LAWSON PRODUCTS INC/NEW/DE/
Form 10-K
February 23, 2017

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

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2016
or	
o	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	36-2229304
(State or other jurisdiction of incorporation or organization)	(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	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	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 o No þ
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 o No þ
Indicate by check mark whether the registrant (l) 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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the registrant's voting stock held by non-affiliates on June 30, 2016 (based upon the per share closing price of $19.86) was approximately $137,477,000.

As of January 31, 2017, 8,832,623 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.

Table of Contents

TABLE OF CONTENTS

"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 "may," "should," "could," "anticipate," "believe," "continues," "estimate," "expect," "intend," "objective," "plan," "potential," "project" and similar expressions are intended to identify forward-looking statements. 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 including on our website into this Annual Report on Form 10-K.

Table of Contents

PART I

ITEM 1. BUSINESS.

Lawson Products, Inc. (“Lawson”, the “Company”, “we”, “our”, or “us”) was incorporated in Illinois in 1952, and reincorporat 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 industrial distribution industry 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 MRO suppliers. We estimate that total annual revenue generated by the North American MRO marketplace exceeds $130 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.

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. 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.

Customers

During 2016, we sold products to over 70,000 customers with the largest customer accounting for approximately two percent of net sales. In 2016, approximately 91% of our net sales were generated in the United States and approximately 9% 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 during the holiday season, net sales in the fourth quarter are historically slightly 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.

Operations

Sales orders are primarily generated from our sales representatives; 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, 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.

Products

Our product offerings are listed on our website and in catalogs distributed to our customers. Sales percentages by broad product categories of our product mix in 2016 were as follows:

Product Category	Percentage
Fastening systems	21%
Specialty chemicals	15%
Fluid power	15%
Cutting tools and abrasives	15%
Electrical	12%
Aftermarket automotive supplies	9%
Safety	4%
Welding and metal repair	2%
Other	7%
	100%

We offer over 200,000 different core products for sale of which over 50,000 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 2016, we purchased products from approximately 2,300 suppliers and no single supplier accounted for more than five 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. They also develop and present 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.

Employees

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.

On December 31, 2016, our workforce included approximately 1,590 individuals, comprised of approximately 1,130 in sales and marketing, approximately 390 in operations and distribution and approximately 70 in management and administration. Approximately 10% of our workforce is covered by three collective bargaining agreements. We believe that our relations with our employees and their collective bargaining organizations are good.

Sales Team

On December 31, 2016, our sales and marketing team consisted of approximately 1,130 individuals focused on servicing existing customers, identifying new customers, providing customer service support and providing on-site customer service. Of our total sales team, 1,009 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. We also have a team dedicated to the acquisition of larger national and mid-market accounts and a team dedicated to serving our governmental accounts. The national accounts are comprised of multi-location customers with a national scope.

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

Strategic Focus

In 2017, our focus will be to continue to grow our sales organically and through acquisitions and further improve our operations to make Lawson our customers' first choice for products, services and solutions that improve their operating performance.

Our sales are directly affected by the size of our sales team and its territorial coverage. In 2016, we increased our sales team by 72 sales representatives and we plan to continue to expand our sales representative count during 2017. Our plan to expand the sales force is designed 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.

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. Our exclusive training program is intended to provide new sales representatives with the tools they need to maximize their sales potential. As we increase our sales coverage, we anticipate a short-term decrease in average sales per day per sales representative, as new representatives build up customer relationships in their territories. Our 2017 financial results may also be impacted by increased training and other costs related to the sales force expansion. However, we believe that these short-term investments will result in future opportunities as we leverage the impact of top-line growth over our fixed operating costs.

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 will continue to actively pursue acquisition opportunities which fit our service oriented MRO business model and are financially accretive to our organization.

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 and effect of current operations, design and implement new ways to improve performance and then measure the results for effectiveness. The Lean Six Sigma process is deeply ingrained in our culture as we have had well over 100 employees complete Lean Six Sigma training over the past three years and plan to continue this training program in the years to come. In 2017, we plan to complete some of the projects initiated in 2016 that are focused on improving the operations of our sales force and we have initiated additional Lean Six Sigma projects involving customer data and customer retention processes.

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 while providing our customers with the best purchasing experience possible.

5

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 or by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. 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, 2017 were as follows:

Name	Age	Year First Elected to Present Office	Position
Michael G. DeCata	59	2012	President and Chief Executive Officer
Neil E. Jenkins	67	2004	Executive Vice President, Secretary and General Counsel
Ronald J. Knutson	53	2014	Executive Vice President, Chief Financial Officer, Treasurer and Controller
Shane T. McCarthy	48	2015	Senior Vice President, Supply Chain and Business Development

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 Robinson 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. Jenkins was elected Executive Vice President, Secretary and General Counsel in 2004.

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. Knutson joined the Company as Senior Vice President, Chief Financial Officer effective November 2009.

Mr. McCarthy was elected Senior Vice President, Supply Chain and Business Development in December 2015 and previously served as Senior Vice President, Supply Chain since June 2014. Mr. McCarthy served as Senior Vice President, Operations from July 2012 to June 2014 and previously served as Vice President of Distribution and Logistics from April 2008 to June 2012.

Table of Contents

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, 2016, 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.

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. 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 for us 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 Loan Agreement.

Failure to adequately fund our operating and working capital needs through cash generated from operations and cash available through our Loan 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 Loan Agreement. Failure to generate sufficient cash flow from operations or from our Loan 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 Loan Agreement could lead to higher financing costs, increased restrictions and reduce or eliminate our ability to borrow funds.

Our Loan 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, 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 Loan 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.

The market price of our common stock may decline.

Our stock price 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.

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.

Table of Contents

Work stoppages and other disruptions at transportation centers or shipping ports 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.

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 our product mix changes, there can be no assurance that we will be able to maintain our historical gross profit margins. Changes in our customers, product mix, 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.

Changes in energy costs 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) and increases in energy costs raise the production costs of our vendors. Those vendors typically look to pass the higher costs along to us through price increases. If we are unable to fully pass these 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. Additionally, continued low oil prices may result in weaker demand from oil and gas customers in the future, resulting in lower net sales.

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 breaches 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 us to purchase products or services or otherwise communicate with us.

Our technologies, systems, networks, and those of our business partners may become the target of cyber attacks or information security breaches that could result in the unauthorized release, misuse, loss or destruction of proprietary and other information, or other disruption of our business operations, subject us to additional legal costs and damage our reputation in the marketplace. Although to date we have not experienced any losses relating to cyber attacks, there can be no assurance that we will not suffer such losses in the future. 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 which we believe will lead to increased sales and improve our long-term financial results. 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 plan requires 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

8

support could adversely affect our operating results. Additionally, we anticipate a short-term decrease in average sales per day per sales representative as new representatives build up customer relationships in their territories.

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 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 acquisitions into our organization could adversely affect our operations and operating results.

One of our growth strategies is to actively pursue acquisition opportunities which fit our service oriented MRO business model. Failure to successfully identify the right opportunities and to successfully integrate their operations into our organization 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.

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

Our product offering includes 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 has concluded that further remediation will most likely be required, and accordingly, has made an accrual for the estimated cost of this environmental matter. An agreement with Alabama’s voluntary cleanup program has not yet been reached regarding these remediation approaches and additional procedures may be required to remediate the situation that could negatively impact our operating results.

Table of Contents

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 continue to affect our ability to realize the deferred tax assets on our balance sheet, which could affect our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

At December 31, 2016, we owned or leased the following facilities:

Location	Function	Approximate Square Footage	Own/Lease	Lease Expiration
United States				
Chicago, Illinois (1)	Headquarters	86,300	Lease	March 2023
McCook, Illinois	Packaging/Distribution	306,800	Lease	June 2022
Reno, Nevada	Distribution	105,200	Lease	June 2024
Suwanee, Georgia	Distribution	91,200	Own	
Fairfield, New Jersey (2)	Distribution	60,000	Own	
Decatur, Alabama (3)	Lease	88,200	Own	
Canada				
Mississauga, Ontario	Distribution	78,000	Own	

(1) We have sub-leased approximately 17,100 feet of the Chicago, Illinois headquarters through March 2023.

(2) In 2016, primarily due to excess capacity within our supply chain, we announced the closure of our Fairfield, New Jersey distribution center. We plan to discontinue use of the facility in the first quarter of 2017 and anticipate selling the facility for a gain in 2017.

(3) In connection with the sale of a discontinued business, we have agreed to lease the Decatur property to the buyer through February, 2019.

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.

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 or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

Table of Contents

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”. The following table sets forth the high and low sale prices as reported on the NASDAQ Global Select Market.

	2016		2015	
	High	Low	High	Low
First Quarter	$22.80	$15.23	$27.84	$22.97
Second Quarter	22.50	16.42	25.00	19.20
Third Quarter	21.61	15.28	28.56	21.10
Fourth Quarter	25.80	16.69	29.64	20.88

On January 31, 2017, the closing sales price of our common stock was $25.85 and the number of stockholders of record was 395. We did not issue dividends in either 2016 or 2015 and, although the Company currently has no plans to issue dividends in the forseeable future, it will continue to consider the best use of funds for our stockholders. The amount of dividends we can issue is restricted to $7.0 million annually under our Loan and Security Agreement ("Loan 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, 2016. These shares were purchased for the sole purpose of satisfying tax withholding obligations of certain employees upon the vesting of restricted stock awards granted to them by the Company. No shares were repurchased in the open market.

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, 2016	—	$ —	—	—
November 1 to November 30, 2016	—	—	—	—
December 1 to December 31, 2016	6,194	25.40	—	—

Three months ended December 31, 2016	6,194	—

11

Stock Price Performance Chart

Set forth below is a line graph comparing the yearly change in the cumulative total stockholder return of the Company’s common stock against the cumulative total return of the Russell Microcap Index and a peer group (the “Peer Group”) of the Company for the five prior years. The Company selected the Russell Microcap Index because Lawson is a component of the index and the market capitalization of the other member companies are similar to Lawson’s market capitalization. The Peer Group consists of W.W. Grainger, Inc., Fastenal Company, and MSC Industrial Direct. The Company believes that the Peer Group is representative of the markets it serves in terms of product sales and customers. The chart below represents the hypothetical return, including reinvestment of dividends, on $100 if it was invested on December 31, 2011 in the respective stocks or index fund.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto included in Item 8 in this Annual Report. The income statement data and balance sheet data are for, and as of the end of each of the years in the five-year period ended December 31, 2016 and are derived from the audited Consolidated Financial Statements of the Company. The results of discontinued operations have been reclassified from continuing operations for all periods presented.

	(Dollars in thousands, except per share data)				
	2016	2015 (1)	2014 (2)	2013 (3)	2012 (4)
Net sales	$276,573	$275,834	$285,693	$269,503	$273,562
Income (loss) from continuing operations	$(1,629)	$297	$(6,061)	$(6,981)	$(64,033)
Income from discontinued operations	—	—	1,692	1,861	1,483
Net income (loss)	$(1,629)	$297	$(4,369)	$(5,120)	$(62,550)
Basic and diluted income (loss) per share of common stock:					
Continuing operations	$(0.19)	$0.03	$(0.70)	$(0.81)	$(7.46)
Discontinued operations	—	—	0.20	0.22	0.18
Net income (loss)	$(0.19)	$0.03	$(0.50)	$(0.59)	$(7.28)
Cash dividends declared per share	$—	$—	$—	$—	$0.24
Total assets	$135,307	$133,094	$137,840	$159,945	$172,931
Noncurrent liabilities	$34,737	$35,487	$37,257	$39,083	$42,370
Stockholders' equity	$61,133	$61,264	$61,855	$65,912	$70,733

Notes:

(1) The 2015 results from continuing operations include an expense of $0.9 million related to an increase in the estimated future remediation cost of an environmental matter involving land owned in Decatur, Alabama, that was part of a division that was previously sold.

(2) The 2014 results from continuing operations include a $3.0 million impairment charge related to the Reno, Nevada, distribution center and a charge of $0.3 million related to the initial estimate of remediation of the environmental matter at the Decatur, Alabama, facility.

(3) The 2013 results from continuing operations include a $2.9 million charge related to the sub-lease of a portion of the leased headquarters and a $0.4 million benefit from the resolution of an employment tax matter.

(4) The 2012 results from continuing operations include a goodwill impairment charge of $28.3 million, an increase in income tax expense of $33.3 million due to an increase in the deferred tax valuation allowance, a $3.9 million charge related to discontinuing certain products and a $3.7 million gain on the sale of assets.

Table of Contents

IITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We operate in one reportable segment: as a distributor of products and services to the industrial, commercial, institutional, and governmental maintenance, repair and operations ("MRO") marketplace.

The North American MRO industry 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 significantly influenced by the overall strength of the manufacturing sector of the U.S. economy. One measure used to evaluate the strength of the industrial products market is the PMI index published by the Institute for Supply Management. The PMI index is a composite index of economic activity in the United States manufacturing sector. It is published by the Institute for Supply Management 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 51.5 for the year ended December 31, 2016 compared to 51.3 for the year ended December 31, 2015 indicating a slight improvement in 2016 in the U.S. manufacturing economy compared to the prior year primarily occurring in the second half of the year.

Our sales are also affected by the number and effectiveness of sales representatives and the amount of sales each representative can generate, which we measure as average sales per day per sales representative. In 2016, we increased the number of sales representatives, by 72 net new sales representatives, to a total of 1,009 at December 31, 2016. We plan to continue to expand our sales representative count by the end of 2017. While we anticipate future sales growth from our expanded sales force, we also anticipate a short-term decrease in average sales per day per sales representative, as new representatives build up customer relationships in their territories.

Results of operations are examined in detail following a recap of our major activities in 2016.

2016 Activities

- Increased Sales Team - We increased the number of net active sales representatives by approximately 8% to 1,009 on December 31, 2016 from 937 on December 31, 2015.

- Acquisitions - We completed three acquisitions in 2016. Mattic Industries LTD located in western Canada, F.B Feeney Hardware located in Ontario, Canada and Perfect Products Company of Michigan.

- Streamlined supply chain - In 2016, primarily due to excess capacity within our supply chain, we announced the closure of our Fairfield, New Jersey distribution center. We plan to discontinue use of the facility in the first quarter of 2017 and anticipate selling the facility for a gain in 2017.

- Amended Loan Agreement - We extended the maturity date of our Loan Agreement to August 8, 2020, expanded the amount of credit available by increasing the borrowing base, removed certain financial covenant reporting requirements and reduced the unused borrowing fees.

- Lean Six Sigma - Over the past three years we have had well over 100 employees complete Lean Six Sigma training, which is a systematic data driven approach to analyzing and improving business processes.

-

Improved Operational Performance - We continued to improve the fundamentals of our business, measured as improved customer service levels to our customers.

We believe we have created a scalable infrastructure that will allow us to take full advantage of future growth opportunities. We continue to strive to be our customers' first choice for maintenance, repair and operational solutions.

Table of Contents

RESULTS OF OPERATIONS FOR 2016 AS COMPARED TO 2015

(Dollars in thousands)	Year Ended December 31, 2016 Amount	2016 % of Net Sales	2015 Amount	2015 % of Net Sales	Year-to-Year Change Amount	Year-to-Year Change %
Net sales	$276,573	100.0 %	$275,834	100.0 %	$739	0.2 %
Cost of goods sold	108,511	39.2	106,710	38.7	1,801	1.7
Gross profit	168,062	60.8	169,124	61.3	(1,062)	(0.6)
Operating expenses:						
Selling expenses	92,908	33.6	90,093	32.7	2,815	3.1
General and administrative expenses	76,611	27.7	75,979	27.5	632	0.8
Total SG&A	169,519	61.3	166,072	60.2	3,447	2.1
Other operating expenses	—	—	931	0.3	(931)	
Total operating expenses	169,519	61.3	167,003	60.5	2,516	
Operating (loss) income	(1,457)	(0.5)	2,121	0.8	(3,578)	
Interest and other expenses, net	(74)	(0.1)	(969)	(0.4)	895	
Income (loss) from continuing operations before income tax expense	(1,531)	(0.6)	1,152	0.4	(2,683)	
Income tax expense	98	—	855	0.3	(757)	
Income (loss) from continuing operations	$(1,629)	(0.6)%	$297	0.1 %	$(1,926)	

Net Sales

Net sales increased 0.3% in 2016 to $276.6 million from $275.8 million in 2015, primarily due to an increase in sales by our Kent Automotive and Government divisions, growing current strategic account relationships and sales generated by acquisitions. This was partially offset by a general slow-down in the MRO marketplace, a decrease in the Canadian exchange rate and a decrease in sales of $2.6 million to oil and gas customers. Average daily sales, defined as net sales divided by the 252 business days in each year, were $1.098 million in 2016 compared to $1.095 million in 2015.

Gross Profit

Gross profit decreased to $168.1 million or 60.8% of net sales in 2016 from $169.1 million or 61.3% of net sales a year ago. Product margin remained consistent versus 2015, however, the gross margin percentage was lower due to increased net freight expense and additional labor expenses related to repackaging inventory from acquisitions and additional labor and freight costs incurred as a result of rebalancing and refining our inventory forecasting process.

Selling Expenses

Selling expenses consist of compensation paid to our sales representatives and related expenses to support our sales efforts. Selling expenses increased $2.8 million to $92.9 million in 2016 from $90.1 million in 2015 primarily driven by expenses related to the increase in the number of sales representatives. This increase was partially offset by $1.9 million of expense related to the North American sales meeting incurred in 2015 which was not held in 2016.

Table of Contents

General and Administrative Expenses

General and administrative expenses consist of expenses to operate our distribution network and overhead expenses to manage the business. General and administrative expenses increased $0.6 million to $76.6 million in 2016 from $76.0 million in 2015, driven by an increase of $1.1 million&