LAWSON PRODUCTS INC/NEW/DE/
Form DEF 14A
April 21, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Section 240.14a-12

Lawson Products, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Lawson Products, Inc.
1666 East Touhy Avenue
Des Plaines, Illinois 60018

NOTICE OF ANNUAL MEETING
OF STOCKHOLDERS
May 13, 2008

TO THE STOCKHOLDERS:

You are cordially invited to attend the annual meeting of stockholders of Lawson Products, Inc. (the Company or Lawson), which will be held at the offices of the Company, 1666 East Touhy Avenue, Des Plaines, Illinois, on May 13, 2008 at 10:00 a.m., central time, for the following purposes:

(1) To elect three directors to serve three years;

(2) To ratify the appointment of Ernst & Young LLP as Lawson s independent registered public accounting firm for the fiscal year ending December 31, 2008;

(3) To approve the Lawson Products, Inc. Long-Term Incentive Plan; and

(4) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 24, 2008, as the record date for the determination of stockholders entitled to notice of and to vote at the meeting. Accompanying this notice is a Proxy, a Proxy Statement and a copy of the Company s 2007 Annual Report on Form 10-K.

Even if you expect to attend the meeting in person, please sign and return the enclosed proxy in the envelope provided so that your shares may be voted at the meeting. You may also vote your shares by telephone or via the Internet as set forth in the enclosed proxy. If you execute a proxy, you still may attend the meeting and vote in person.

By Order of the Board of Directors

Neil E. Jenkins
Secretary

Des Plaines, Illinois
April 21, 2008

Lawson Products, Inc.
1666 East Touhy Avenue
Des Plaines, Illinois 60018

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
May 13, 2008

This Proxy Statement is being sent to stockholders on or about April 21, 2008, in connection with the solicitation of the accompanying proxy by our Board of Directors. Only stockholders of record at the close of business on March 24, 2008 are entitled to notice of and to vote at the meeting. We have retained Morrow & Co., Inc., a firm specializing in the solicitation of proxies, to assist in the solicitation at a fee estimated to be $4,500 plus expenses. Officers of the Company may make additional solicitations in person or by telephone. Expenses incurred in the solicitation of proxies will be borne by the Company. If the accompanying form of proxy is executed and returned in time or you vote your shares by telephone or via the Internet as set forth in the enclosed proxy, the shares represented thereby will be voted. A proxy may be revoked at any time prior to its voting by execution of a later dated proxy or by voting in person at the annual meeting.

As of March 24, 2008, we had 8,522,001 shares of Common Stock (the Common Stock) outstanding and such shares are the only shares entitled to vote at the annual meeting. Each holder of Common Stock is entitled to one vote per share on all matters to come before the meeting. For purposes of the meeting, a quorum means a majority of the outstanding shares. In determining whether a quorum exists, all shares represented in person or by proxy will be counted.

Directors will be elected by a plurality of the votes cast at the meeting by the holders of shares represented in person or by proxy. It is intended that the named proxies will vote in favor of the election of directors of the nominees listed below, except as otherwise indicated on the proxy form. If any nominee should become unavailable for election as a director (which is not contemplated), the proxies will have discretionary authority to vote for a substitute. In the absence of a specific direction from the stockholders, proxies will be voted for the election of all named director nominees. The ratification of Ernst & Young LLP as the Company s independent registered public accounting firm and the approval of the Long-Term Incentive Plan require the approval of the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the meeting. A properly executed proxy card marked Abstain with respect to either proposal will constitute a vote against such proposal.

Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting. Broker non-votes will not affect the determination of the outcome of the vote on the election of directors, the ratification of Ernst & Young LLP as the Company s independent registered public accounting firm, or the approval of the Long-Term Incentive Plan. A broker non-vote occurs when a broker holding shares registered in street name is permitted to vote, in the broker s discretion, on routine matters without receiving instructions

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from the client, but is not permitted to vote without instructions on non-routine matters, and the broker returns a proxy card with no vote on the non-routine matter. Under the rules and regulations of the primary trading markets applicable to most brokers, the election of directors, the ratification of Ernst & Young LLP as the Company s independent registered public accounting firm, and approval of the Long-Term Incentive Plan are routine matters on which a broker has the discretion to vote if instructions are not received from the client in a timely manner.

Proposal 1: Election of Directors

Stockholders are entitled to cumulative voting in the election of directors. Under cumulative voting, each stockholder is entitled to that number of votes equal to the number of directors to be elected, multiplied by the number of shares such stockholder owns, and such stockholder may cast its votes for one nominee or distribute them in any manner it chooses among any number of nominees. Unless otherwise indicated on the proxy card, votes may, in the discretion of the proxies, be equally or unequally allocated among the nominees named below. Directors will be elected by a plurality of the votes cast at the meeting by the holders of shares represented in person or by proxy. Thus, assuming a quorum is present, the three persons receiving the greatest number of votes will be elected as directors and votes that are withheld will have no effect.

The By-Laws of the Company provide that the Board of Directors shall consist of such number of members, between five and nine, as the Board of Directors determines from time to time. The size of the Board of Directors is currently set at nine members. The Board of Directors is divided into three classes, with one class being elected each year for a three-year term. At the annual meeting, three directors are to be elected to serve until 2011 and until their successors are elected and qualified.

The following information has been furnished by the respective nominees and continuing directors. Each nominee and continuing director has held the indicated position, or an executive position with the same employer, for at least the past five years, unless otherwise indicated below.

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Name	*Age*	*Principal Occupation*	*Year First Elected Director*
Nominees to be Elected to Serve Until 2011			
Ronald B. Port, M.D.	67	Chairman of the Board of Directors since April 2007. Retired Physician.	1984
Robert G. Rettig	78	Consultant.	1989
Wilma J. Smelcer	59	Ms. Smelcer was a member of the Board of Governors of the Chicago Stock Exchange from 2001 until April 2004. Also from 2001 through 2006, Ms. Smelcer was a trustee of Goldman Sachs Mutual Fund Complex (a registered investment company). Ms. Smelcer served as Chairman of Bank of America, Illinois from 1998 to 2001.	2004

The Board recommends that stockholders vote FOR these nominees.

Name	*Age*	*Principal Occupation*	*Year First Elected Director*
Directors Whose Terms Expire in 2009			
James T. Brophy	80	Private Investor.	1971
Thomas S. Postek	66	Certified public accountant and chartered financial analyst currently affiliated with Geneva Investment Management of Chicago since January 2005. Mr. Postek was a partner and principal of William Blair & Company, LLC from 1986 to 2001. During his tenure at William Blair, Mr. Postek covered various business services as an analyst, including industrial distribution. Mr. Postek is also a director of UniFirst Corporation.	2005
Mitchell H. Saranow	62	Chairman of The Saranow Group, a family investment firm and its predecessors, since 1984. Mr. Saranow was the chief executive officer of the general partner of Lenteq, LP of Northbrook, Illinois, and served as a managing director (i.e, both a director and executive officer) of Lenteq, C.V., the primary Dutch operating entity and wholly owned subsidiary of Lenteq LP. In 2007, Lenteq C.V. and two related Dutch companies, all of which were located in Lisserbroek, The Netherlands, filed for bankruptcy under Dutch insolvency laws, and substantially all of their assets were sold pursuant to this process early in 2008. Mr. Saranow is also a director of Telephone and Data Systems, Inc.	1998

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Name	*Age*	*Principal Occupation*	*Year First Elected Director*
Directors Whose Terms Expire in 2010			
James S. Errant	59	Managing Partner of Gore Range Brewery from 1997 to the present. Managing Partner of Frites, LLC from 2004 to the present. President of Prima Corporation from 1973 to 2006. The companies listed above are in the business of operating restaurants.	2007
Lee S. Hillman	52	Executive Chairman and Chief Executive Officer, Power Plate International since February 2006. President of Liberation Investment Advisory Group since 2003. From 1996 to 2002, Mr. Hillman was Chief Executive Officer, President and a Director and from 2000 to 2002 Chairman of the Board of Bally Total Fitness Holding Corporation, an owner and operator of health and fitness clubs. Mr. Hillman is also a director of RCN Corporation and a trustee of the Adelphia Recovery Trust.	2004
Thomas J. Neri	56	President and Chief Executive Officer of Lawson Products, Inc. since April 2007. In 2006, he was promoted to Chief Operating Officer. He joined the company in 2003 as Chief Financial Officer and Executive Vice President, Planning.	2007

Securities Beneficially Owned by Principal Stockholders and Management

The following table sets forth information as of March 31, 2008 concerning the beneficial ownership by each person (including any group as defined in Section 13(d)(3) of the Securities Exchange Act of 1934) known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock of the Company, each director, each named executive officer, and all executive officers and directors as a group. Because the voting or dispositive power of certain stock listed in the following table is shared, in some cases the same securities are listed opposite more than one name in the table. The total number of the Company s shares of Common Stock issued and outstanding is 8,522,001.

Name of Beneficial Owner	*Sole Voting or Dispositive Power (1)(2)*	*Shared Voting or Dispositive Power*	*Percent of Class*
Five Percent Shareholders:			
Roberta Port Washlow(3)	22,471	3,011,436	35.6%
1666 East Touhy Avenue			
Des Plaines, Illinois 60018			
Sidney L. Port Trust(4)	1,170,389		13.7%
1666 East Touhy Avenue			
Des Plaines, Illinois 60018			
Royce & Associates LLC(5)	929,479		10.9%
1414 Avenue of the Americas			
New York, NY 10019			
Directors and Director Nominees:			
James T. Brophy	4,439		*
James S. Errant	19,204	12,378	*
Lee S. Hillman	2,289		*
Ronald B. Port, M.D(3)	21,404	3,011,436	35.8%
Thomas S. Postek	12,045		*
Robert G. Rettig	6,289		*
Mitchell H. Saranow(6)	12,789		*
Wilma J. Smelcer	2,289		*
Named Executive Officers:			
Jeffrey B. Belford(7)	100		*
Roger F. Cannon(8)	4,367		*
Stewart A. Howley			*
Neil E. Jenkins			*
Thomas J. Neri			*
Michael W. Ruprich			*
Scott F. Stephens			*
Robert J. Washlow(9)	60,657		*
All executive officers and directors as a group (16 persons)	145,872	3,023,814	37.2%

* Less than 1%.

(1) Does not include certain shares held by wives and minor children in the case of Mr. Brophy (725 shares) and Dr. Port (4,803 shares) and all executive officers and directors as a group (5,528 shares).

(2) Stockholdings shown include shares issuable upon the exercise of stock options exercisable within 60 days of March 30, 2007 by Dr. Port (2,500 shares) and Mr. Saranow (2,500 shares).

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(3) Includes shares held in family partnerships in the aggregate amount of 3,011,436 in which Dr. Ronald B. Port, and Roberta Port Washlow (Mr. Sidney Port s daughter and Mr. Washlow s spouse) are the managing partners. Approval of both of the managing general partners is required for any actions with respect to the reported securities.

(4) Based on an Amendment to Schedule 13G filed by Sidney L. Port with the SEC, dated February 14, 2007.

(5) Based on an Amendment to Schedule 13G filed by Royce & Associates LLC with the SEC, dated January 29, 2008.

(6) 8,000 shares are owned by Saranow Investments, L.L.C., which is owned by Mr. Saranow and his family. 2,289 shares are owned by Mr. Saranow.

(7) Mr. Belford resigned from the Company effective January 5, 2007. The share information provided for Mr. Belford is current through this date.

(8) Mr. Cannon resigned from the Company effective January 12, 2008. The share information provided for Mr. Cannon is current through this date.

(9) Mr. Washlow resigned from the Company effective April 13, 2007. The share information provided for Mr. Washlow is current through this date.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than 10% of shares of the Company s Common Stock (collectively, Reporting Persons) to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received or written representations from the Reporting Persons, the Company believes that with respect to the year ended December 31, 2007, all the Reporting Persons complied with all applicable Section 16 filing requirements.

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CORPORATE GOVERNANCE

Board of Director Meetings and Committees

In 2007, the Board of Directors held 8 meetings, the Compensation Committee held 6 meetings, the Audit Committee held 9 meetings, the Management Development Committee held 2 meetings, the Nominating and Governance Committee held 3 meetings and the Financial Strategies Committee held 1 meeting. In 2007, each director attended at least 75% of the meetings of the Board of Directors and of the respective committees on which he served.

The Board of Directors has standing Audit, Compensation, Financial Strategies, Nominating and Governance, and Management Development Committees. The Audit, Compensation and Nominating and Governance Committees have each adopted a charter for their respective committees. These charters may be viewed on the Company s website, www.lawsonproducts.com, and copies may be obtained by request to the Secretary of the Company. Those requests should be sent to Corporate Secretary, Lawson Products, Inc., 1666 East Touhy Avenue, Des Plaines, Illinois 60018.

Directors

The names and ages of all directors and all persons nominated to become directors can be found under the foregoing heading Proposal 1: Election of Directors. In April 2007, Robert J. Washlow resigned as Chairman, Director and Chief Executive Officer of the Company, and the Board elected James S. Errant to fill the Board vacancy left by his departure. On April 13, 2007, the Board appointed Ronald B. Port, M.D., as Chairman of the Board and Thomas J. Neri as Chief Executive Officer. Thomas J. Neri was elected to the Board of Directors in December 2007.

The Audit Committee

The functions of the Audit Committee include the appointment, compensation, retention and oversight of the Company s independent auditors, reviewing the scope and results of the audit by the Company s independent auditors and reviewing the Company s procedures for monitoring internal control over financial reporting. The current members of the Audit Committee consist of Thomas Postek (Chairman), James T. Brophy, Robert G. Rettig and Mitchell H. Saranow. Each member of the Audit Committee satisfies the independence requirements of The Nasdaq Stock Market and the SEC. The Board of Directors has determined that Mr. Saranow is an audit committee financial expert as such term is defined by the SEC and satisfies the financial sophistication requirements of The Nasdaq Stock Market.

The Compensation Committee

The Compensation Committee makes all determinations with respect to the compensation of the Chief Executive Officer and establishes compensation for all other executive officers of the Company. The Compensation Committee consists of Lee S. Hillman (Chairman), James T. Brophy, Robert G. Rettig, Mitchell H. Saranow and Wilma J. Smelcer. The agenda for meetings of the Compensation Committee is determined by its Chair with the assistance of the Chief Executive Officer. The Chief Executive Officer recommended compensation decisions involving the executive officers and discussed these recommendations and related issues with the Compensation Committee. During Committee meetings at which compensation actions involving the Chief Executive Officer are discussed, the Chief Executive Officer does not participate in the discussions if the Committee so chooses. At each meeting, the Compensation Committee has the opportunity to meet in executive session. Each member of the Compensation Committee satisfies the independence requirements of The Nasdaq Stock Market and is an outside director as defined in Section 162(m) of the Internal Revenue Code.

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The Nominating and Governance Committee

The Nominating and Governance Committee identifies and nominates potential directors to the Board of Directors and otherwise takes a leadership role in shaping the corporate governance of the Company. The Nominating and Governance Committee consists of Mitchell H. Saranow (Chairman), James S. Errant, James T. Brophy, Robert G. Rettig, and Wilma J. Smelcer. With the exception of Mr. Errant, each member of the Nominating and Governance Committee satisfies the independence requirements of The Nasdaq Stock Market.

The Financial Strategies Committee

The Financial Strategies Committee reviews and evaluates the financial activities of the Company and makes recommendations to the Board of Directors and management regarding business strategies and financial policies and objectives to promote and maintain superior standards of performance. The Committee consists of Mitchell Saranow (Chairman), James T. Brophy, James S. Errant, Lee S. Hillman, and Ronald B. Port, M.D.

The Management Development Committee

The Management Development Committee is responsible for management development and succession. The directors who serve on the Management and Development Committee are Wilma J. Smelcer (Chairwoman), James S. Errant, Lee S. Hillman, Ronald B. Port, M.D. and Robert G. Rettig.

Family Relationships

Ronald B. Port, M.D. is the son of, and James S. Errant is the former son-in-law of, the late Sidney L. Port, founder of the Company and a former director.

Director Nominations

The Nominating and Governance Committee will consider Board of Director nominees recommended by stockholders. Those recommendations should be sent to the Chair of the Nominating and Governance Committee, c/o the Corporate Secretary of Lawson Products, Inc., 1666 East Touhy Avenue, Des Plaines, Illinois 60018. In order for a stockholder to nominate a candidate for director, under the Company s Charter, timely notice of the nomination must be given in writing to the Secretary of the Company. To be timely, such notice must be received at the principal executive offices of the Company as set forth under Proposals of Security Holders below. The Nominating and Governance Committee may require any nominee to furnish any other information, within reason, that may be needed to determine the eligibility of the nominee. The Nominating and Governance Committee will follow procedures which the Committee deems reasonable and appropriate in the identification of candidates for election to the Board of Directors and evaluating the background and qualifications of those candidates. Those processes include consideration of nominees suggested by an outside search firm, by incumbent Board of Directors members and by stockholders. The Committee will seek candidates having experience and abilities relevant to serving as a director of the Company and who represent the best interests of stockholders as a whole and not any specific interest group or constituency. The Committee will consider a candidate s qualifications and background, including, but not limited to responsibility for operating a public company or a division of a public company, international business experience, a candidate s technical background or professional qualifications and other public company Boards of Directors on which the candidate is a director. The Committee will also consider whether the candidate would be independent for purposes of The Nasdaq Stock Market and the rules and regulations of the Securities and Exchange Commission (SEC). The Committee may from time to time engage the service of a professional search firm to identify and evaluate potential nominees.

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Director Independence

The Company s Board of Directors has determined that James T. Brophy, Lee S. Hillman, Thomas S. Postek, Robert G. Rettig, Mitchell H. Saranow, and Wilma J. Smelcer are independent within the meaning of the rules of The Nasdaq Stock Market. In determining independence, the Board of Directors considered the specific criteria for independence under The Nasdaq Stock Market rules and also the facts and circumstances of any other relationships of individual directors with the Company.

The independent directors and the committees of the Board of Directors regularly meet in executive session without the presence of any management directors or representatives.

Annual Meeting Attendance Policy

The Company expects all Board members to attend the annual meeting of stockholders, but from time to time, other commitments may prevent all directors from attending each meeting. All directors attended the most recent annual meeting of stockholders.

Code of Ethics

The Board of Directors has adopted a Code of Ethics Policy. The policy may be viewed on the Company s website, www.lawsonproducts.com, and copies may be obtained by request to the Secretary of the Company. Those requests should be sent to Corporate Secretary, Lawson Products, Inc., 1666 East Touhy Avenue, Des Plaines, Illinois 60018.

Stockholder Communications with Board of Directors

Stockholders may send communications to members of the Board of Directors by either sending a communication to the Board of Directors and/or a particular member c/o Corporate Secretary, Lawson Products, Inc., 1666 East Touhy Avenue, Des Plaines, Illinois 60018. Communications intended for non-management directors should be directed to the Chair of the Nominating and Governance Committee.

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REMUNERATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis (CD&A)

Compensation Philosophy and Objectives

Our executive compensation programs are designed to reward executives for the consistent development and execution of successful business strategies. In determining the type and amount of compensation for each executive, we use both current compensation and the opportunity to receive future compensation in a manner that we believe optimizes the executive s contributions to our Company. Our compensation programs are designed to encourage and reward the creation of long-term shareholder value.

The Company guides its executive compensation programs with a compensation philosophy expressed in these three principles:

1. *Talent Acquisition and Retention.* We believe that having qualified people at every level of our Company is critical to our success. We develop executives from within to lead the organization, or as needed, recruit them from outside the Company. Finding talented people with the right competencies and experience is very important. Our compensation programs should encourage talented executives to join and continue their careers as part of our senior management team.

2. *Accountability for Lawson s Business Performance.* To achieve alignment between the interests of our executives and our stockholders, we use short-term and long-term incentive plans. Our executives compensation will increase or decrease based on how well they achieve set Company performance goals.

3. *Accountability for Individual Performance.* We believe teams and individuals should be rewarded when their contributions are exemplary and significantly support Company performance and value creation.

Named Executive Officers

Thomas J. Neri, Robert J. Washlow, Scott F. Stephens, Neil E. Jenkins, Michael W. Ruprich, Stewart A. Howley, Jeffrey B. Belford, and Roger F. Cannon represent our current Chief Executive Officer, former Chief Executive Officer, Chief Financial Officer, three most highly compensated current executive officers, as well as two former executives who would have qualified in 2007 but were not executive officers at the end of the fiscal year (the named executives or named executive officers).

Compensation Committee

Our Compensation Committee discharges the responsibilities of the Board of Directors relating to compensation of our executive officers and produces an annual report on executive compensation for inclusion in the Company s Proxy Statement.

The Committee is responsible for reviewing and approving corporate goals and objectives relevant to the compensation for executive officers, evaluating the performance of executive officers in light of those goals and objectives, and setting the compensation level of executive officers based on this evaluation. The Committee also administers incentive-compensation plans and equity-based plans established or maintained by the Company from time to time; makes recommendations to the Board with respect to the adoption, amendment, termination or replacement of the plans; and recommends to the Board the compensation for Board members, such as retainer, committee chairman fees, stock options and other similar items as appropriate. For 2008, the Committee is soliciting shareholder approval of a new long-term incentive plan to ensure the appropriate alignment of management incentives with shareholder interests.

The Compensation Committee reviews and approves the compensation programs for the CEO and senior management, which include the named executives whose compensation is included in this report. The Company s CEO makes recommendations on compensation to the Committee for all executive officers except himself. Executive officers will generally make compensation recommendations to the CEO regarding employees who report to them. The Committee consults with independent compensation consultants to ensure that compensation is reasonable and within market practice.

Key Elements of Compensation

We use four key pay elements to achieve our objectives for our executive compensation programs: base salary, annual incentives, long-term incentives and benefits. These compensation elements are weighted toward variable or at-risk compensation. Variable incentive pay is at-risk because total pay is significantly reduced if performance does not meet pre-established objectives.

Actual compensation of our named executive officers varies from the target mix based upon the actual Company performance, individual performance and the timing of the awards. For example, our current long-term incentive plan is a five-year incentive plan whose performance cycle ends on December 31, 2008. Any awards, if earned, will be paid in accordance with the plan document.

The Long-Term Incentive Plan recommended for shareholder approval in this Proxy also requires achievement of goals over multiple years. Awards are paid at the end of the performance period based on actual achievement of pre-established targets.

To date, we have followed the compensation approach as described below:

- Target base salaries at the 50th percentile or median of the market;

- Target annual incentive opportunity at the median of the market with significant upside opportunity for exceeding established targets; and

- Administer an objective-based, long-term incentive plan with the potential for well above market rewards when stretch goals were achieved. We believe that the use of objective-based goals is an essential component of long-term incentive plans. Our current plans have provided for cash-based awards only. Our proposed Plan design, included for shareholder approval, provides the flexibility to provide stock based awards to executives to align their interests with those of shareholders.

We intend to continue to assess our compensation elements in the future to ensure they align executive and shareholder interests in the growing competitive landscape facing our Company.

Consultants

In 2007, the Company engaged Capital H Group (Capital H) to perform analysis and make recommendations on rewards programs for its executives, sales force and other employee groups. Capital H was also asked to make recommendations regarding the design of executive compensation plans for 2008 and beyond. Since that time, Capital H has assessed Lawson s competitive market position and presented that analysis and recommendations to the Compensation Committee. Primary work concerning executive compensation has included market pricing, benchmarking, proxy reviews and the development of materials supporting roll out and communication of the Plan to participants.

Capital H is independent and maintains no other direct or indirect business relationships with the Company. All executive compensation services provided by Capital H are conducted under the direction or authority of the CEO and/or the Compensation Committee. All executive compensation work performed by Capital H Group is subject to review and approval of the Compensation Committee.

Establishment of Peer Groups for Compensation Benchmarking

Working with Capital H Group, we have established a peer group of 18 companies to be used for evaluating competitive compensation levels during proxy reviews. The 18 companies represent a mix of wholesale trade companies, closely-held companies and our direct competitors, with revenues and net income similar to that of the Company.

Specifically, the peer companies have annual revenues ranging from $200 million to $1 billion. This peer group has been used specifically to review the appropriate mix and size of target awards for similar-sized companies.

In addition, compensation is evaluated based on published survey information for named executive officers, and other executives. Benchmarking from published surveys is based on a blend of employees performing similar roles

1. In all surveyed companies in the United States, excluding financials services, and

2. Wholesale and retail trade organizations, and

3. For-profit organizations surveyed with similar revenue as the Company.

As mergers and acquisitions, and/or company data is reviewed, companies will be added to or deleted from this set of peers to maintain an appropriate comparator group based on revenue size and other factors. The companies comprising the compensation peer group are:

APAC Customer Services Inc	Keystone Automotive Inds Inc
Bandag Inc	Markwest Hydrocarbon Inc
Books-A-Million Inc	Newpark Resources
Crawford & Co	Nu Horizons Electrs Corp
DXP Enterprises Inc	Olympic Steel Inc
Empire Resources Inc	P.A.M. Transportation Svcs
Farmer Bros Co	RPC Inc
H&E Equipment Services Inc	Tessco Technologies Inc
Industrial Distribution Group Inc	Universal Truckload Services

Specific Compensation Elements

Base Salary

The eight named executives have base salaries that are illustrated in the Summary Compensation Table below. Base salaries are paid to compensate the executives for the services they rendered during the fiscal year. These salaries are set targeting the median pay levels from companies that are comparable in terms of size, industry and complexity as a market reference point.

In setting 2007 base salaries for executives below the CEO, the Committee, in concert with input from the Chairman of the Board and the CEO, considered the following:

- The competitive market data (25th, 50th, 75th percentile);
- The experience, skills and competencies of the individual;
- The compensation of the individual relative to other members of the executive team; and
- Individual performance of the executive in the prior year.

Our competitive base salary program serves principally to assist our Company in hiring and retaining the talent we need to serve in key executive positions.

Increases in base salary may be given from time to time. These typically will be attributable to market movement, as well as incumbent growth in job performance. In cases where the Company significantly raises an executive s base salary, it usually reflects (1) an important increase in responsibility due to promotion or business reorganization, or (2) recognition for substantially increased competencies and excellent performance. From the end of fiscal year 2006 to the end of fiscal year 2007, the Company increased Thomas Neri s base salary by $70,000, pursuant to his promotion to Chief Executive Officer in April 2007. Additionally, the Company increased Scott Stephens base salary by $20,000, Neil Jenkins base salary by $50,000, and Stewart Howley s base salary by $12,000 in coordination with additional responsibilities and/or annual merit increases.

Incentive Plans

To reinforce strategic change initiatives and to attract and retain leadership talent, we use an objective-based Annual Incentive Plan (AIP) and a Long-Term Capital Accumulation Plan (Current LTIP) for our executives. This coming year, in 2008, is the final year the Company is measuring performance for the 5-year Current LTIP. If performance goals are achieved, the Plan will generate awards over a three-year period in 2009, 2010, and 2011. At this time, in conjunction with the expiration of this Plan, we are proposing a new Long-Term Incentive Plan (Proposed LTIP) be approved by shareholders.

Annual Incentive Plan (AIP)

The Annual Incentive Plan is a short-term fiscal-year incentive plan that rewards executives for the achievement of goals that, depending on the role of the executive, are composed of a mix of corporate, business unit, department and individual objectives. The purpose of this Plan is to focus on the achievement of key business objectives for the fiscal year. These objectives are aligned with the strategic plan which has a long-term time horizon focused on creating shareholder value.

Corporate AIP Objective:

In 2007, the key performance measure for our executives was Company profitability. To develop a meaningful measure for our management, we exclude from the income statement line item Income from Continuing Operations before Income Taxes and Cumulative Effect of Accounting Change expenses not generally within the control of management. For example, in 2007 and 2006, we excluded these expenses and credits:

The credit of $0.5 million, resulting in compensation income for 2007 related to the Current LTIP established in 2003. This is compared to $4.6 million of expense in 2006;

The Stock Performance Rights credit of $0.4 million in 2007. This is compared to $2.5 million of expense in 2006;

Approximately $12.0 million of severance and other charges in 2007. This is compared to approximately $0.4 million in 2006;

Legal and other expenses of $5.8 million in 2007 associated with an investigation by Federal authorities. This is compared to $3.2 million of expenses in 2006. For more information on this item please refer to page 10 of the Company s Annual Report on Form 10-K filed with the SEC on March 12, 2008;

and $2.3 million of 2007 incentive compensation costs. This compared to $2.9 million in 2006.

Considering the items discussed in the section above, we set the 2007 AIP target for operating income at $49.7 million. This was 11.9% above the comparable AIP target for operating income of $44.4 million in 2006. This target was selected as a challenging objective for our management. Actual 2007 results were $39.5 million, 79.5% of target and equal to the Plan threshold of $39.5 million. The Plan threshold level is the minimum level of performance needed to fund payment to our executives for this goal.

This corporate performance goal was typically weighted at approximately 50% of each of the named executive s target annual incentive payment.

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Business Unit, Department and Individual AIP Goals:

The balance of the 2007 goals in the AIP represented approximately 50% of each of the named executive officer s target annual incentive payment. Each executive had between 3 and 6 objectives in this category. At the time the annual grants were approved, the Committee thought that it was more likely than not that each named executive officer would achieve their 2007 goals. The goals included re-engineering processes, increasing sales, reducing costs, developing new products, and introducing new systems, among others. Each goal is set to have significant opportunity for business operating improvement and is important in the attainment of Company strategy.

AIP Considerations for 2008

As the Company continues to advance, individual contribution to Company success remains critical, whether leading a business unit, department, or functional team. As a result, the focus of our management team and participants in the AIP has been focused on overall Company success and individual contribution to achieving those goals. Through disciplined goal-setting and performance management, the Company intends to appropriately award those individuals whose efforts in their roles have best supported the success of the Company.

Long-Term Incentive Plans

The third key element of our executive compensation program is the Long-Term Capital Accumulation Plan. Fiscal year 2008 is the final year of the current five-year Long-Term Capital Accumulation Plan (Current LTIP), which may generate payouts over three years to key executives, beginning in March 2009. At this time, the Company is proposing for shareholder approval, a new Long-Term Incentive Plan (Proposed LTIP). These plans both feature achievement of multi-year objectives for a payout to occur. Selected officers and other key employees participate in these Plans from time to time, at the discretion of the Compensation Committee.