar loans, and Canadian dollar offered rate loans at the Company's request. The applicable interest rate spread is determined by the type of borrowing used and the Total Net Leverage Ratio as of the most recent fiscal quarter as defined in the Credit Agreement.

The covenants associated with the Credit Agreement restrict the ability of the Company to, among other things: incur additional indebtedness and liens, make certain investments, merge or consolidate, engage in certain transactions such as the disposition of assets and sales-leaseback transactions, and make certain restricted cash payments such as dividends in excess of defined amounts contained within the Credit Agreement. In addition to these items and other customary terms and conditions, the Credit Agreement requires the Company to comply with certain financial covenants as follows:

a) The Company is required to maintain an EBITDA to Fixed Charge Coverage Ratio of at least 1.15 to 1.00 for any period of four consecutive fiscal quarters ending on the last day of any fiscal quarter; and

b) The Company is required to maintain a Total Net Leverage Ratio of no more than 3.25 to 1.00 on the last day of any fiscal quarter. The maximum Total Net Leverage Ratio will be allowed to increase to 3.75 to 1.00 after certain permitted acquisitions.

The Credit Agreement also includes events of default for, among others, non-payment of obligations under the Credit Agreement, change of control, cross default to other indebtedness in an aggregate amount in excess of \$5.0 million, failure to comply with covenants, and insolvency.

The Company was in compliance with all financial covenants as of December 31, 2021.

In the third quarter of 2020, the Company entered into an amendment to the Credit Agreement which among other items temporarily increased the allowed letter of credits from \$15.0 million to \$40.0 million until August 31, 2021 and authorized indebtedness not to exceed \$36.0 million for the acquisition of Partsmaster.

Net of outstanding letters of credit, the Company had \$87.1 million of borrowing availability under the Revolving Credit Facility as of December 31, 2021 and \$66.0 million as of December 31, 2020. Weighted average interest rates for the years ended December 31, 2021 and December 31, 2020 were 5.02% and 2.65%, respectively.

Fees are reported as interest expense and include customary charges relating to letters of credit and an unused commitment fee ranging from 0.15% to 0.30%, depending on the Total Net Leverage Ratio as defined in the Credit Agreement. Fees for the years ended December 31, 2021 and December 31, 2020 were \$0.3 million governing the Revolving Credit Facility.

In connection with the Revolving Credit Facility originated in 2019, deferred financing costs of \$0.6 million were incurred. Deferred financing costs are amortized over the life of the debt instrument and reported as interest expense. As of December 31, 2021 and December 31, 2020 deferred financing costs net of accumulated amortization were \$0.3 million and \$0.4 million, respectively, and are included in Other assets in the Consolidated Balance Sheets.

Note 14 – Reserve for Severance

Severance costs are primarily related to management realignment and reorganization. The table below reflects the activity in the Company’s reserve for severance and related payments.

	(Dollars in thousands)	
	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 1,251	\$ 909
Charged to earnings	264	2,077
Cash paid	(1,323)	(1,735)
Ending balance	\$ 192	\$ 1,251

The majority of remaining severance liabilities outstanding as of December 31, 2021 will be paid by the end of 2022, and are included in Accrued expenses and other liabilities in the Consolidated Balance Sheets.

Note 15 - Commitments and Contingencies

The Company is involved in legal actions that arise in the ordinary course of business. It is the opinion of management that the resolution of any currently pending litigation will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

Stockholder lawsuits

On January 25, 2022, a lawsuit entitled Shiva Stein v. Lawson Products, Inc. et al., Case No. 1:22-cv-00639, was filed in the United States District Court for the Southern District of New York against Lawson and the members of the Lawson board of directors (the “Stein Action”). On January 27, 2022, a lawsuit entitled Matthew Hopkins v. Lawson Products, Inc. et al, Case No. 1:22-cv-00724, was filed in the United States District Court for the Southern District of New York against Lawson and the members of the Lawson board of directors (the “Hopkins Action”). On February 7, 2022, a lawsuit entitled Ema Bell v. Lawson Products, Inc. et al, Case No. 1:22-cv-01056, was filed in the United States District Court for the Southern District of New York against Lawson, the members of the Lawson board of directors, LKCM TE Investors, LLC (the “TestEquity Equityholder”), TestEquity, Tide Sub, LLC, a wholly-owned subsidiary of Lawson (“Merger Sub 1”), 301 HW Opus Investors, LLC, (the “Gexpro Services Stockholder”), Gexpro Services and Gulf Sub, Inc., a wholly-owned subsidiary of Lawson (“Merger Sub 2”) (the “Bell Action”). On February 11, 2022, a lawsuit entitled John Yurco v. Lawson Products, Inc. et al., Case No. 1:22-cv-01201, was filed in the United States District Court for the Southern District of New York against Lawson and the members of the Lawson board of directors (the “Yurco Action”). The Stein Action, the Hopkins Action, the Bell Action and the Yurco Action are collectively referred to as the “Actions.” The Actions allege that the defendants violated Sections 14(a) (and Rule 14a-9 promulgated thereunder) and 20(a) of the Exchange Act by, among other things, omitting certain allegedly material information with respect to the Transactions (as defined in Note 1) in the Company’s proxy statement. The Bell Action also alleges that the members of the Lawson board of directors breached their fiduciary duties in connection with the Transactions and that Lawson aided and abetted the members of its board of directors in such breach. The Actions seek, among other things, injunctive relief, money damages and the costs of the Actions, including reasonable attorneys’ and experts’ fees.

Lawson and the members of its board of directors disagree with and intend to vigorously defend against the Actions. If the Actions are not resolved favorably on a timely basis, the Actions could delay or prevent consummation of the Transactions and result in additional costs to Lawson, including costs associated with the indemnification of directors. Additional plaintiffs may file lawsuits against Lawson and/or its directors and officers in connection with the Transactions. At this time, the Company is unable to predict the ultimate outcome of the Actions or meaningfully quantify how the final resolution of the Actions may impact its business, financial condition and results of operations.

In addition, on each of February 2, 2022, February 14, 2022 and February 15, 2022, purported Lawson stockholders made demands pursuant to Section 220 of the Delaware General Corporation Law to inspect certain books and records of Lawson (collectively, the “Books and Records Demands”). One stated purpose of the Books and Records Demands is to investigate questions of director disinterestedness and independence and the possibility of wrongdoing, mismanagement and/

or material non-disclosure related to the Special Committee's (a Special Committee was formed to independently evaluate and negotiate the terms of the Merger Agreements and related Transactions) and the Lawson board of directors' approval of the Transactions. Lawson and the members of its board of directors disagree with and intend to vigorously defend against any claim, if asserted, arising from the Books and Records Demands.

Environmental matter

In 2012, it was determined a Company owned site in Decatur, Alabama, contained hazardous substances in the soil and groundwater as a result of historical operations prior to the Company's ownership. The Company retained an environmental consulting firm to further investigate the contamination, prepare a remediation plan, and enroll the site in the Alabama Department of Environmental Management ("ADEM") voluntary cleanup program.

A remediation plan was approved by ADEM in 2018. The plan consists of chemical injections throughout the affected area, as well as subsequent monitoring of the area. The injection process was completed in the first quarter of 2019 and the environmental consulting firm is monitoring the affected area. At December 31, 2021 the Company had less than \$0.1 million accrued for potential monitoring costs. The costs for future monitoring are not significant and have been fully accrued. The Company does not expect to capitalize any amounts related to the remediation plan.

Note 16 - Retirement and Security Bonus Plans

The Company provides a 401(k) defined contribution plan to allow employees a pre-tax investment vehicle to save for retirement. The Company made contributions to the 401(k) plan of \$3.5 million and \$2.9 million for the years ended December 31, 2021 and 2020, respectively.

The Company provides a Deferred Profit Savings Plan ("DPSP") for certain Canadian employees and a Registered Retirement Savings Plan ("RRSP") for other Canadian employees. Both are deferred defined contribution retirement investment plans. The Company contributed \$0.3 million and \$0.2 million in 2021 and 2020, respectively.

The Company provides a profit sharing plan for certain sales, office and warehouse employees. The amounts of the Company's annual contributions are determined annually by the Board of Directors. Expenses incurred for the profit sharing plan were \$0.2 million and \$0.2 million for the years ended December 31, 2021 and 2020, respectively.

The Company has a security bonus plan which was previously created for the benefit of its independent sales representatives, under the terms of which participants are credited with a percentage of their annual net commissions. The aggregate amounts credited to participants' accounts vest 25% after five years, and an additional 5% vests each year thereafter upon qualification for the plan. On January 1, 2013, the Company converted all of its U.S. independent sales representatives to employees. The security bonuses for those converted employees continue to vest, but their accounts are no longer credited with a percentage of net commissions. For financial reporting purposes, amounts are charged to operations over the vesting period. Expenses incurred for the security bonus plan were \$0.2 million and \$0.3 million for the years ended December 31, 2021 and 2020, respectively. The security bonus plan is partially funded by a \$7.9 million investment in the cash surrender value in life insurance of certain employees. Of the \$10.9 million total liability, \$0.3 million is classified as a current liability as of December 31, 2021, and the remaining \$10.6 million is classified as long-term.

Note 17 – Stock-Based Compensation Plans

Plan Administration

The Company's Amended and Restated 2009 Equity Compensation Plan ("Equity Plan") provides for the grant of nonqualified and incentive stock options, stock awards and stock units to officers and employees of the Company. The Equity Plan also provides for the grant of option rights and restricted stock to non-employee directors. As of December 31, 2021, the Company had approximately 164,000 shares of common stock still available under the Equity Plan. Non-employee directors are limited to grants of no more than 20,000 shares of common stock in any calendar year and other than non-employee directors are limited to grants of no more than 125,000 shares of common stock in any calendar year. The Equity Plan is administered by the Compensation Committee of the Board of Directors, or its designee, which as administrator of the plan, has the authority to select plan participants, grant awards, and determine the terms and conditions of the awards.

The Company also has a Stock Performance Rights Plan (“SPR Plan”) that provides for the issuance of Stock Performance Rights (“SPRs”) that allow non-employee directors, officers and key employees to receive cash awards, subject to certain restrictions, equal to the appreciation of the Company's common stock. The SPR Plan is administered by the Compensation Committee of the Board of Directors.

Stock Performance Rights

SPRs entitle the recipient to receive a cash payment equal to the excess of the market value of the Company's common stock over the SPR exercise price when the SPRs are surrendered. Expense, equal to the fair market value of the SPR at the date of grant and remeasured each reporting period, is recorded ratably over the vesting period. Compensation expense is included in General and administrative expense in the Consolidated Statements of Income and Comprehensive Income. The outstanding SPRs were granted with approximately a seven year life and vest over one to three years beginning on the first anniversary of the date of the grant.

On December 31, 2021, the SPRs outstanding were re-measured at fair value using the Black-Scholes valuation model. This model requires the input of subjective assumptions that may have a significant impact on the fair value estimate. The weighted-average estimated value of SPRs outstanding as of December 31, 2021 was \$26.66 per SPR using the following assumptions:

Expected volatility	30.3% to 53.7%
Risk-free rate of return	0.2% to 0.9%
Expected term (in years)	0.1 to 2.5
Expected annual dividend	\$0

The expected volatility was based on the historic volatility of the Company's stock price commensurate with the expected life of the SPR. The risk-free rate of return reflects the interest rate offered for zero coupon treasury bonds over the expected life of the SPR. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method allowed by the SEC, which approximates our historical experience. The estimated annual dividend was based on the recent dividend payout trend.

Compensation expense of \$2.1 million was recorded in General and administrative expense for the year ended December 31, 2021. A compensation benefit of less than \$0.1 million was recorded as a reduction to General and administrative expense for the year ended December 31, 2020

Cash in the amount of \$0.2 million and \$0.5 million was paid for SPR exercises in 2021 and 2020, respectively. A liability of \$16.7 million reflecting the estimated fair value of future pay-outs is included as a component of Accrued expenses and other liabilities in the Consolidated Balance Sheets.

Activity related to the Company's SPRs during the year ended December 31, 2021 was as follows:

	Number of SPRs	Weighted Average Exercise Price
Outstanding on December 31, 2020	581,000	\$ 26.88
Exercised	(4,464)	55.46
Outstanding on December 31, 2021	<u>576,536</u>	26.66
Exercisable on December 31, 2021	<u>576,536</u>	\$ 26.66

The SPRs outstanding had an intrinsic value of \$16.0 million as of December 31, 2021. All SPRs for plan participants have vested as of December 31, 2021, so there is no unrecognized compensation associated with any SPRs.

During the year ended December 31, 2021, 8,460 SPRs with a fair value of \$0.2 million vested. At December 31, 2021, the weighted average remaining contractual term was 1.1 years for all outstanding SPRs.

Restricted Stock Awards

Restricted stock awards ("RSAs") generally vest over a one to three year period beginning on the first anniversary of the date of the grant. Upon vesting, the vested restricted stock awards are exchanged for an equal number of the Company's common stock. The participants have no voting or dividend rights with the restricted stock awards. The restricted stock awards are valued at the closing price of the common stock on the date of grant and the expense is recorded ratably over the vesting period.

Compensation expense of \$1.6 million and \$1.2 million related to the RSAs was recorded in General and administrative expenses for 2021 and 2020, respectively. Activity related to the Company's RSAs during the year ended December 31, 2021 was as follows:

	<u>Restricted Stock Awards</u>
Outstanding on December 31, 2020	45,799
Granted	59,091
Exchanged for common shares	(32,661)
Outstanding on December 31, 2021	<u>72,229</u>

As of December 31, 2021, there was \$1.6 million of total unrecognized compensation cost related to RSAs that will be recognized over a weighted average period of 1.5 years. The awards granted in 2021 had a weighted average grant date fair value of \$48.86 per share.

Market Stock Units

Market Stock Units ("MSUs") are exchangeable for between 0% to 150% of the Company's common shares at the end of the vesting period based on the trailing 60 day average closing price of the Company's common stock. The value of the MSUs was determined using a geometric brownian motion model that, based on certain variables, generates a large number of random trials simulating the price of the common stock over the measurement period. Expense of \$0.7 million related to MSUs was recorded in General and administrative expenses in both years ended December 31, 2021 and 2020, respectively. Activity related to the Company's MSUs during the year ended December 31, 2021 was as follows:

	<u>Number of Market Stock Units</u>	<u>Maximum Shares Potentially Issuable</u>
Outstanding on December 31, 2020	137,256	195,723
Granted	19,688	29,568
Exchanged for stock	(28,804)	(42,811)
Outstanding on December 31, 2021	<u>128,140</u>	<u>182,480</u>

Stock Options

Each stock option can be exchanged for one share of the Company's common stock at the stated exercise price. No stock option expense was recorded in 2021 and 2020. There was no unrecognized compensation related to stock options as of December 31, 2021 as all compensation plans that included stock options were fully vested. Upon vesting, stock options are recognized as a component of equity. There were 80,000 fully vested stock options outstanding on December 31, 2021 with a weighted average exercise price of \$27.70.

Performance Awards

Performance Awards ("PAs") are exchangeable for between 0% to 150% of the Company's common shares, or the equivalent amount in cash, based upon the achievement of certain financial performance metrics at the end of the vesting period. Expense of \$0.4 million and \$0.1 million related to the PAs was recorded in General and administrative expenses for

the year ended December 31, 2021 and December 31, 2020, respectively. Activity related to the Company's PAs during the year ended December 31, 2021 was as follows:

	Number of Performance Awards	Maximum Shares Potentially Issuable
Outstanding on December 31, 2020	10,852	16,278
Granted	15,723	23,585
Outstanding on December 31, 2021	<u>26,575</u>	<u>39,863</u>

Note 18 – Segment Information

The Company's operating segments, Lawson and Bolt, also represent its reportable segments because of differences in the businesses' financial characteristics and the methods they employ to deliver product to customers. The results of the Company's operating segments are reviewed by the Company's chief operating decision maker responsible for reviewing operating performance and allocating resources. The Lawson segment primarily relies on its large network of sales representatives to visit the customer at the customers' location and produce sales orders for product that is then shipped to the customer and also provides VMI services. The Bolt segment primarily sells product to customers when the customers visit one of Bolt's 14 branch locations and the product is delivered to the customers at the point of sale. The Bolt segment total assets include the value of the acquired intangibles and the related amortization within its operating income.

Financial information for the Company's reportable segments follows:

	(Dollars in thousands)	
	Year Ended December 31,	
	2021	2020
Net sales		
Lawson	\$ 371,668	\$ 312,803
Bolt	46,065	38,788
Consolidated total	<u>\$ 417,733</u>	<u>\$ 351,591</u>
Gross profit		
Lawson	\$ 200,475	\$ 171,258
Bolt	18,760	15,280
Consolidated total	<u>\$ 219,235</u>	<u>\$ 186,538</u>
Operating Income		
Lawson	\$ 8,193	\$ 17,715
Bolt	3,794	2,835
Consolidated total	11,987	20,550
Interest expense	(869)	(654)
Other income, net	801	889
Income before income taxes	<u>\$ 11,919</u>	<u>\$ 20,785</u>
Capital expenditures		
Lawson	\$ 7,460	\$ 1,529
Bolt	733	158
Consolidated total	<u>\$ 8,193</u>	<u>\$ 1,687</u>
Depreciation and amortization		
Lawson	\$ 6,736	\$ 5,343
Bolt	1,605	1,358
Consolidated total	<u>\$ 8,341</u>	<u>\$ 6,701</u>
Total assets		
Lawson	\$ 217,856	\$ 221,490
Bolt	47,085	43,533
Investment in Subsidiary	(8,784)	(8,719)
Consolidated total	<u>\$ 256,157</u>	<u>\$ 256,304</u>

Financial information related to the Company's operations by geographic area follows:

	(Dollars in Thousands)	
	Year Ended December 31,	
	2021	2020
Net sales ⁽¹⁾		
United States	\$ 337,981	\$ 283,261
Canada	79,752	68,330
Consolidated total	<u>\$ 417,733</u>	<u>\$ 351,591</u>
Long-lived assets ⁽²⁾		
United States	\$ 50,491	\$ 44,395
Canada	34,206	34,180
Consolidated total	<u>\$ 84,697</u>	<u>\$ 78,575</u>

(1) Net sales are attributed to countries based on the location of customers.

(2) Long-lived assets primarily consist of property, plant and equipment, goodwill, intangibles, right of use assets and other assets.

Note 19 – Accrued Acquisition Liability

On August 31, 2020, Lawson acquired Partsmaster from NCH Corporation. As part of the purchase price, the Company agreed to pay \$33.0 million in May 2021. The payment obligation was discounted to its present value using an implied interest rate of 1.8%. A discounted current liability of \$32.7 million was recognized as of December 31, 2020 in the Company's Consolidated Balance Sheet. In May 2021, the Company paid the outstanding \$33.0 million accrued acquisition liability. Payment was guaranteed under the Purchase Agreement which included the issuance of a \$33.0 million irrevocable standby letter of credit. The letter of credit was released in June 2021 subsequent to payment of the liability in May 2021.

Interest expense of \$0.3 million on the accrued acquisition liability was recorded in the year ended December 31, 2021, with all interest expense recognized prior to the payment of the accrued acquisition liability.

Note 20 – Stock Repurchase Program

In 2019, the Company's Board of Directors authorized a program in which the Company may repurchase up to \$7.5 million of the Company's common stock from time to time in open market transactions, privately negotiated transactions or by other methods. The Company did not repurchase any shares under the stock repurchase program in 2021. In 2020 the Company purchased 47,504 shares of common stock at an average purchase price of \$36.93 under the repurchase program. At December 31, 2021, the Company had approximately \$4.5 million available under the repurchase plan.

Note 21 – Related Party Transactions

During the year ended December 31, 2021 the Company purchased approximately \$0.1 million of inventory from a company owned by an immediate relative of a Board member at fair market value. No liabilities exist with respect to the related party transactions as of December 31, 2021.

As described in greater detail in Note 1 – Description of Business, on December 29, 2021 the Company entered into two merger agreements with TestEquity and Gexpro Services. Lawson, TestEquity, and Gexpro Services are related parties due to common ownership between the three entities. TestEquity and Gexpro Services are affiliated with Luther King Capital Management Corporation ("LKCM") which, together with certain of its affiliated entities, is a significant stockholder of Lawson.

Note 22 – COVID-19 Risks and Uncertainties

Various events related to COVID-19 may impact revenue, product sourcing, sales functions, and customers' ability to pay timely.

The government of the State of Illinois defines Lawson Products as an essential business. A change in this status could result in the temporary closure of our business if the COVID-19 pandemic worsens, and government restrictions are reimposed to require business shutdowns. The COVID-19 pandemic could result in a temporary closure of any or all of our office space, distribution facilities, or Bolt branch locations, as well as disruptions to our supply chain and interactions with our suppliers and customers. The pandemic may have a material adverse impact on future financial results, liquidity, and overall performance of the Company.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to provide certain relief as a result of the COVID-19 outbreak. The Company elected to defer a total of \$3.5 million of employer side social security payments in accordance with the CARES Act. The Company paid \$1.7 million of accrued deferred payroll taxes in the fourth quarter of 2021, and the remaining balance is expected to be paid in 2022. The Company will continue to evaluate how the provisions of the CARES Act will impact its financial position, results of operations and cash flows. During 2020, the Company also utilized the Canadian Emergency Wage Subsidy ("CEWS") Act for both Lawson Canada and Bolt for assistance with hourly employee costs. The CEWS is a program that provides a subsidy of certain eligible wages commencing March 15, 2020 through December 31, 2020 subject to meeting certain criteria. During 2020 and 2021 the Company recorded \$1.4 million and \$0.2 million, respectively, in subsidies from the CEWS program which is recognized as a reduction to selling, general and administrative expenses in the Consolidated Statements of Income and Comprehensive Income.

The Company will continue to closely monitor the operating environment and will take appropriate actions to protect the safety for its employees, customers and suppliers.

Note 23 - Subsequent Event

Recent Cyber Incident

On February 8, 2022, Lawson became aware that its computer network was the subject of a cyber incident potentially involving unauthorized access. It is possible that certain confidential business information and personnel records may have been compromised. Lawson has engaged a cybersecurity forensics firm to assist in the investigation of the incident and to assist in securing its computer network.

Depending on the nature of any information that may have been compromised, Lawson may be required to notify the parties whose information was compromised of the incident as well as various governmental agencies and may be required to take other actions in the future, such as offering credit monitoring services. Lawson is continuing to investigate the incident as well as potential corrective and remedial actions to take in respect of the incident. The Company is in the early stage of the investigation, and at this time, is unable to estimate the cost of any remediation that may be required.

Lawson Products, Inc.
Schedule II -Valuation and Qualifying Accounts

The roll forward of valuation accounts were as follows:

Description	(Dollars in thousands)				
	Balance at Beginning of Period	Charged to Costs and Expenses		Deductions	Balance at End of Period
Allowance for doubtful accounts: ⁽¹⁾					
Year ended December 31, 2021	\$ 654	\$ 504	\$ (360)	\$ 798	
Year ended December 31, 2020	\$ 593	\$ 578	\$ (517)	\$ 654	
Valuation allowance for deferred tax assets:					
Year ended December 31, 2021	\$ 1,257	\$ —	\$ (1,257)	\$ —	
Year ended December 31, 2020	\$ 1,235	\$ 22	\$ —	\$ 1,257	

(1) Deductions reflect uncollected receivables written off, net of recoveries and translation adjustments.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this annual report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that (i) the information relating to Lawson, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, for Lawson Products, Inc. (the "Company"). This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission "*Internal Control – Integrated Framework*" (2013). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021. The Company's independent registered public accounting firm, BDO USA, LLP, has audited and issued a report on the Company's internal controls over financial reporting as set forth in this annual report.

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Lawson Products, Inc.
Chicago, Illinois

Opinion on Internal Control over Financial Reporting

We have audited Lawson Products, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes and financial statement schedule listed in the accompanying index and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/BDO USA, LLP

Chicago, Illinois

February 24, 2022

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

a. Directors

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022, under the caption "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which information is incorporated herein by reference.

b. Executive Officers

The information required by this Item is set forth under the caption Item 1 — *Business* under "Executive Officers of the Registrant."

c. Audit Committee

Information on the Company's Audit Committee is contained under the caption "Board of Directors Meetings and Committees" in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022, which is incorporated herein by reference.

The Board of Directors has determined that Lee Hillman, member of the Audit Committee of the Board of Directors, qualifies as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K, and that Mr. Hillman is "independent" as the term is defined in the listing standards of the NASDAQ Global Select Market.

d. Code of Business Conduct

The Company has adopted a Code of Business Conduct applicable to all employees and sales representatives. The Company's Code of Business Conduct is applicable to senior financial executives including the principal executive officer, principal financial officer and principal accounting officer of the Company. The Company's Code of Business Conduct is available on the Corporate Governance page in the Investor Relations section of the Company's website at www.lawsonproducts.com. The Company intends to post on its website any amendments to, or waivers from its Code of Business Conduct applicable to senior financial executives. The Company will provide any persons with a copy of its Code of Business Conduct without charge upon written request directed to the Company's Secretary at the Company's address.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022, under the caption "Remuneration of Executive Officers," which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022 under the caption "Securities Beneficially Owned by Principal Stockholders and Management" which information is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2021 regarding the number of shares of common stock that were available for issuance under the Company's equity compensation plans which are described in greater detail in Note 17 in the Consolidated Financial Statements.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (1) (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	374,572	\$27.70	164,464
Equity compensation plans not approved by security holders	—	—	—
Total	374,572	\$27.70	164,464

(1) Includes potential common stock issuance of 72,229 from restricted stock awards, 182,480 from market stock units, 80,000 from stock options and 39,863 from performance awards.

(2) Weighted-average exercise price of 80,000 stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022 under the caption "Election of Directors" and "Certain Relationships and Related Transactions" which information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required under this Item is set forth in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022 under the caption "Fees Paid to Independent Auditors" which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a) (1) See Index to Financial Statements in Item 8 on page 38.
- (2) See Schedule II in Item 8 on page 72.
- (3) Exhibits:

Exhibit Number	Description of Exhibit
2.1†	Agreement and Plan of Merger, dated as of December 29, 2021, by and among LKCM TE Investors, LLC, TestEquity Acquisition, LLC, the Company and Tide Sub, LLC, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed January 4, 2022.
2.2†	Agreement and Plan of Merger, dated as of December 29, 2021, by and among 301 HW Opus Investors, LLC, 301 HW Opus Holdings, Inc., the Company and Gulf Sub, Inc., incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 000-10546) filed January 4, 2022.
3.1	Amended and Restated Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 18, 2020.
3.2	Amended and Restated By-laws of the Company, incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 18, 2020.
4.1**	Description of common stock
10.1	Credit Agreement dated October 11, 2019, among the Company and JP Morgan Chase Bank, N.A. as administrative agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed October 16, 2019.
10.2	First Amendment to Credit Agreement dated August 31, 2020, between the Company and JP Morgan Chase Bank, N.A. as administrative agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed September 2, 2020.
10.3*	Lawson Products, Inc. Executive Deferral Plan (as Amended and Restated Effective November 1, 2015), incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.
10.4*	Lawson Products, Inc. Amended Stock Performance Plan (as Amended and Restated Effective January 24, 2017), incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.
10.5*	Amendment of the Lawson Products, Inc. Amended Stock Performance Plan (as Amended and Restated Effective January 24, 2017), dated December 23, 2020, incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K (File No. 000-10546) for the fiscal year ended December 31, 2020.
10.6*	Form Letter regarding Stock Performance Rights, incorporated by reference to Exhibit 10(c)(16) to the Company's Annual Report on Form 10-K (File No. 000-10546) for the fiscal year ended December 31, 2004.
10.7*	Lawson Products, Inc. 2009 Equity Compensation Plan (as Amended and Restated Effective May 14, 2019), incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 3, 2019.
10.8*	First Amendment to the Lawson Products, Inc. 2009 Equity Compensation Plan (as Amended and Restated Effective May 14, 2019), incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 000-10546) filed May 3, 2019.
10.9*	Amendment to the Lawson Products, Inc. 2009 Equity Compensation Plan (as Amended and Restated Effective May 14, 2019), dated December 23, 2020, incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (File No. 000-10546) for the fiscal year ended December 31, 2020.
10.10*	Form of Award Agreement under the 2009 Equity Compensation Plan (Target Units, SPRs and Restricted Units), incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.

<u>10.11*</u>	<u>Form of Award Agreement under the 2009 Equity Compensation Plan (MSU Target Units, ROIC Target Units and Restricted Units), incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.</u>
<u>10.12*</u>	<u>Form of Award Agreement under the 2009 Equity Compensation Plan (MSU Target Units, ROIC Target Units and Restricted Units), incorporated by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.</u>
<u>10.13*</u>	<u>Lawson Products, Inc. 2021 Annual Incentive Plan Summary, incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.</u>
<u>10.14*</u>	<u>Form of Indemnification Agreement for Directors and Officers, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed September 19, 2008.</u>
<u>10.15*</u>	<u>Form of Change in Control Agreement for Officers, incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q (File No. 000-10546) for the quarter ended September 30, 2021.</u>
<u>10.16*</u>	<u>Employment Agreement dated as of August 14, 2017 by and between Lawson Products, Inc., an Illinois corporation, and Michael G. DeCata, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed August 17, 2017.</u>
<u>10.17*</u>	<u>Amendment No.1 to the Employment Agreement entered into on April 11, 2018 between Lawson Products, Inc., an Illinois corporation, and Michael G. DeCata, incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 000-10546) filed April 11, 2018.</u>
<u>10.18*</u>	<u>Employment Agreement dated as of August 29, 2012 by and between Lawson Products, Inc., an Illinois corporation, and Ron Knutson, incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 000-10546) filed September 4, 2012.</u>
<u>10.19*</u>	<u>Retirement and Consulting Agreement, dated as of March 2, 2021, by and between Lawson Products, Inc., an Illinois corporation, and Neil Jenkins, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed March 5, 2021.</u>
<u>10.20</u>	<u>Voting Agreement, dated as of December 29, 2021, by and among the Company and Luther King Capital Management Corporation, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-10546) filed January 4, 2022.</u>
<u>10.21**</u>	<u>Amended and Restated Commitment Letter, dated February 7, 2022, by and between the Company and JPMorgan Chase Bank, N.A.</u>
<u>21**</u>	<u>Subsidiaries of the Company.</u>
<u>23**</u>	<u>Consent of BDO USA, LLP.</u>
<u>31.1**</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2**</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32***</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document
104 Cover Page Interactive File (embedded within the Inline XBRL Document)

† Certain schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K promulgated by the U.S. Securities and Exchange Commission. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

* Indicates management employment contracts or compensatory plans or arrangements.

** Filed herewith.

*** Furnished herewith.

ITEM 16. FORM 10-K SUMMARY.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Michael G. DeCata

Michael G. DeCata
President, Chief Executive Officer and
Director
(principal executive officer)

Date: February 24, 2022

By: /s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial
Officer and Treasurer
(principal financial officer)

Date: February 24, 2022

By: /s/ David S. Lambert

David S. Lambert
Vice President, Controller and Chief Accounting Officer
(principal accounting officer)

Date: February 24, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below this twenty-fourth day of February, 2022, by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ Michael G. DeCata</u> Michael G. DeCata	President, Chief Executive Officer and Director (principal executive officer)
<u>/s/ Ronald J. Knutson</u> Ronald J. Knutson	Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)
<u>/s/ David S. Lambert</u> David S. Lambert	Vice President, Controller and Chief Accounting Officer (principal accounting officer)
<u>/s/ Andrew B. Albert</u> Andrew B. Albert	Director
<u>/s/ I. Steven Edelson</u> I. Steven Edelson	Director
<u>/s/ Lee S. Hillman</u> Lee S. Hillman	Director
<u>/s/ J. Bryan King</u> J. Bryan King	Director
<u>/s/ Mark F. Moon</u> Mark F. Moon	Director
<u>/s/ Bianca A. Rhodes</u> Bianca A. Rhodes	Director

J.P.Morgan

February 7, 2022

Lawson Products, Inc.
Senior Secured Credit Facilities
Amended and Restated Commitment Letter

Lawson Products, Inc.
8770 W. Bryn Mawr Ave., Suite 900
Chicago, Illinois 60631
Attention: Ron Knutson, Chief Financial Officer

Ladies and Gentlemen:

You (the “Borrower” or “you”) have requested that JPMorgan Chase Bank, N.A. (“JPMorgan”) agree to arrange and syndicate senior secured credit facilities in an aggregate principal amount of up to \$500,000,000 for you and certain of your affiliates on a joint and several basis, consisting of (i) a revolving credit facility in an initial aggregate principal amount of \$200,000,000, (ii) an initial term loan facility in an aggregate principal amount of \$250,000,000 and (iii) a delayed draw term loan facility in an aggregate principal amount of \$50,000,000 (collectively, the “Facilities”). You have requested that JPMorgan commit to provide a portion of the Facilities and to serve as administrative agent for the Facilities. JPMorgan is pleased to advise you that it is willing to act as a joint lead arranger for the Facilities.

Furthermore, JPMorgan, is pleased to advise you of (a) its commitment to provide up to \$125,000,000 of the Facilities and (b) its agreement to use commercially reasonable efforts to assemble a syndicate of financial institutions identified by JPMorgan and agreed to by you, to provide the balance of the necessary commitments for the Facilities, in each case upon the terms and subject to the conditions set forth or referred to in this amended and restated commitment letter (this “Commitment Letter”) and in the Term Sheet attached as Exhibit A hereto (the “Term Sheet”). It is a condition to JPMorgan’s commitment hereunder that the portion of the Facilities not being provided by JPMorgan shall be provided by the other Lenders referred to below.

1. Titles and Roles

It is agreed that (a) JPMorgan will act as the sole and exclusive administrative agent (the “Administrative Agent”) for the Facilities and (b) JPMorgan will act as a joint lead arranger and joint bookrunner for the Facilities (in such capacities, the “Initial Lead Arranger”); provided, that the Borrower acknowledges and agrees that (i) the agreement of JPMorgan to act as administrative agent for the Facilities may be assumed by an affiliated bank and (ii) JPMorgan may perform its responsibilities hereunder through one or more of its affiliates, including J.P. Morgan Securities LLC. JPMorgan will have “left lead” placement in all Information Materials (as defined below) and all other documentation used in connection with the Facilities, and JPMorgan will have all roles and responsibilities customarily associated with such placement. You agree that no other agents, co-agents, bookrunners or arrangers will be appointed, no other titles will be awarded and no compensation (other than as expressly contemplated by the Term Sheet and the Fee Letters referred to below) will be paid in connection with the Facilities unless you and we shall so agree; provided, that, subject to the immediately preceding sentence, you may, with our prior consent, appoint additional lead arrangers and/or joint bookrunners with respect to the

Facilities in a manner and with economics to be agreed (any such additional financial institutions, “Additional Arrangers” and, together with the Initial Lead Arranger, the “Lead Arrangers”), upon the execution by such financial institution of customary joinder documentation and, thereafter, each such financial institution shall constitute a “Lead Arranger” hereunder; provided further, that no Additional Arranger shall receive fees greater than the fees payable to the Initial Lead Arranger.

2. Syndication

The Lead Arrangers intend to syndicate the Facilities (including, in its discretion, all or part of each Lead Arranger’s (or its affiliates’) (the “Initial Lenders”) commitment hereunder) to a group of financial institutions (together with the Initial Lenders, the “Lenders”) identified by us in consultation with you and reasonably acceptable to you. The Lead Arrangers intend to commence syndication efforts promptly upon the execution of this Commitment Letter, and you agree to actively assist the Lead Arrangers in completing a syndication reasonably satisfactory to them. Such assistance shall include (a) your using commercially reasonable efforts to ensure that the syndication efforts benefit materially from your existing lending relationships, (b) direct contact between senior management and advisors of the Borrower and prospective Lenders, (c) the hosting, with the Lead Arrangers, of one or more virtual meetings of prospective Lenders upon reasonable prior notice and at times to be mutually agreed, (d) as set forth in the next paragraph, reasonable assistance in the preparation of customary materials to be used in connection with the syndication, including but not limited to, a customary confidential information memorandum and a customary lender presentation or lender slides, for distribution to prospective Lenders (all such information, memoranda and materials, collectively with the Term Sheet, the “Information Materials”), and (e) preparing and providing to the Lead Arrangers all customary information with respect to you and your subsidiaries and the transactions contemplated hereby, including all customary financial information and Projections (as defined below) as the Lead Arrangers may reasonably request to be used in connection with the arrangement and syndication of the Facilities. You hereby authorize the Lead Arrangers to download copies of the Borrower’s trademark logos from its website and post copies thereof and any Information Materials to a deal site on IntraLinksTM, DebtDomain, SyndTrak, ClearPar or any other electronic platform chosen by the Lead Arrangers to be its electronic transmission system (an “Electronic Platform”) established by the Lead Arrangers to syndicate the Facilities, and to use the Borrower’s trademark logos on any Information Materials or in any advertisements that the Lead Arrangers or any Initial Lender may place after the closing of the Facilities in financial and other newspapers, journals, the World Wide Web, home page or otherwise (including tombstones and other publication of the Facilities), at our own expense, describing our services to the Borrower hereunder; provided that any such materials shall be previously approved by the Borrower (such approval not to be unreasonably withheld, conditioned or delayed). You also understand and acknowledge that the Lead Arrangers and Initial Lenders may provide to market data collectors, such as league table, or other service providers to the lending industry, information regarding the closing date, size, type, purpose of, and parties to, the Facilities.

You will assist the Lead Arrangers in preparing Information Materials for distribution to prospective Lenders. Before distribution of any Information Materials, if requested, you agree to execute and deliver to the Lead Arrangers a letter in which you authorize distribution of the Information Materials to a prospective Lender’s employees subject to customary confidentiality and exculpation provisions.

The Lead Arrangers will manage all aspects of the syndication, in consultation with you, including decisions as to the selection of institutions to be approached and when they will be approached, when their commitments will be accepted, which institutions will participate (subject to your approval), the allocations of the commitments among the Lenders (subject to your approval) and the amount and distribution of fees among the Lenders (subject to your approval). In acting as the Initial Lead Arranger, JPMorgan will have no responsibility other than to arrange the syndication as set forth herein and is

acting solely in the capacity of an arm's length contractual counterparty to the Borrower with respect to the arrangement of the Facilities (including in connection with determining the terms of the Facilities) and not as a financial advisor or a fiduciary to, or an agent of, the Borrower or any other person.

3. Information

To assist the Lead Arrangers in their syndication efforts, you agree promptly to prepare and provide to the Lead Arrangers all information with respect to the Borrower and its subsidiaries and the transactions contemplated hereby (the "Transactions"), including all financial information and projections (the "Projections"), as the Lead Arrangers may reasonably request in connection with the arrangement and syndication of the Facilities. You hereby represent and covenant that (a) all information other than the Projections (the "Information") concerning you or your affiliates that has been or will be made available to the Lead Arrangers by you or any of your representatives in connection with the Transactions is or will be, when furnished to the Lead Arrangers, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made (after giving effect to all supplements and updates thereto from time to time) and (b) the Projections that have been or will be made available to the Lead Arrangers by you or any of your representatives in connection with the Transactions have been or will be prepared in good faith based upon reasonable assumptions at the time made; it being understood that the Projections (i) are based on future events, are not to be viewed as facts, and are subject to significant uncertainties and contingencies, many of which are beyond your control, that no assurance can be given that any particular Projections will be realized and that actual results during the period or periods covered by any such Projections may differ significantly from the projected results and such differences may be material and (ii) are not a guarantee of performance. For the avoidance of doubt, you will not be required to provide any information to the extent that the provision thereof would violate any attorney-client privilege, law, rule or regulation, or any obligation of confidentiality binding upon you or your affiliates. If, at any time prior to the termination of this Commitment Letter, you become aware that any of the representations and warranties in the preceding sentence would not be accurate and complete in any material respect if the Information or Projections were being furnished, and such representations and warranties were being made, at such time, then you agree to promptly supplement the Information and/or Projections so that the representations and warranties contained in this paragraph remain accurate and complete in all material respects under those circumstances. You understand that in arranging and syndicating the Facilities the Lead Arrangers may use and rely on the Information and Projections without independent verification thereof.

4. Fees

As consideration for JPMorgan's and each Initial Lender's commitment hereunder and each Lead Arranger's agreement to perform the services described herein, you agree to pay to the applicable Initial Lenders the nonrefundable fees set forth in Annex I to the Term Sheet and set forth in the fee letter between you and JPMorgan (the "Agent Fee Letter") and in any other fee letter between you and any Initial Lenders (or their affiliates) and delivered in connection herewith (each such additional fee letter collectively with the Agent Fee Letter, the "Fee Letters").

You agree that, once paid, the fees or any part thereof payable hereunder or under the Fee Letters shall not be refundable under any circumstances, regardless of whether the transactions or borrowings contemplated by this Commitment Letter are consummated, except as otherwise agreed in writing by you and the parties to the applicable Fee Letter. All fees payable hereunder and under each Fee Letter shall be paid in immediately available funds in U.S. Dollars and shall not be subject to reduction by way of withholding, setoff or counterclaim or be otherwise affected by any claim or dispute related to any other

matter. In addition, all fees payable hereunder shall be paid without deduction for any taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any national, state or local taxing authority, or will be grossed up by you for such amounts.

5. Conditions

Each Initial Lender's commitments and agreements hereunder and its agreement to perform the services described herein are subject to (a) there not occurring or becoming known to us any event, development or circumstance that has or could reasonably be expected to have a material adverse effect on the business, operations, property, or financial condition of the Borrower and its subsidiaries, taken as a whole, (b) our completion of and satisfaction in all respects with a due diligence investigation of the Borrower and its subsidiaries, (c) our not becoming aware after the date hereof of any information or other matter affecting the Borrower or its subsidiaries or the Transactions which in our judgment is inconsistent in a material and adverse manner with any such information or other matter disclosed to us prior to the date hereof or could reasonably be expected to materially impair the syndication of the Facilities, (d) during the syndication of the Facilities, there being no competing offering, placement or arrangement of any debt securities or bank financing by or on behalf of the Borrower if such offering, placement or arrangement would materially impair the primary syndication of the Facilities (it being understood that your and your subsidiaries' deferred purchase price obligations, ordinary course working capital facilities and ordinary course capital lease, receivables financing, purchase money and equipment financings, and any other indebtedness as mutually agreed upon with the Lead Arrangers in writing, will not be deemed in each case to materially impair the primary syndication of the Facilities), (e) the Lead Arrangers having been afforded a reasonable period of time to syndicate the Facilities, which in no event shall be longer than 30 days from the date of commencement of syndication, (f) your execution and delivery on or before June 30, 2022 (the "Termination Date") of definitive documentation relating to the Facilities reasonably satisfactory to you, the Initial Lead Arranger and its counsel, (g) your compliance with the terms of this Commitment Letter and the Fee Letters, and (h) the other conditions set forth or referred to in the Term Sheet. The terms and conditions of each Initial Lender's commitment hereunder and of the Facilities are not limited to those set forth herein and in the Term Sheet. Those matters that are not covered by the provisions hereof and of the Term Sheet are subject to the approval and agreement of each Initial Lender, each Lead Arranger and the Borrower. Furthermore, the Borrower will continue to maintain JPMorgan as its primary depository bank and provider of treasury management services.

6. Limitation of Liability; Indemnity; Settlement

(a) You agree that (i) in no event shall any indemnified person (as defined below) have any Liabilities, on any theory of liability, for any special, indirect, consequential or punitive damages incurred by you, your affiliates or your respective equity holders arising out of, in connection with, or as a result of, the Transactions, this Commitment Letter, the Fee Letters, the Facilities, the use of proceeds thereof or any other agreement or instrument contemplated hereby or thereby and (ii) no indemnified person shall have any Liabilities arising from, or be responsible for, the use by others of Information or other materials (including, without limitation, any personal data) obtained through electronic, telecommunications or other information transmission systems, including an Electronic Platform or otherwise via the internet, except to the extent such Liabilities are found by a final, non-appealable judgment of a court of competent jurisdiction to result from the bad faith, willful misconduct or gross negligence of such indemnified person in managing the distribution of such Information or other materials; provided that, nothing in this clause (a) shall relieve you of any obligation you may have to indemnify an indemnified person, as provided in clause (b) below, against any special, indirect, consequential or punitive damages asserted against such indemnified person by a third party. You agree, to the extent permitted by applicable law, to not assert any claims against any indemnified person with respect to any of the foregoing. As used

herein, the term “Liabilities” shall mean any losses, claims (including intraparty claims), demands, damages or liabilities of any kind.

(b) You agree (i) to (A) indemnify and hold harmless each Lead Arranger, each Initial Lender and their respective affiliates and the respective officers, directors, employees, advisors, affiliates and agents of such persons (each, an “indemnified person”) from and against any and all Liabilities and related expenses to which any such indemnified person may become subject arising out of or in connection with the Transactions, this Commitment Letter, the Fee Letters, the Facilities, the use of the proceeds thereof, any related transaction, the activities performed or the commitments or services furnished pursuant to this Commitment Letter or the role of JPMorgan or any Initial Lender in connection therewith or in connection with or any actual or prospective claim, litigation, investigation, arbitration or administrative, judicial or regulatory action or proceeding in any jurisdiction relating to any of the foregoing (including in relation to enforcing the terms of clause (a) above and the terms of this clause (b)) (each, a “Proceeding”), regardless of whether any indemnified person is a party thereto or whether such Proceedings are brought by you, your equity holders, affiliates, creditors or any other person, and (B) reimburse each indemnified person within thirty (30) days after receipt of a written request together with reasonably detailed backup documentation supporting such reimbursement request for any reasonable and documented legal or other out-of-pocket expenses incurred in connection with investigating or defending any of the foregoing, regardless of whether or not in connection with any pending or threatened Proceeding to which any indemnified person is a party (with any legal expenses limited to one counsel for all indemnified persons (and, solely in the case of a conflict of interest, one additional counsel for each group of affected Indemnified Persons and, if reasonably necessary, one local counsel per relevant jurisdiction but excluding allocated fees and costs of in-house counsel)); provided that the foregoing indemnity will not, as to any indemnified person, apply to Liabilities or related expenses to the extent they (I) are found by a final, non-appealable judgment of a court of competent jurisdiction to arise or result (x) the bad faith, willful misconduct or gross negligence of such indemnified person in performing its activities or in furnishing its services under this Commitment Letter or (y) a material breach of the obligations of such indemnified person under this Commitment Letter, or (II) have not resulted from an act or omission by you or any of your affiliates and arise from a claim made by an indemnified person against any other indemnified person (other than any claims against JPMorgan or any other Lead Arranger in their capacities or in fulfilling their role as an arranger or agent or any similar role hereunder), and (ii) to reimburse each Lead Arranger, the Initial Lenders and their respective affiliates, after receipt of a written request together with reasonably detailed backup documentation supporting such reimbursement request, for all reasonable and documented out-of-pocket expenses (including due diligence expenses, syndication expenses (including electronic distribution expenses), consultant’s fees and expenses (if any), travel expenses, and reasonable and documented fees, charges and disbursements of one counsel to the Lead Arrangers and the Initial Lenders in each applicable jurisdiction (and, solely in the case of an actual or perceived conflict of interest, one additional counsel to the affected Initial Lender(s))) incurred in connection with the Transactions, the Facilities and any related documentation (including this Commitment Letter, the Term Sheet, the Fee Letters and the definitive documentation relating to the Facilities) or the administration, amendment, modification or waiver thereof; provided, however, (x) to the extent that the closing date does not occur, any of the foregoing fees and expenses shall be paid within thirty (30) days after receipt of a written request together with reasonably detailed backup documentation supporting such reimbursement request, and (y) JPMorgan or its counsel shall provide you with periodic updates of accrued legal counsel fees and related out-of-pocket expenses in excess of \$100,000.

(c) You shall not be liable for any settlement of any Proceeding if the amount of such settlement was effected without your consent (which consent shall not be unreasonably withheld, conditioned or delayed), but if settled with your written consent or if there is a final judgment for the plaintiff in any such Proceeding, you agree to indemnify and hold harmless each indemnified person from and against any and all Liabilities and related expenses by reason of such settlement or judgment in

accordance with the terms of clause (b) above. You shall not, without the prior written consent of an indemnified person (which consent shall not be unreasonably withheld, conditioned or delayed), effect any settlement of any pending or threatened Proceedings in respect of which indemnity could have been sought hereunder by such indemnified person unless (x) such settlement includes an unconditional release of such indemnified person in form and substance reasonably satisfactory to such indemnified person from all liability on claims that are the subject matter of such Proceeding and (y) does not include any statement as to, or any admission of, fault, culpability or a failure to act by or on behalf of any indemnified person or any injunctive relief or other non-monetary remedy.

7. Affiliate Activities, Sharing of Information, Absence of Fiduciary Relationships

JPMorgan and each Initial Lender may employ the services of its affiliates in providing certain services hereunder and, in connection with the provision of such services, may exchange with such affiliates information concerning you and the other companies that may be the subject of the transactions contemplated by this Commitment Letter, and, to the extent so employed, such affiliates shall be entitled to the benefits, and be subject to the obligations, of JPMorgan or such Initial Lender, as applicable, hereunder. JPMorgan and each Initial Lender shall be responsible for its affiliates' failure to comply with such obligations under this Commitment Letter.

You acknowledge that JPMorgan, each Initial Lender and any of their respective affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which you may have conflicting interests regarding the Transactions and otherwise. Neither JPMorgan, nor any Initial Lender nor any of their respective affiliates will use confidential information obtained from you by virtue of the Transactions or their other relationships with you in connection with the performance by JPMorgan, any Initial Lender or any of its respective affiliates of services for other companies, and neither JPMorgan, nor any Initial Lender nor any of their respective affiliates will furnish any such information to other companies. You also acknowledge that JPMorgan, each Initial Lender and their respective affiliates have no obligation to use in connection with the Transactions, or to furnish to you confidential information obtained from other companies.

You agree that JPMorgan, each Initial Lender and their respective affiliates will act under this Commitment Letter as independent contractors and that nothing in this Commitment Letter will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between JPMorgan, each Initial Lender and their respective affiliates, on the one hand, and you and your respective equity holders or your and their respective affiliates, on the other hand. You acknowledge and agree that (i) the transactions contemplated by this Commitment Letter are arm's-length commercial transactions between JPMorgan and the Initial Lenders and, if applicable, their respective affiliates, on the one hand, and you, on the other, (ii) in connection therewith and with the process leading to such transaction each of JPMorgan and each Initial Lender and, if applicable, their respective affiliates, is acting solely as a principal and has not been, is not and will not be acting as an advisor, agent or fiduciary of you, your management, equity holders, creditors, affiliates or any other person and (iii) with respect to the transactions contemplated hereby or the process leading thereto none of JPMorgan or the Initial Lenders and, if applicable, their respective affiliates, has assumed (x) an advisory or fiduciary responsibility in favor of you or your affiliates (irrespective of whether JPMorgan, any Initial Lender or any of their respective affiliates has advised or is currently advising you or your affiliates on other matters (which, for the avoidance of doubt, includes acting as a financial advisor to the Borrower or any of its affiliates in respect of any transaction related hereto)) or (y) any other obligation except the obligations expressly set forth in this Commitment Letter. You further acknowledge and agree that (i) you are responsible for making your own independent judgment with respect to such transactions and the process leading thereto, (ii) you are capable of evaluating and understand and accept the terms, risks and conditions of the transactions contemplated hereby, and JPMorgan and the Initial Lenders shall have no

responsibility or liability to you with respect thereto, and (iii) none of JPMorgan or the Initial Lenders is advising the Borrower as to any legal, tax, investment, accounting, regulatory or any other matters in any jurisdiction, and you shall consult with your own advisors concerning such matters and you shall be responsible for making your own independent investigation and appraisal of the transactions contemplated hereby. Any review by any Initial Lender or any of its affiliates of the Borrower, the Transactions or other matters relating to the Transactions will be performed solely for the benefit of such Initial Lender and shall not be on behalf of the Borrower. The Borrower agrees that it will not claim that JPMorgan or any Initial Lender has rendered any advisory services or assert any claim against JPMorgan or any Initial Lender based on an alleged breach of fiduciary duty by JPMorgan or any Initial Lender in connection with this Commitment Letter and the Transactions or assert any claim based on any actual or potential conflict of interest that might be asserted to arise or result from the engagement of JPMorgan or any Initial Lender or any of their respective affiliates acting as a financial advisor to the Borrower or any of its affiliates, on the one hand, and the engagement of JPMorgan and the Initial Lenders hereunder and the transactions contemplated hereby, on the other hand.

You further acknowledge that each of JPMorgan and each Initial Lender and their respective affiliates are full service securities or banking firms engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business JPMorgan, the Initial Lenders and their respective affiliates may provide investment banking and other financial services to, and/or acquire, hold or sell, for their own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of, you and other companies with which you may have commercial or other relationships. With respect to any securities and/or financial instruments so held by JPMorgan, any Initial Lender, any of their respective affiliates or any of their respective customers, all rights in respect of such securities and financial instruments, including any voting rights, will be exercised by the holder of the rights, in its sole discretion.

8. Confidentiality

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter, the Term Sheet or any Fee Letter nor any of their terms or substance hereof or thereof shall be disclosed by you, directly or indirectly, to any other person except (a) to your affiliates and yours and their officers, directors, agents, accounts, attorneys and other advisors (other than commercial lenders) (provided that they shall maintain the confidentiality of such information), (b) in connection with the exercise of any remedies hereunder or under the Fee Letters or any suit, action or proceeding relating to this Commitment Letter, any Fee Letter or the Facilities, (c) as may be compelled in a judicial or administrative proceeding or as otherwise required by law (in which case you agree, to the extent practicable and not prohibited by applicable law or regulation, to inform us promptly thereof), (d) other than any Fee Letter or the contents thereof, in filings with the Securities and Exchange Commission and other applicable regulatory authorities and stock exchanges, (e) other than any Fee Letter or the contents thereof, subject to customary confidentiality requirements, in presentations to or communications with any rating agency, (f) subject to customary confidentiality requirements, in any syndication or other marketing materials related to the Facilities, (g) the existence of the Fee Letter and the aggregate fees contained in the Fee Letter as part of projections, pro forma information and generic disclosure of aggregate sources and uses related to fee amounts to the extent customary or required in marketing materials, any proxy or other public filing or any prospectus or other offering memorandum), (h) the Term Sheet may be disclosed to Lenders and potential Lenders in connection with the syndication of the Facilities and (i) the Term Sheet and the aggregate fees contained in the Fee Letter to your direct and indirect investors who are informed of and agree to adhere to the confidential nature of such information. Officers, directors, employees and agents of each Lead Arranger, each Initial Lender and their respective affiliates shall at all times have the right to share amongst themselves information received, on a need to

know basis, from you and your respective affiliates and your respective officers, directors, employees and agents; provided that they shall maintain the confidentiality of such information.

Each Lead Arranger will treat all non-public information provided to it by or on behalf of you in connection with the Transactions confidentially and shall not publish, disclose or otherwise divulge, such information; provided that nothing herein shall prevent such Lead Arranger and its affiliates from disclosing any such information (a) pursuant to the order of any court or administrative agency or in any pending legal, judicial or administrative proceeding, or otherwise as required by applicable law, rule or regulation, subpoena or compulsory legal process or upon the request or demand of any regulatory authority (including any self-regulatory authority) or other governmental authority purporting to have jurisdiction over such Lead Arranger or any of its affiliates (in which case such Lead Arranger agrees (except with respect to any audit or examination conducted by bank accountants or any self-regulatory authority or governmental or regulatory authority exercising examination or regulatory authority), to the extent practicable and not prohibited by applicable law or regulation, to inform you promptly thereof prior to disclosure), (b) to the extent that such information becomes publicly available other than by reason of improper disclosure by a Lead Arranger or any of its affiliates in violation of any confidentiality obligations owing to you hereunder, (c) to the extent that such information is received by a Lead Arranger from a third party that is not, to such Lead Arranger's knowledge, subject to contractual or fiduciary confidentiality obligations owing to you with respect to such information, (d) to the extent that such information is independently developed by a Lead Arranger or any of its affiliates, (e) to each Lead Arranger's affiliates and their and their respective employees, directors, officers, independent auditors, rating agencies, professional advisors and other experts or agents who need to know such information in connection with the Transactions and who are informed of the confidential nature of such information (with such Lead Arranger responsible for its affiliates' compliance with this paragraph), (f) in connection with the exercise of any remedies hereunder or under the Fee Letter or any suit, action or proceeding relating to this Commitment Letter, the Fee Letter or the Facilities and/or (g) to prospective Lenders, hedge providers, participants or assignees (collectively, "Prospective Parties"); provided that for purposes of clause (g) above, the disclosure of any such information to any Prospective Party shall be made subject to such Prospective Party written agreement to treat such information confidentially on substantially the terms set forth in this paragraph. If the Facilities close, each Lead Arranger's obligations under this paragraph shall terminate and be superseded by the confidentiality provisions in the definitive documentation relating to the Facilities. Otherwise, the provisions of this paragraph shall expire one year after the date hereof.

9. Miscellaneous

This Commitment Letter shall not be assignable by you without the prior written consent of JPMorgan and the Initial Lenders (and any purported assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto and the indemnified persons and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto and the indemnified persons. This Commitment Letter may not be amended or waived except by an instrument in writing signed by you, JPMorgan and each Initial Lender. This Commitment Letter may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which, when taken together, shall constitute one agreement. Delivery of an executed signature page of this Commitment Letter by facsimile or other electronic transmission (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart hereof. This Commitment Letter, the Term Sheet and the Fee Letters (and any joinder agreements or other agreements entered into in connection with the addition of Initial Lenders as parties hereto) are the only agreements that have been entered into among the Borrower, the Lead Arrangers and the Initial Lenders with respect to the Facilities and set forth the entire understanding of the parties with respect thereto.

The words “execution,” “signed,” “signature,” “delivery,” and words of like import in or relating to this Commitment Letter, any Fee Letter or any document to be signed in connection with this Commitment Letter and the Transactions shall be deemed to include Electronic Signatures (as defined below), deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be. “Electronic Signatures” means any electronic symbol or process attached to, or associated with, any contract or other record and adopted by a person with the intent to sign, authenticate or accept such contract or record.

This Commitment Letter shall be governed by, and construed in accordance with, the laws of the State of Illinois. The Borrower hereby irrevocably and unconditionally consents to the exclusive jurisdiction and venue of the state or federal courts located in the City of Chicago. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, (A) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING BROUGHT BY OR ON BEHALF OF ANY PARTY ARISING OUT OF OR RELATING TO THIS COMMITMENT LETTER, ANY FEE LETTER, THE TERM SHEET OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) AND (B) ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LEGAL PROCEEDING IN THE STATE OR FEDERAL COURTS LOCATED IN THE CITY OF CHICAGO.

JPMorgan and each Initial Lender hereby notifies you that pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law October 26, 2001) (the “Patriot Act”) and 31 C.F.R. § 1010.230 (the “Beneficial Ownership Regulation”), it and its affiliates are required to obtain, verify and record information that identifies the Borrower and its subsidiary guarantors, which information includes the name, address, tax identification number and other information regarding the Borrower and its subsidiary guarantors that will allow JPMorgan and each Initial Lender to identify the Borrower and its subsidiary guarantors in accordance with the Patriot Act and the Beneficial Ownership Regulation. This notice is given in accordance with the requirements of the Patriot Act and the Beneficial Ownership Regulation and is effective for JPMorgan, Initial Lender and each of their respective affiliates.

The compensation, reimbursement, indemnification and confidentiality provisions contained herein and in any Fee Letter shall remain in full force and effect regardless of whether definitive documentation relating to the Facilities shall be executed and delivered and notwithstanding the termination of this Commitment Letter or JPMorgan’s commitment hereunder.

Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Commitment Letter.

If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof and of the Term Sheet and the Fee Letters by returning to the Initial Lead Arranger or its counsel executed counterparts hereof and of the Fee Letters not later than 11:59 p.m., Chicago time, on February 7, 2022. The commitments and agreements of the Initial Lenders herein will expire at such time in the event JPMorgan has not received such executed counterparts in accordance with the preceding sentence. This Commitment may be terminated at any time by you, effective upon receipt by the JPMorgan of notice to that effect from you.

The parties hereto acknowledge and agree that this Commitment Letter amends and restates and supersedes in its entirety the Commitment Letter, dated as of January 13, 2022, between us and you.

[Signature Pages Follow]

JPMorgan is pleased to have been given the opportunity to assist you in connection with this important financing.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By: _____

Name:

Title:

Accepted and agreed to as of
the date first written above by:

LAWSON PRODUCTS, INC.


By: _____

Name:

Title:

Accepted and agreed to as of
the date first written above by:

LAWSON PRODUCTS, INC.

By: 
Name: Ronald J. Kurowski
Title: EVP, CFO

Lawson Products, Inc.
Senior Secured Credit Facilities
Term Sheet

February 7, 2022

I. Parties

Borrower: Lawson Products, Inc. ("Lawson"), Baron Divestiture Company, Inc., Lawson Products Canada Inc., Bolt Supply House Ltd. and, after giving effect to each applicable Acquisition (as defined below), GS Operating, LLC and TestEquity LLC on a joint and several basis (collectively, the "Borrower" or the "Borrowers").

Joint Lead Arrangers and Joint Bookrunners: JPMorgan Chase Bank, N.A. ("JPMorgan" and in such capacity, the "Lead Arranger") and other financial institutions to be determined.

Administrative Agent: JPMorgan (in such capacity, the "Administrative Agent").

Lenders: A syndicate of banks, financial institutions and other entities, including JPMorgan, arranged by the Lead Arranger and agreed to by Lawson (collectively, the "Lenders").

II. Revolving Credit Facility

Type and Amount of Facility: Five-year revolving credit facility (the "Revolving Facility") in the U.S. Dollar equivalent amount of \$200,000,000 (the "Revolving Commitment" and the loans thereunder, the "Revolving Loans"). Revolving Loans shall be available in (a) U.S. Dollars and (b) Canadian Dollars and other currencies acceptable to Lawson, the Lenders under the Revolving Facility, the Issuing Lender (to the extent Letters of Credit will be denominated in such currency) and the Administrative Agent; provided that each such additional currency is a lawful currency that is readily available, freely transferable and not restricted, able to be converted into U.S. Dollars and available in the applicable interbank deposit market (collectively with U.S. Dollars and Canadian Dollars, "Agreed Currencies").

Availability: The Revolving Facility shall be available on a revolving basis during the period commencing on the Closing Date (as defined below) and ending on the fifth anniversary thereof (the "Termination Date").

Letters of Credit: A portion of the Revolving Facility not in excess of the U.S. Dollar equivalent of \$25,000,000 shall be available in Agreed Currencies for the issuance of letters of credit (the "Letters of Credit") by JPMorgan (in such capacity, the "Issuing Lender"). No Letter of Credit shall have an expiration date after the earlier of (a) one year after the date of issuance and (b) five business days prior to the Termination Date

(or such later date as may be agreed by the Issuing Lender in its sole discretion; provided that any Letter of Credit with a one-year tenor may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (b) above); provided further that Letters of Credit may extend beyond such date to the extent such Letters of Credit are cash collateralized or subject to other arrangements satisfactory to the Issuing Lender and consistent with the Existing Credit Agreement (as defined below)).

Drawings under any Letter of Credit shall be reimbursed by the Borrowers (whether with their own funds or with the proceeds of Revolving Loans) on the same business day as provided in the Existing Credit Agreement. To the extent that the Borrowers do not so reimburse the Issuing Lender, the Lenders under the Revolving Facility shall be irrevocably and unconditionally obligated to reimburse the Issuing Lender on a pro rata basis.

Swing Line Loans:

A portion of the Revolving Facility not in excess of \$10,000,000 may be available, at the discretion of the Swing Line Lender, for swing line loans in U.S. Dollars (the "Swing Line Loans") from JPMorgan (in such capacity, the "Swing Line Lender"). Any Borrower organized in the United States may request Swing Line Loans from the Swing Line Lender on same-day notice. Any such Swing Line Loans will reduce availability under the Revolving Facility on a dollar-for-dollar basis. Each Lender under the Revolving Facility shall acquire, under certain circumstances, an irrevocable and unconditional pro rata participation in each Swing Line Loan.

Maturity:

The Termination Date.

III. Initial Term Loan Facility

Type and Amount
of Facility:

A term loan facility (the "Initial Term Loan Facility") in the amount of \$250,000,000 (the "Initial Term Loan Commitment," and the loans thereunder, the "Initial Term Loans").

Availability:

The Initial Term Loans shall be made available in a single drawing on the Closing Date. Amounts repaid or prepaid in respect of the Initial Term Loans may not be reborrowed.

Amortization:

The Initial Term Loans will amortize in equal quarterly installments in an aggregate annual amount equal to 5% of the original principal amount of the Initial Term Loan Facility commencing on the last day of the first full fiscal quarter ending after the Closing Date.

Maturity:

The Initial Term Loan Facility will mature on the Termination Date. The remaining aggregate principal amount of the Initial Term Loans will be repayable at maturity.

IV. Delayed Draw Term Loan Facility

Type and Amount

of Facility: A delayed draw term loan facility (the “Delayed Draw Term Loan Facility”; the Delayed Draw Term Loan Facility and the Initial Term Loan Facility shall be collectively or individually referred to as the “Term Loan Facility”, as the context requires, and, together with the Revolving Facility, the “Facilities” and each a “Facility”) in the amount of \$50,000,000 (the “Delayed Draw Term Loan Commitment,” and the loans thereunder, the “Delayed Draw Term Loans”; the Delayed Draw Term Loans and the Initial Term Loans being collectively referred to as the “Term Loans”).

Availability: The Delayed Draw Term Loan Facility shall be available during the period commencing on the Closing Date and ending on the date that is 6 months after the Closing Date (the “DDTL Availability Period”), subject to the following conditions:

- (i) the Delayed Draw Term Loan Facility may be funded in minimum draws of \$5,000,000;
- (ii) immediately before and after giving effect to each drawing under the Delayed Draw Term Loan Facility, no default or event of default shall have occurred or be continuing; and
- (iii) all of the representations and warranties in the Credit Documentation shall be true and correct in all material respects (or in all respects in the case of any representation or warranty qualified by materiality or material adverse effect).

The Delayed Draw Term Loan Commitment shall terminate on a dollar-for-dollar basis with any funding of Delayed Draw Term Loans (immediately after giving effect thereto). Any unused portion of the Delayed Draw Term Loan Commitment shall terminate on the last day of the DDTL Availability Period. Amounts repaid or prepaid in respect of the Delayed Draw Term Loans may not be reborrowed. Lawson may elect to terminate or reduce the Delayed Draw Term Loan Facility at any time upon prior notice to the Administrative Agent.

Amortization: The outstanding principal balance of any drawing of Delayed Draw Term Loans will amortize at the same percentage as the Initial Term Loans funded on the Closing Date (or such other percentage(s) to be agreed by Lawson and the Administrative Agent to ensure that the Delayed Draw Term Loans will be “fungible” with the Initial Term Loans) and will commence on the first scheduled installment date for amortization of the Initial Term Loans following the earlier of (a) the date the Delayed Draw Term Loan Commitment has been fully drawn and (b) the date of expiration of the DDTL Availability Period.

Maturity: The Delayed Draw Term Loan Facility will mature on the Termination Date. The remaining aggregate principal amount of the Delayed Draw Term Loans will be repayable at maturity.

V. Expansion Feature

Incremental Facility: On or subsequent to the Closing Date, Lawson may, at its option, on the same terms and conditions as the applicable Facility (subject to such customary exceptions to be agreed between Lawson and the Lead Arranger), request to increase the Revolving Commitment and/or obtain incremental term loans in an aggregate amount of up to \$200,000,000 during the term of the Facilities by obtaining one or more commitments from one or more Lenders or, with the consent of the Administrative Agent and, in the case of any increase in the Revolving Commitment, the Issuing Lender and the Swing Line Lender, but without the consent of any other Lenders, from other entities. No Lender shall have any obligation to increase its commitment under the Revolving Facility or to participate in any tranche of incremental term loans.

VI. Purpose; Certain Payment Provisions

Transactions: Lawson proposes to acquire, directly or indirectly, (i) all of the issued and outstanding equity interests of 301 HW Opus Holdings, Inc. (collectively with its subsidiaries and all assets relating thereto, the “Gexpro Target”) pursuant to the Agreement and Plan of Merger (together with all exhibits, schedules, disclosure letters and attachments and supplements thereto, the “Gexpro Acquisition Agreement”), dated as of December 29, 2021, among Lawson, Gulf Sub, Inc., 301 HW Opus Holdings, Inc. and 301 HW Opus Investors, LLC (the “Gexpro Acquisition”), and (ii) all of the issued and outstanding equity interests of TestEquity Acquisition, LLC (collectively with its subsidiaries and all assets relating thereto, the “TestEquity Target” and, together with the Gexpro Target, the “Targets” and each a “Target”) pursuant to the Agreement and Plan of Merger (together with all exhibits, schedules, disclosure letters and attachments and supplements thereto, the “TestEquity Acquisition Agreement” and, together with the Gexpro Acquisition Agreement, the “Acquisition Agreements” and each an “Acquisition Agreement”), dated as of December 29, 2021, among Lawson, Tide Sub, LLC, TestEquity Acquisition, LLC and LKCM TE Investors, LLC (the “TestEquity Acquisition” and, together with the Gexpro Acquisition, the “Acquisitions” and each an “Acquisition”).

Purpose: The proceeds of the Initial Term Loan Facility and the Revolving Facility will be used to (a) pay the fees, costs and expenses incurred in connection with the Acquisitions, (b) finance the Refinancing (as defined below) and (c) finance the working capital needs and general corporate purposes of Lawson and its subsidiaries in the ordinary course of business (including, without limitation, permitted acquisitions and restricted payments). The proceeds of the Delayed Draw Term Loan Facility will be used solely to finance the TEquipment Acquisition and other Permitted Acquisitions and to pay the fees, costs and expenses incurred in connection therewith.

Fees and Interest Rates: As set forth on Annex I to this Exhibit A.

Voluntary Prepayments: Permitted in whole or in part, with prior written notice but without premium or penalty, subject to limitations as to minimum amounts of

prepayments consistent with the Existing Credit Agreement and customary indemnification for breakage costs in the case of prepayment of Term Benchmark Loans (as defined in Annex I to this Exhibit A) other than on the last day of a related interest period.

Mandatory Prepayments:

Revolving Loans will be required to be prepaid if the aggregate revolving credit exposure under the Revolving Facility exceeds the aggregate commitments thereunder; provided that if the dollar equivalent of the aggregate revolving credit exposure under the Revolving Facility exceeds the aggregate commitments thereunder solely as a result of currency exchange rate fluctuations, no prepayment shall be required until such aggregate revolving credit exposure exceeds 102% of the aggregate commitments under the Revolving Facility.

In addition to any scheduled installments due on the loans under each Term Loan Facility, the following amounts shall be applied to prepay the Term Loans:

- (i) 100% of the net proceeds of any incurrence of debt after the Closing Date by Lawson or any of its subsidiaries that is not permitted under the Credit Agreement (as defined below); and
- (ii) 100% of the net proceeds of any sale or other disposition (including as a result of casualty or condemnation) by Lawson or any of its subsidiaries of any assets, except for the sale of inventory or obsolete or worn-out property in the ordinary course of business and subject to certain other customary exceptions to be agreed upon (including an exception for sale and leaseback and for proceeds that are re-invested within 270 days after receipt thereof and with respect to the sale of any foreign assets where repatriation could trigger tax).

The foregoing mandatory prepayments shall be applied to the outstanding Term Loans (x) ratably as between the Initial Term Loans and the Delayed Draw Term Loans and (y) within each such class of Term Loans, ratably to the remaining installments of such Term Loans (including, for the avoidance of doubt, the installment due on the maturity date of the applicable Term Loans). Mandatory prepayments of the Term Loans may not be reborrowed.

VII. Collateral and Other Credit Support

Collateral:

The Facilities will be secured by a first priority perfected security interest in all of the personal property of each Borrower and its material domestic and Canadian subsidiaries (subject to exceptions consistent with the Existing Credit Agreement), whether consisting of tangible or intangible property, including all of the outstanding equity interests of subsidiaries directly owned by any Borrower or any Guarantor (collectively, the "Collateral"). The Collateral will also secure bank products (including ACH transactions, credit card transactions and cash management services) and swap agreements, in each case, owing

to any Lender or its affiliates. For the avoidance of doubt, the Collateral shall exclude all real property of Lawson and its subsidiaries, and no mortgages will be required. No pledges governed by the laws of any jurisdiction other than the U.S. or Canada will be required, and no action in any jurisdiction other than the U.S. or Canada will be required in order to create or perfect any security interest in assets titled or located outside of the U.S. or Canada.

Guaranties:

Each Borrower shall unconditionally guarantee all of the indebtedness, obligations and liabilities of each other Borrower arising under or in connection with the Credit Documentation. In addition, any direct or indirect material domestic or Canadian subsidiary of any Borrower (each, a “Guarantor”) shall unconditionally guarantee all of the indebtedness, obligations and liabilities of the Borrowers arising under or in connection with the Credit Documentation, and each Borrower and each Guarantor shall guarantee obligations in respect of secured bank products (including ACH transactions, credit card transactions and cash management services) and swap agreements owing to any Lender or its affiliates.

Notwithstanding the foregoing, in no event shall any Borrower or Guarantor organized under the laws of Canada or any territory or province thereof provide a guaranty of, or collateral to secure, any obligations under the Facilities other than obligations of any Borrower or subsidiary organized under the laws of Canada or any territory or province thereof.

VIII. Certain Conditions

Initial Conditions:

The availability of the Facilities shall be conditioned upon satisfaction of, among other things, the following conditions precedent (the date upon which all such conditions precedent shall be satisfied, the “Closing Date”):

(a) The Borrowers and the Guarantors shall have executed and delivered satisfactory definitive financing documentation with respect to the Facilities, including a credit agreement (the “Credit Agreement”), security documents and other legal documentation (collectively, together with the Credit Agreement, the “Credit Documentation”) mutually satisfactory to the Borrowers and the Lenders.

(b) The Lenders, the Lead Arranger and the Administrative Agent shall have received all fees required to be paid and all expenses for which invoices have been presented, at least two business days before the Closing Date.

(c) The Administrative Agent shall have received such closing documents as are customary for transactions of this type or as it may reasonably request, all in form and substance reasonably acceptable to the Administrative Agent, the Lead Arranger and their counsel.

(d) The corporate structure, capital structure, other debt instruments and governing documents of each Borrower and its

affiliates and each Target shall be acceptable to the Administrative Agent.

(e) Each Acquisition shall be consummated in all material respects in accordance with the terms of the applicable Acquisition Agreement substantially concurrently with effectiveness of the Credit Documentation and the initial funding of the applicable Facilities, without giving effect to any amendments, consents, waivers or other modifications thereto that are materially adverse to the Lenders.

(f) Since December 29, 2021, (i) there shall not have been a “Company Material Adverse Effect” (as defined in the Gexpro Acquisition Agreement) and (ii) there shall not have been a “Company Material Adverse Effect” (as defined in the TestEquity Acquisition Agreement).

(g) (i) The representations made by or with respect to the Gexpro Target and its subsidiaries in the Gexpro Acquisition Agreement as are material to the interests of the Lenders, but only to the extent that Lawson or its affiliates have the right (determined without regard to any notice requirement) to decline to close under the Gexpro Acquisition Agreement or to terminate Lawson’s (or their) obligations under the Gexpro Acquisition Agreement or to decline to consummate the Gexpro Acquisition, in each case, as a result of a breach of such representations in the Gexpro Acquisition Agreement, and (ii) the representations made by or with respect to the TestEquity Target and its subsidiaries in the TestEquity Acquisition Agreement as are material to the interests of the Lenders, but only to the extent that Lawson or its affiliates have the right (determined without regard to any notice requirement) to decline to close under the TestEquity Acquisition Agreement or to terminate Lawson’s (or their) obligations under the TestEquity Acquisition Agreement or to decline to consummate the TestEquity Acquisition, in each case, shall be true and correct to such extent after giving effect to the funding of the Facilities on the Closing Date (except to the extent any such representation expressly relates to an earlier date, in which case such representation shall be true and correct as of such earlier date).

(h) The Lenders shall have received (a) U.S. GAAP audited consolidated balance sheets and related consolidated statements of income, stockholders’ equity and cash flows of each of Lawson and, to the extent available, each Target, in each case, for the fiscal year ended December 31, 2021, (b) to the extent the U.S. GAAP audited financial statements of any Target in respect of the fiscal year ended December 31, 2021 are not available as of the Closing Date, internally prepared U.S. GAAP consolidated balance sheets and related consolidated statements of income, stockholders’ equity and cash flows for each such Target for the fiscal year ended December 31, 2021, (c) U.S. GAAP unaudited consolidated balance sheets and related consolidated statements of income, stockholders’ equity and cash flows of Lawson and each Target for each subsequent fiscal quarter ended at least 60 days before the Closing Date (and comparable periods for the prior fiscal year), (d) Lawson’s projected income statement, balance sheet and cash flows through 2026

(inclusive of each Acquisition, any other acquisition to be consummated by Lawson or any Target on or prior to the Closing Date, and assumed synergies, and including a detailed description of the assumptions used in preparing such projections), each in a form reasonably satisfactory to the Administrative Agent and (e) to the extent available, a Quality of Earnings Report in respect of any other acquisition to be consummated by Lawson or any Target on or prior to the Closing Date.

(i) The Lenders shall have received a pro forma consolidated balance sheet and related pro forma consolidated statement of income of Lawson and its subsidiaries (including each Target and its respective subsidiaries) as of and for the 12-month period ending on the last day of the most recently completed four-fiscal quarter period for which financial statements have been delivered pursuant to paragraph 6 above, in each case, prepared after giving effect to the Transactions as if the Transactions had occurred as of such date (in the case of such balance sheet) or at the beginning of such period (in the case of such statement of income) on a pro forma basis in accordance with Regulation S-X under the Securities Act of 1933, as amended.

(j) Prepayment in full of all obligations under, and termination of the commitments under and release of all guarantees and liens, if any, granted under or in respect of: (i) to the extent not amended or amended and restated pursuant to the Credit Documentation, the Credit Agreement, dated as of October 11, 2019 (as amended, restated, amended and restated, refinanced, replaced, supplemented or otherwise modified from time to time, the “Existing Credit Agreement”), by and among, *inter alios*, Lawson, JPMorgan, as agent, and the lenders party thereto; (ii) all “Payoff Indebtedness” (as defined in the Gexpro Acquisition Agreement) (which shall include, for the avoidance of doubt, the credit facilities evidenced by the Credit Agreement, dated as of January 3, 2022, among 301 HW Opus Holdings, Inc., GS Operating, LLC, the other loan parties party thereto, the lenders party thereto and JPMorgan, as administrative agent (as amended, restated, amended and restated, refinanced, replaced, supplemented or otherwise modified from time to time)); (iii) all “Payoff Indebtedness” (as defined in the TestEquity Acquisition Agreement) (which shall include, for the avoidance of doubt, the credit facilities evidenced by the Credit Agreement, dated as of April 28, 2017, among TestEquity LLC, the other loan parties party thereto, the lenders party thereto and NXT Capital, LLC, as administrative agent (as amended, restated, amended and restated, refinanced, replaced, supplemented or otherwise modified from time to time)); and (iv) certain other indebtedness of each Target and its respective subsidiaries mutually agreed by Lawson and the Lenders (collectively, the “Refinancing”).

(k) The Administrative Agent shall have received, at least five days prior to the Closing Date to the extent requested at least ten days prior to the Closing Date, all documentation and other information regarding each Borrower and each Guarantor requested in connection with applicable “know your customer” and anti-money laundering

rules and regulations, including the Patriot Act and in connection with applicable “beneficial ownership” rules and regulations, a customary certification regarding beneficial ownership or control of each Borrower in a form reasonably satisfactory to the Administrative Agent and each requesting Lender.

(l) Liens creating a first priority security interest in the Collateral being delivered on the Closing Date shall have been perfected; provided, that the only actions required to be taken on the Closing Date in order to perfect such Liens are the filing of UCC financing statements and the delivery of any pledged equity interests to the extent such equity is certificated and only to the extent that such delivery is possible after the Borrowers have used commercially reasonable efforts.

On-Going Conditions:

The making of each extension of credit shall be conditioned upon (a) the accuracy in all material respects of all representations and warranties in the Credit Documentation (including, without limitation, the material adverse change and litigation representations); provided that any representation or warranty which is qualified as to materiality shall be true and correct in all respects; (b) there being no default or event of default in existence at the time of, or after giving effect to the making of, such extension of credit and (c) after giving effect to the extensions of credit request in respect of the Revolving Facility, the total extensions of credit under the Revolving Facility shall not exceed the Revolving Commitment then in effect.

IX. Certain Documentation Matters

The Credit Documentation shall be negotiated in good faith to finalize the documentation for the Facilities, as promptly as reasonably practicable, shall be substantially consistent with the Existing Credit Agreement and related definitive transaction documentation, and shall contain the terms and conditions set forth in this Term Sheet, and shall otherwise be usual and customary for financings of this kind and reflect the operational and strategic requirements of Lawson and its subsidiaries in light of their size, industries, practices, matters disclosed in Lawson’s proposed business plan and shall reflect administrative requirements of the Administrative Agent to be mutually agreed.

Representations and Warranties:

Financial statements; no material adverse change; existence and standing, authorization and validity; compliance with agreements and law, including, without limitation, anti-corruption laws relating to bribery or corruption (“Anti-Corruption Laws”) and economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, or (b) the United Nations Security Council, the European Union or Her Majesty’s Treasury of the United Kingdom (“Sanctions”); corporate power and authority; enforceability of Credit Documentation; no

conflict with law or material contractual obligations; no material litigation; no default; ownership of property; liens; intellectual property; no burdensome restrictions; taxes; insurance; Federal Reserve regulations; ERISA; Investment Company Act; capitalization and subsidiaries; environmental matters; labor matters; governmental approvals; solvency; use of proceeds; affected financial institutions; security interest; accuracy of disclosure; plan assets and prohibited transactions; and Beneficial Ownership Regulation.

Affirmative Covenants:

Delivery of quarterly and annual financial statements consistent with Lawson's SEC filing requirements, quarterly compliance certificates and annual projections and other information requested by the Lenders; payment of obligations; continuation of business and maintenance of existence and material rights and privileges; compliance with laws; maintenance of policies and procedures designed to ensure compliance with Anti-Corruption Laws and applicable Sanctions; accuracy of information; maintenance of property and insurance; maintenance of books and records; right of the Lenders to inspect property and books and records; notices of defaults, litigation and other material events; compliance with environmental laws; depository banks; casualty and condemnation; further assurances; use of proceeds, including in compliance with Anti-Corruption Laws and Sanctions; Beneficial Ownership Regulation; and guarantor and collateral requirements.

Financial Covenants:

Financial covenants limited to (the "Financial Covenants"):

- 3.0x minimum Interest Coverage Ratio (to be defined as EBITDA / consolidated interest expense). Tested quarterly.
- 4.0x maximum Total Net Leverage Ratio (to be defined as total debt, net of unrestricted cash and cash equivalents of the Borrowers and the Guarantors up to \$25,000,000 with respect to which the Administrative Agent has a first priority perfected lien perfected by control agreements / EBITDA), with step-downs to be mutually agreed between Lawson and the Lead Arranger; provided that, upon the written request of Lawson in connection with any Material Acquisition, the foregoing maximum Total Net Leverage Ratio level for each of the four fiscal quarters ending immediately following the consummation date of such Material Acquisition shall be increased by 0.50 to 1.00 (a "Leverage Holiday"); provided further that such Leverage Holiday shall occur (i) only twice during the term of the Facilities, and (ii) only to the extent that no Event of Default has then occurred and is continuing.

"EBITDA" shall mean net income after taxes + interest expense + income tax expense + depreciation and amortization +/- non-recurring expenses (extraordinary / exceptional / unusual / non-recurring charges, restructuring, integration, charges related to acquisition transitions, non-cash charges for inventory valuation, environmental remediation and associated legal costs, FX

gains/losses, LTM pro-forma results for acquisitions, and other non-recurring items). EBITDA adjustments shall also (i) include stock based compensation expense and real estate gains/losses and (ii) be subject to caps to be agreed between Lawson and the Administrative Agent.

“Material Acquisition” shall mean (a) the TEquipment Acquisition as described in the Disclosure Schedules to the Test Equity Merger Agreement and (b) any acquisition with an aggregate purchase price greater than \$75 million.

The financial covenants will apply to Lawson and its subsidiaries on a consolidated basis, with definitions substantially consistent with the Existing Credit Agreement unless otherwise agreed between Lawson and the Lead Arranger.

Negative Covenants:

Limitations (subject to exceptions, thresholds and baskets, as appropriate, substantially consistent with the Existing Credit Agreement or as otherwise agreed between Lawson and the Lead Arranger, including the specific exceptions set forth herein and the addition of grower components for certain baskets and at certain levels as agreed to between Lawson and the Administrative Agent) limited to the following:

- indebtedness (including guarantee obligations);
- liens;
- mergers, consolidations, liquidations, dissolutions and other fundamental changes;
- sales of assets;
- payment of restricted payments (including dividends and other payments in respect of equity interests);
- investments (including acquisitions) (provided that the Credit Documentation shall permit the Acquisitions and Permitted Acquisitions);
- loans and advances;
- sale and leaseback transactions;
- swap agreements;
- optional payments and modifications of subordinated and other debt instruments;
- transactions with affiliates;
- changes in fiscal year;
- negative pledge clauses; and
- amendment of organizational documents or subordinated debt documents to the extent such change would materially and adversely affect the lenders.

Permitted Acquisitions:

- (a) Each acquisition shall be made by a Borrower or a Guarantor and structured as (1) an asset acquisition of all or substantially all of the assets of the applicable target (or all or substantially all of a line or lines of business of target), (2) a merger of a target into such Borrower or such Guarantor, with such Borrower or such Guarantor as the survivor, or (3) a purchase of substantially all of the voting

equity interests or other controlling interest of the applicable target.

- (b) The acquisition will be consensual, consummated in accordance with the terms of the agreements related thereto and will be of a target whose line or lines of business are the same as or related, ancillary or incidental to the line of business engaged in by the Borrowers.
- (c) No default or event of default shall exist immediately prior to or immediately after giving effect thereto.
- (d) On a pro forma basis, and giving effect to total consideration and debt, costs and expenses, and the maximum amount of all earnouts and other contingent obligations calculated in accordance with GAAP, (i) Lawson shall be in compliance with the financial covenants, (ii) the Total Net Leverage Ratio is no greater than 0.25 to 1.00 less than the maximum Total Net Leverage Ratio permitted under the Financial Covenants (after giving effect to any applicable Leverage Holiday election) for the next applicable covenant test date and (iii) the sum of unused commitments under the Revolving Facility plus the amount of unrestricted cash after giving effect to such acquisition and any credit extensions in connection therewith shall not be less than \$10,000,000.
- (e) The target must have positive pro forma adjusted EBITDA.
- (f) The aggregate total consideration in respect of acquisitions in non-Guarantor subsidiaries and assets that do not constitute Collateral shall not exceed \$50,000,000 during the term of the Facilities.
- (g) With respect to acquisitions in which the total consideration thereof is \$50,000,000 or more, the Borrowers shall provide at least twenty (20) days' (or such shorter period as may be agreed by Administrative Agent) prior written notice of the acquisition and shall provide Administrative Agent with draft acquisition documents together with a due diligence package reasonably satisfactory to the Administrative Agent.
- (h) With respect to acquisitions in which the total consideration thereof is \$50,000,000 or more, not less than five (5) business days prior to the consummation of the applicable acquisition, Lawson shall provide a certificate (i) certifying that all of the requirements for a permitted acquisition will be satisfied on or prior to closing and (ii) a reasonably detailed calculation of the financial covenant calculation described above.
- (i) Administrative Agent will be granted a first priority perfected lien (subject to permitted liens) in substantially all assets acquired (to the extent required by the Facilities documentation), and the Borrowers, the Guarantors and the

target (subject to exceptions to be agreed to the extent joining such target to the Facilities documentation would be overly burdensome or result in a negative tax consequence) shall have executed such documents and taken such actions as may be reasonably required by Administrative Agent in connection therewith consistent with the guarantee and collateral requirements delivered on the Closing Date.

- Events of Default: Limited to the following (subject to exceptions, cure periods and thresholds substantially consistent with the Existing Credit Agreement or as otherwise agreed between Lawson and the Lead Arranger): Nonpayment of principal or letter of credit reimbursement when due; nonpayment of interest, fees or other amounts after three business days; representations and warranties are incorrect in any material respect; violation of covenants (subject, in the case of certain affirmative covenants, to grace periods consistent with the Existing Credit Agreement); cross-default to occurrence of a default (whether or not resulting in acceleration) under any other agreement governing material indebtedness of Lawson or any of its subsidiaries; bankruptcy events; certain ERISA events; material judgments; any of the Credit Documentation shall cease to be in full force and effect or any party thereto shall so assert; any interests created by the security documents shall cease to be enforceable and of the same priority purported to be created thereby; and a change of control.
- Voting: Amendments, waivers and consents with respect to the Credit Documentation shall require the approval of Lenders holding more than 50% of the aggregate amount of the unused commitments under the Revolving Facility and the Delayed Draw Term Loan Facility, outstanding credit exposure under the Revolving Facility and outstanding Term Loans, except that (a) the consent of each Lender directly affected thereby shall be required with respect to (i) reductions in the amount or extensions of the scheduled date of amortization or final maturity of any loan, (ii) reductions in the rate of interest or any fee or extensions of any due date thereof and (iii) increases in the amount or extensions of the expiry date of any Lender's commitment and (b) the consent of each Lender shall be required to (i) modify the payment waterfall or the pro rata sharing or commitment reduction requirements of the Credit Documentation, (ii) permit any loan party to assign its rights under the Credit Documentation, (iii) modify any of the voting percentages, (iv) release any guarantor of any credit extension, except as otherwise permitted in the Credit Documentation; or (v) release all or substantially all of the Collateral.
- Defaulting Lenders, etc.: Documentation will include customary provisions regarding defaulting Lenders, European Union and United Kingdom Bail-in provisions, Lender representations as to fiduciary status under ERISA, divisions and plans of division under Delaware law, Qualified Financial Contracts and erroneous payments.
- Assignments and Participations: The Lenders shall be permitted to assign all or a portion of their loans and commitments to eligible assignees with the consent, not to be unreasonably withheld, of (a) Lawson, unless (i) the assignee is a

Lender, an affiliate of a Lender or an approved fund or (ii) a default has occurred and is continuing, provided that Lawson shall be deemed to have consented to an assignment unless it shall have objected thereto by written notice to the Administrative Agent within ten (10) business days after having received notice thereof, (b) the Administrative Agent, unless only a Term Loan or a commitment under a Term Loan Facility is being assigned to a Lender, an affiliate of a Lender or an approved fund, (c) the Issuing Lender, unless a Term Loan or a commitment under a Term Loan Facility is being assigned, and (d) the Swing Line Lender, unless a Term Loan or a commitment under a Term Loan Facility is being assigned. In the case of partial assignments (other than to another Lender, to an affiliate of a Lender or an approved fund), the minimum assignment amount shall be \$5,000,000 in the case of a commitment under the Revolving Facility, and \$1,000,000, in the case of a Term Loan, unless otherwise agreed by Lawson and the Administrative Agent. The Lenders shall also be permitted to sell participations in their loans. Participants shall have the same benefits as the Lenders with respect to yield protection and increased cost provisions. Voting rights of participants shall be limited to those matters with respect to which the affirmative vote of the Lender from which it purchased its participation would be required. Pledges of loans in accordance with applicable law shall be permitted without restriction. Each Lender may disclose information to prospective participants and assignees. No assignments or participations may be made to any Disqualified Institution (as defined in the Existing Credit Agreement) without the prior written consent of Lawson; the Disqualified Institution list (i) will be provided to the Administrative Agent on or prior to the Closing Date and shall be reasonably acceptable to the Administrative Agent and (ii) may be updated by Lawson from time to time after the Closing Date solely with respect to competitors of the Borrowers.

Yield Protection:

The Credit Documentation shall contain customary provisions (a) protecting the Lenders against increased costs or loss of yield resulting from changes in reserve, tax, capital adequacy, liquidity and other requirements of law and from the imposition of or changes in withholding or other taxes and (b) indemnifying the Lenders for “breakage costs” incurred in connection with, among other things, any prepayment of a Term Benchmark Loan (as defined in Annex I) on a day other than the last day of an interest period with respect thereto. The Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III (and all requests, rules, guidelines or directives relating to each of the foregoing or issued in connection therewith) shall be deemed to be changes in law after the Closing Date regardless of the date enacted, adopted, implemented or issued.

Limitation of Liability,
Expenses and
Indemnification:

The Administrative Agent, the Lead Arranger, the Lenders and the Issuing Lender (and their affiliates and their respective officers, directors, employees, advisors and agents) shall not have any Liabilities, on any theory of liability, for any special, indirect, consequential or punitive damages incurred by Lawson or any of its subsidiaries arising out of, in connection with, or as a result of, the Transactions, the Facilities or the Credit Documentation. As used

herein, the term “Liabilities” shall mean any losses, claims (including intraparty claims), demands, damages or liabilities of any kind.

The Borrowers shall pay (a) all reasonable and documented out-of-pocket expenses of the Administrative Agent and the Lead Arranger and their affiliates associated with the syndication of the Facilities and the preparation, execution, delivery and administration of the Credit Documentation and any amendment, modification or waiver with respect thereto (including the reasonable and documented fees, disbursements and other charges of one counsel to the Administrative Agent and the Lenders in each applicable jurisdiction (and, solely in the case of an actual or perceived conflict of interest, one additional counsel to the affected Lender(s))), and (b) all out-of-pocket expenses of the Administrative Agent, the Issuing Lender and the Lenders (including the fees, disbursements and other charges of one counsel to the Administrative Agent, the Issuing Lender and the Lenders in each applicable jurisdiction (and, solely in the case of an actual or perceived conflict of interest, one additional counsel to the affected Lender(s))) in connection with the enforcement of the Credit Documentation and (c) fees and expenses associated with other advisors and professionals engaged by the Administrative Agent or the Lead Arranger and, to the extent no event of default has occurred and is continuing, approved by Lawson.

The Administrative Agent, the Lead Arranger, the Issuing Lender and the Lenders (and their affiliates and their respective officers, directors, employees, advisors and agents) (each an “Indemnified Person”) will have no liability for, and will be indemnified and held harmless against, any Liabilities or expenses (including the fees, disbursements and other charges of counsel) incurred by such Indemnified Person in connection with or as a result of: and (i) the Transactions or the execution and delivery of the Credit Documentation and any agreement or instrument contemplated thereby; (ii) the funding of the Facilities, issuance of letter of credit thereunder, or the use or the proposed use of proceeds thereof; (iii) any act or omission of the Administrative Agent in connection with the administration of the Credit Documentation; (iv) any actual or alleged presence or release of hazardous materials on or from any property owned or operated by Lawson or any of its subsidiaries, or any environmental liability resulting from the handling of hazardous materials or violation of environmental laws, related in any way to Lawson or any of its subsidiaries; and (v) any actual or prospective claim, litigation, investigation, arbitration or administrative, judicial or regulatory action or proceeding (each, a “Proceeding”) in any jurisdiction relating to any of the foregoing (including in relation to enforcing the terms of the limitation of liability and indemnification referred to above), regardless of whether or not any Indemnified Person is a party thereto and whether or not such Proceeding is brought by any Borrower, its affiliates or equity holders or any other party; provided that such indemnification shall not, as to any Indemnified Person, be available to the extent that such Liabilities or expenses are found in a final judgment by a court of competent

jurisdiction to have resulted from (x) the gross negligence, willful misconduct or bad faith of the Indemnified Person or (y) from disputes solely among the Indemnified Persons (other than (A) as a result of any act or omission of any Borrower or any of its affiliates and (B) any claims against an Indemnified Person in its capacity or in fulfilling its role as the Lead Arranger, the Issuing Lender, the Swing Line Lender, the Administrative Agent, or any other agent or any other similar role under the Facilities).

Governing Law:

This Term Sheet and any related commitment letter and fee letter are, and the Credit Documentation will be, governed by the internal laws of the State of Illinois.

Counsel to the Administrative Agent and the Lead Arranger:

Sidley Austin LLP.

Interest and Certain Fees

Interest Rate Options:

The applicable Borrower may elect that the loans comprising each borrowing bear interest at a rate per annum equal to:

- (a) the Alternate Base Rate (such loans herein referred to as “ABR Loans”) plus the Applicable Margin (solely in the case of loans denominated in U.S. Dollars that are made to Borrowers organized in the United States);
- (b) the Canadian Prime Rate (as defined in, and agreed pursuant to, the Credit Documentation) (such loans herein referred to as “Canadian Prime Loans”) plus the Applicable Margin (solely in the case of loans denominated in Canadian Dollars that are made to Borrowers organized in Canada); or
- (c) the Adjusted Term SOFR Rate (which will include a pricing adjustment equal to 10 basis points for 1, 3 and 6 month tenors) (in the case of loans denominated in U.S. Dollars) or CDOR (in the case of loans denominated in Canadian Dollars) (or any other relevant rate as required pursuant to the Administrative Agent’s backoffice requirements), in each case, subject to a “zero floor” and as shall be defined in, and agreed pursuant to, the Credit Documentation (such loans herein referred to as “Term Benchmark Loans”) plus the Applicable Margin;

provided, that all Swing Line Loans shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

As used herein:

“Alternate Base Rate” or “ABR” means the greatest of (a) the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. changing when and as said prime rate changes (the “Prime Rate”), (b) the NYFRB Rate (to be defined in the Credit Documentation) on such day plus 0.5% and (c) the Adjusted Term SOFR Rate for a one month interest period on such day plus 1%. If the ABR as determined pursuant to the foregoing would be less than 1.00% per annum, such rate shall be deemed to be 1.00% per annum.

“Applicable Margin” means, a margin (subject to adjustment after the Closing Date as described in “Performance Pricing” below) with respect to:

- 1.50% in the case of ABR Loans and Canadian Prime Loans
- 2.50% in the case of Term Benchmark Loans

The Credit Documentation will contain (x) the Administrative Agent’s customary terms and conditions with respect to the foregoing defined terms as well as with respect to available interest rate options for loans denominated in currencies other than U.S. Dollars, and (y) provisions to be mutually agreed with respect to a replacement of reference rates.

Performance Pricing:	Following the Administrative Agent’s receipt of the applicable financial statements for Lawson’s first full fiscal quarter ending after the Closing Date, the Applicable Margins, as well as the commitment fee and the Letter of Credit Fee, will be subject to performance pricing adjustments as set forth in the pricing grid attached hereto.
Interest Payment Dates:	<p>In the case of ABR Loans and Canadian Prime Loans, interest shall be payable on the first day of each quarter, upon any prepayment due to acceleration and at final maturity.</p> <p>In the case of Term Benchmark Loans, interest shall be payable in arrears on the last day of each interest period and, in the case of an interest period longer than three months, quarterly, upon any prepayment and at final maturity.</p>
Revolving Facility Commitment Fee:	A commitment fee equal to 0.30% per annum (subject to adjustment after the Closing Date as described in “Performance Pricing” above) on the average daily unused portion of the Revolving Commitment, payable quarterly in arrears to the Administrative Agent for the ratable benefit of the Lenders under the Revolving Facility (including JPMorgan in its capacity as a Lender) from the Closing Date until termination of the Revolving Commitment. For purposes of calculating the commitment fee, Swing Line Loans shall not be considered usage of the Revolving Facility.
Delayed Draw Term Loan Facility Commitment Fee:	A commitment fee equal to 0.30% per annum (subject to adjustment after the Closing Date as described in “Performance Pricing” above) on the average daily unused portion of the Delayed Draw Term Loan Commitment, payable quarterly in arrears and upon the termination or expiration of all of the Delayed Draw Term Loan Commitment to the Administrative Agent for the ratable benefit of the Lenders under the Delayed Draw Term Loan Facility (including JPMorgan in its capacity as a Lender) from the Closing Date until the termination or expiration of all of the Delayed Draw Term Loan Commitment.
Ticking Fee:	A ticking fee, payable to each proposed Lender that submits a commitment in respect of the Facilities prior to the Closing Date, at a rate of 0.30% per annum on the aggregate amount of the submitted commitment of each such proposed Lender, accruing from and including (i) April 30, 2022 (or, in the case of any person that submits a commitment in respect of the Facilities after April 30, 2022, such later date) until and including (ii) the earlier to occur of (A) the Closing Date and (B) the date of termination or expiration of the commitment letter in respect of the Facilities.
Letter of Credit Fees:	<p><u>Letter of Credit:</u> A letter of credit fee, equal to the Applicable Margin for Term Benchmark Loans, on the daily maximum amount available to be drawn under all Letters of Credit, payable quarterly in arrears to the Administrative Agent for the ratable benefit of the Lenders under the Revolving Facility (including the Issuing Lender).</p> <p><u>Fronting Fee:</u> A fronting fee on the face amount of each Letter of Credit issued by the Issuing Lender shall be payable to the Issuing Lender in an amount separately agreed upon, together with any documentary and processing charges in accordance with the Issuing Lender’s standard schedule for such charges</p>

with respect to the issuance, amendment, cancellation, negotiation, transfer, presentment, renewal or extension of each letter of credit and each drawing made thereunder.

Default Rate:

After default upon request of the Administrative Agent or the Required Lenders, the applicable interest rate and Letter of Credit Fee will be increased by 2% per annum (and new Term Benchmark Loans may be suspended). Overdue interest, fees and other amounts shall bear interest at 2% above the rate applicable to ABR Loans.

Rate and Fee Basis:

All per annum rates shall be calculated on the basis of a year of 360 days (or 365/366 days, in the case of ABR Loans the interest rate payable on which is then based on the Prime Rate and in the case of Loans bearings interest by reference to the CDOR Rate or the Canadian Prime Rate) for actual days elapsed.

PRICING GRID

TOTAL NET LEVERAGE RATIO	TERM BENCHMARK APPLICABLE MARGIN	ABR AND CANADIAN PRIME APPLICABLE MARGIN	COMMITMENT FEES
> 3.75 to 1.0	2.75%	1.75%	0.35%
≤ 3.75 to 1.0 > 3.00 to 1.0	2.50%	1.50%	0.30%
≤ 3.00 to 1.0 > 2.25 to 1.0	2.00%	1.00%	0.25%
≤ 2.25 to 1.0 > 1.50 to 1.0	1.50%	0.50%	0.20%
≤ 1.50 to 1.0	1.00%	0.00%	0.15%

The applicable margins and fees shall be determined in accordance with the foregoing table based on the most recent annual or quarterly financial statements of Lawson delivered pursuant to the Credit Documentation (the “Financials”). Adjustments, if any, to the applicable margins and fees shall be effective on the date that the Administrative Agent has received the applicable Financials. If Lawson fails to deliver the Financials to the Administrative Agent at the time required pursuant to the Credit Documentation, then the applicable margins and fees shall be the highest applicable margins and fees set forth in the foregoing table until the date that such Financials are so delivered.

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Lawson Products, Inc.	Illinois
Lawson Products Canada Inc.	British Columbia, Canada
The Bolt Supply House Ltd.	Alberta, Canada

Subsidiaries, that in the aggregate are not considered significant to the consolidated results of the Company at the end of December 31, 2021, have been omitted

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Lawson Products, Inc
Chicago, Illinois

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-231671) and Form S-8 (No. 333-199243 and 333-231672) of Lawson Products, Inc. of our reports dated February 24, 2022, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of Lawson Products, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
Chicago, Illinois

February 24, 2022

EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael G. DeCata, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lawson Products, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2022

/s/ Michael G. DeCata
Michael G. DeCata
President and Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald J. Knutson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lawson Products, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2022

/s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial Officer and
Treasurer
(principal financial officer)

EXHIBIT 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Lawson Products, Inc. (the "Company") on Form 10-K for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

February 24, 2022

/s/ Michael G. DeCata

Michael G. DeCata
President and Chief Executive Officer
Lawson Products, Inc.

(principal executive officer)

/s/ Ronald J. Knutson

Ronald J. Knutson
Executive Vice President, Chief Financial Officer, and
Treasurer
Lawson Products, Inc.

(principal financial officer)