

**LAWSON** Products, Inc.  
**2007 ANNUAL REPORT**

PEOPLE PRODUCTS SERVICES & SOLUTIONS



**LAWSON** Products





**A**t Lawson we believe that our competitive edge centers on our ability to deliver confidence to customers through:

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

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

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

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



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## FOCUSED ON THE ESSENTIALS; POSITIONED FOR GROWTH

### Dear Shareholder,

In many ways, 2007 marked a period of transition for Lawson Products. Building upon the Long Range Plan that was developed in 2004, we defined new operating strategies, necessary changes to our business model and a renewed focus on how to better serve our customers. In turn, we began building and implementing key elements of those strategies to support our goal of becoming a more customer-focused company. While our Sales and Profit performance did not meet our expectations, we feel the changes we are making will position us for growth and future success, leading to more attractive shareholder returns.

We are building on a strong foundation – fifty-five years of leadership in our industry and an array of products, services and solutions – that has served us well in the past. Credit goes to our founder and past Chairman Mr. Sidney L. Port. We all miss Mr. Port, who passed away last summer, leaving behind a legacy of quality and service.

Needs change, however, and if we expect the continued trust and commitment of our customers – and investors – we must respond to those needs. Better yet, we must anticipate them and put the pieces in place to satisfy these emerging and new requirements. During 2007, we took major steps toward our goals of realizing increased value for our shareholders, increased customer satisfaction, better performance against our peers and the creation of a high-performing workforce able to meet the challenges of today's competitive environment.

### Customer-Centric Strategy

In order to better satisfy our customers, we implemented a plan that identified key customer segments and their business needs. In some ways, this plan built on the past. In others, it charted new directions. We developed specific product and sales plans last year to meet these needs. Our supporting strategy calls for integration, consolidation, simplification and innovation of our internal operations.

- Integrate our separate businesses.
- Consolidate our sales forces.
- Simplify customer access through a primary sales contact.
- Offer full access to all our products and services.

These changes to our internal operations began in the fall of 2007 and will continue throughout 2008. We also improved support for our sales force through

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expanded product education, upgraded marketing materials and in-the-field technical assistance so our sales team can add more value to the customer's business. In short, we intend to make it easy for customers to buy from us, buy more and buy more often. Then our company and you, our shareholders, will experience more profitable growth.

This strategy emphasizes the “essentials” – the building blocks of *people, products, systems and processes*. It responds to the needs of our target customers: customers who rely on our products, expertise and value-added services to maximize the value of their maintenance and repair expenditures. They have become increasingly focused on better managing their MRO purchases. They want to consolidate their suppliers, but don't want

to compromise their access to quality products and services.

That's where we come in. Our industrial supplies (fasteners, cutting tools and hydraulics), premium chemicals and welding/metal repair products keep businesses, shops and factory lines operational and efficient.

Our strategy execution is still a work in progress. We have not yet reached our end point: doing business as a fully integrated company – not a “family” of separate businesses. That will come later in 2008. And yet, thanks to our focus on the essentials, we have made good progress in implementing the different aspects of this strategy.

### Focus on the Essentials

During 2007, we focused keenly on the essentials: capabilities and resources that we needed to leverage more fully, expand, upgrade, or build anew.

### PEOPLE

In the “people” arena, we closely evaluated our employee talent and skill base to determine how we could best leverage skills and capabilities to “do business smarter.” In some areas, positions were eliminated, consolidated or redefined. This work led to significant cost-savings, better use of resources and redeployment of talent to greater-value work.

Last year several of our long-tenured, senior executives retired. Related to these retirements, we simplified and streamlined the structure of the organization, which resulted in the reassignment of responsibilities and an overall reduction in management ranks.

At the senior level, we systematically assessed our talent across the organization and identified key positions for upgrading. To attract candidates with higher-level skills sets and broader experience relevant to challenges, we approached the marketplace in a purposeful manner. Thanks to the integration of this talent into our senior leadership team, we are better positioned to meet new and more demanding business needs.





As part of our sales force integration we also consolidated and streamlined our sales management ranks by reducing regions and the number of managers. Here, too, we conducted a talent assessment of sales leadership, selecting leaders with higher-level competencies who could more effectively lead us through this period of change as we executed our customer-centric strategy.

**PRODUCTS**

Our product focus pays special attention to the customer, as well. It's not about simply adding new items. Rather, it's about adding relevant products and programs. Our creation of a special hydraulics kit that can be tailored to multiple customer segments offers an example. One such kit targets the military. Its portable nature and use of products that don't require electricity make it possible to perform maintenance on military vehicles in the field or a motor pool in Afghanistan and Iraq, as well as other points around the world. It has been a big seller with our customers.

We have also acted on customer desire for high-quality, low-cost products. We have introduced "better-best" pricing and quality points in some product lines, and will expand this approach in the future. To help our sales force competently and confidently sell products across our company lines, we have created new market and technical specialist roles and improved our education and marketing/promotion support materials. We expect these moves will position our sales force to continue to add value to the customer's business.

**SYSTEMS AND PROCESSES**

To support our customer-centric strategy, we have also upgraded the systems and processes that support the business. New capabilities allow us to create more targeted marketing that considers customer product and buying patterns and enhances our ability to get orders in the system, out the door and shipped quickly and accurately.

For example, we created a system-supported Marketing Knowledge Center. It provides key data used in targeted product and service promotions that we employ to enhance customer retention. We also

significantly upgraded our information technology capabilities and added new ones, as well. But more improvements are needed to ensure our customers' information needs are met.

Updating other systems and computing platforms added critical functionality. We are now positioned for growth in this area as well – able to meet the demands created by conducting business as an integrated company with a unified sales force.

At the same time, we focused sharply on how to improve other processes and efficiencies, among them order fulfillment, and built or purchased new systems to enhance this work. We will continue our commitment to deliver IT-enabled competitive advantage to the business in the form of systems that support our customer's and company's needs, in order to deliver timely, accurate and actionable information needed to run the business effectively.

**Timing and Change**

Last year we achieved marginal sales growth within the Maintenance, Repair, Operations (MRO) Group, but did not hit our targets. Amid our efforts to execute our customer-centric strategy and enhance the "essentials," we were unable to effect changes quickly enough to offset the impact of a softening marketplace. While we were successful in reducing our ongoing operating expenses, severance costs associated with management restructuring and retirements contributed to the overall profit decline.

We also consolidated a warehouse in Southern California (acquired through the 2005 Rutland Tool acquisition) with an existing Lawson facility in Reno, Nevada. At the same time, we took on a significant expansion of our Reno facility to upgrade our West Coast presence. Despite commendable employee effort and commitment, and although we got the job done, we did not hit our timing and budget targets.

While our decision to recruit top-flight talent from the outside made good business sense, it also came at a cost. We had to pay significant severance to departing executives.

Nonetheless, thanks to significant efficiency and productivity gains achieved across the company, we are pleased to report that we ended the year with a more productive and lower-cost operating infrastructure. In addition, the company's balance sheet remains strong and virtually debt-free.

**Positioned for Growth**

As 2007 was winding down, we began to see some early returns on our efforts. As expected, customer response to interim solutions we put in place as we built out our strategy and capabilities was positive. It validated that we were moving in the right direction: customers want to buy a broader range of products from a single point of contact.

By the end of 2008 we will be able to offer all customers the ability to access products, services and solutions from across our previously separate companies. No longer will they need to deal with one sales representative for industrial products, another for chemicals and still another for welding/metal repair items. Customers are sure to find it more convenient and cost-effective to access expanded products and services from us through a single order, billed in a single invoice.

We remain confident that the changes we are making and the actions we are taking will position us to achieve the growth that you expect and deserve. We are optimistic about our ability to leverage resources, benefit from what we learned last year and execute our business model more effectively. We look forward to reporting on our successes to you next year.

**Thomas J. Neri**  
Chief Executive Officer

**Ronald B. Port, MD**  
Chairman of the Board



## **CORPORATE INFORMATION**

### **ANNUAL MEETING**

The annual meeting of stockholders will be held at 10:00 AM Tuesday, May 13th, 2008 at Corporate Headquarters.

### **CORPORATE HEADQUARTERS**

#### **Lawson Products, Inc.**

1666 East Touhy Avenue  
Des Plaines, Illinois 60018  
847-827-9666  
www.lawsonproducts.com

### **PROFESSIONAL SERVICES**

#### **Auditors**

Ernst & Young LLP

#### **Legal Counsel**

McDermott, Will & Emery

### **FORM 10-K**

A copy of the Company's 2007 Annual Report on Form 10-K to the Securities and Exchange Commission is available without charge to shareholders upon written request to the Secretary of the Company.

### **SHAREOWNER SERVICES**

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

(Operators are available Monday-Friday, 8:00 AM to 5:00 PM Central time. An interactive automated system is available around the clock every day.)

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

### **COMMON STOCK**

The common stock of Lawson Products, Inc. is traded on the NASDAQ Global Select Market under the symbol "**LAWS**".





## BOARD OF DIRECTORS

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

Chairman of the Board  
(Retired Physician)

### **James T. Brophy**

(Private Investor)

### **Thomas S. Postek, CPA, CFA**

Chairman, Audit Committee  
(Geneva Investment Management  
of Chicago)

### **Robert G. Rettig**

(Consultant)

### **Thomas J. Neri**

Chief Executive Officer

### **Mitchell H. Saranow**

Chairman, Financial Strategies Committee  
Chairman, Nominating and  
Governance Committee  
(Chairman, Saranow Group LLC,  
Chief Executive Officer of Lenteq, L.P.)

### **James S. Errant**

(Managing Partner of Gore Range  
Brewery,  
Managing Partner of Gore Frites, LLC)

### **Wilma J. Smelcer**

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

### **Lee S. Hillman**

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

## CORPORATE MANAGEMENT

### **Thomas J. Neri**

Chief Executive Officer

### **Neil E. Jenkins**

Executive Vice President, Secretary  
and General Counsel

### **Stewart A. Howley**

Senior Vice President,  
Chief Marketing Officer

### **William G. Holmes**

Vice President,  
Treasurer

### **Michael W. Ruprich**

Group President, MRO

### **Scott F. Stephens**

Senior Vice President,  
Chief Financial Officer

### **Michelle Russell**

Senior Vice President  
Operations and Supply  
Chain Management

### **Mary Ellen Schopp**

Senior Vice President  
Human Resources



## LAWSON BRANDS AND BUSINESSES



### Lawson

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



### Cronatron Welding Systems

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



### Drummond

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



### Kent Automotive

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



### Assembly Component Systems

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



### Automatic Screw Machine Products

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



### C.B. Lynn

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



### Rutland Tool And Supply

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



## PROFILE

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

The Company offers our customers a broad array of products, including fasteners, parts, chemical specialties, hardware, welding supplies, metal working supplies, pneumatics, hydraulic and other flexible hose fittings, tools, safety items and electrical and shop supplies.

Customers are currently served from fifteen strategically located facilities by approximately 1,600 independent sales representatives in the United States, Puerto Rico, Canada and Mexico. Lawson Products was founded in 1952 by Sidney L. Port.

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









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[www.lawsonproducts.com](http://www.lawsonproducts.com)