NMXS COM INC
Form S-8
April 25, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NMXS.COM, INC.

dba New Mexico Software, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	333-112781	91-1287406
(State or jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

(Address of principal executive offices)

505-255-1999

Registrant's telephone number, including area code)

2005 STOCK PLAN

(Full title of the plan)

Richard Govatski

President and Director

NMXS.COM, INC.

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

Telephone: 505-255-1999

(Name and Address of Agent for Service)

Copy To:

David B. Stocker, Esq.

2425 East Camelback Road

Suite 1075

Phoenix, Arizona 85016

Telephone: 602-852-5445

Facsimile: 602-852-5446

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed Amount to be registered(1)	Proposed maximum offering price per share(2)	maximum aggregate offering price(2)	Amount of registration fee
Common Stock(1)	5,000,000	$0.23	$1,150,000.00	$135.35
			Total:	$135.35

(1) In addition, pursuant to Rule 416(c) under the Securities Act of 1933, this registration statement also covers an indeterminate number of interests to be offered or sold pursuant to the employee benefit plan(s) described herein.

(2) Pursuant to Rule 457(h)(1) of the Securities Exchange Act of 1934, the proposed maximum offering price per share, proposed maximum aggregate offering price and amount of registration fee were computed based on the average of the high and low prices of the shares of common stock on April 13, 2005.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

ITEM 1. PLAN INFORMATION

The documents containing the information specified in Part I of Form S-8 (plan information and registrant information) will be sent or given to employees as specified by Rule 428(b)(1) of the Securities Act of 1933, as amended (the "Act"). Such documents need not be filed with the Securities and Exchange Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424. These documents, which include the statement of availability required by Item 2 of Form S-8, and the documents incorporated by reference in this Registration Statement pursuant to Item 3 of Form S-8 (Part II hereof), taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Act.

ITEM 2. REGISTRANT INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION

The registrant shall provide a written statement to individual consultants and advisers who provide services to the registrant pursuant to consulting or advisory agreements providing for the issuance of securities as compensation, in whole or in part, advising them of the availability without charge, upon written or oral request, of the documents incorporated by reference in Item 3 of PART II of this registration statement, and stating that these documents are incorporated by reference in the Section 10(a) prospectus.

Requests should be made to: Richard Govatski, President and Director, NMXS.COM, INC. 5021 Indian School Road, Suite 100, Albuquerque, New Mexico 87110, Telephone: 505-255-1999.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE

NMXS.COM, Inc. (the "Company") will furnish shareholders with annual reports containing audited financial statements and with quarterly reports containing unaudited financial statements for the first three quarters of each fiscal year. Copies of these documents, and any other communications sent to the Company's shareholders generally, also will be furnished to all eligible consultants and advisors.

The following documents have been previously filed by NMXS.COM, Inc. ("NMXS.COM") with the Securities and Exchange Commission (the "Commission") and are hereby incorporated by reference into this Registration Statement as of their respective dates:

(a) The Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, filed with the Commission on April 15, 2005;

(b) All other reports filed by the Company pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") since the end of the Company's fiscal year ended December 31, 2005; and

(c) The description of the Company's common stock contained in the Company's registration statement on Form SB-2/A.

All documents subsequently filed by the Company with the Commission since the date of the latest annual report pursuant to Sections 13(a), 13(c), 14 and 15(d) of the 1934 Act, prior to the filing of a post-effective amendment which indicates that all the Company's common stock offered hereby has been sold or which de-registers such Company common stock then remaining unsold, shall be deemed to be incorporated herein by reference and to be a part hereof from the date of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

ITEM 4. DESCRIPTION OF SECURITIES

Not Applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL

The Company is represented by David B. Stocker, Esq., 2425 East Camelback Road, Suite 1075, Phoenix, Arizona 85016, Telephone: 602-852-5445.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Delaware corporate law, as amended, permit a Delaware corporation in general to indemnify any of its officers and directors, and any person serving at its request as an officer or director or another corporation or enterprise if he acted in good faith and in a manner which he believed to be in, or not opposed to, the best interest of the corporation. In the event, however, that such person is adjudged liable to the corporation, he will not be entitled to indemnification. Furthermore, unless limited by its articles of incorporation, a corporation shall indemnify a director who entirely prevails in the defense of any proceeding to which he was a party because he is or was a director of the corporation.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED

Not Applicable.

ITEM 8. EXHIBITS

EXHIBIT NO.	DESCRIPTION	LOCATION

5.1 David B. Stocker, Esq. re: legality Provided herewith

23.1 Consent of Beckstead & Watts, LLP Provided herewith

Independent Public Accountants

99.1 2005 Stock Plan Provided herewith

ITEM 9. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represents a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the Agreement of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) shall not apply to information contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the undersigned certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Albuquerque, New Mexico, on the 13th day of April, 2005.

NMXS.COM, Inc.

By: /s/ Richard Govatski

Richard Govatski

Chairman of the Board of

Directors, Chief Executive

Officer and President

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard Govatski, each of them such person's true and lawful attorney-in-fact and agent, with full powers of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this registration statement (including any post-effective amendment thereto), and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or would do in person, hereby ratifying and conforming all that said attorney-in-fact and agent, or their substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE TITLE DATE

/s/ Richard Govatski

Richard Govatski Chairman of the Board of April 13, 2005

Directors, Chief Executive

Officer and President

/s/ Teresa B. Dickey

Teresa B. Dickey Principal Financial Officer, April 13, 2005

Principal Accounting

Officer, and Director

/s/ John E. Handley

John E. Handley	Director	April 13, 2005

EXHIBIT LIST

EXHIBIT NO.	DESCRIPTION	LOCATION
5.1	David B. Stocker, Esq. re: legality	Provided herewith
23.1	Consent of Beckstead & Watts, LLP Independent Public Accountants	Provided herewith
99.1	2005 Stock Plan	Provided herewith

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$
(3,223
)

Basic and diluted income (loss) per share of common stock:

Continuing operations
$
(0.50
)

$
(0.42
)
Discontinued operations
0.16

0.05

Net loss per share
$
(0.34
)

$
(0.37
)

Basic and diluted weighted average shares outstanding
8,659

8,606

Comprehensive loss

Net loss
$
(2,955
)

$
(3,223
)
Other comprehensive loss, net of tax

Adjustment for foreign currency translation
(245
)

(172
)
Net comprehensive loss
$
(3,200
)

$
(3,395
)

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
Operating activities:		
Net loss	$(2,955)	$(3,223)
Less income from discontinued operations	(1,367)	(381)
Loss from continuing operations	(4,322)	(3,604)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	2,295	2,061
Stock-based compensation	1,125	1,596
Impairment loss	2,914	—
Changes in operating assets and liabilities:		
Accounts receivable	(3,030)	(3,714)
Inventories	2,255	(2,935)
Prepaid expenses and other assets	(1,484)	1,234
Accounts payable and other liabilities	(7,110)	3,086
Other	250	28
Net cash used in operating activities of continuing operations	(7,107)	(2,248)
Investing activities:		
Additions to property, plant and equipment	(335)	(1,225)
Net proceeds related to sale of business	12,125	—
Net cash provided by (used in) investing activities of continuing operations	11,790	(1,225)
Financing activities:		
Net (payments to) proceeds from revolving line of credit	(4,443)	3,715
Net cash (used in) provided by financing activities of continuing operations	(4,443)	3,715
Discontinued operations:		
Operating cash flows	50	(371)
Investing cash flows	—	(176)
Net cash provided by (used in) discontinued operations	50	(547)
Increase (decrease) in cash and cash equivalents	290	(305)
Cash and cash equivalents at beginning of period	698	1,640
Cash and cash equivalents at end of period	$988	$1,335

See notes to condensed consolidated financial statements.

6

Table of Contents

Notes to Condensed Consolidated Financial Statements

Note 1 — Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Lawson Products, Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of the Company, all normal recurring adjustments have been made that are necessary to present fairly the results of operations for the interim periods. Operating results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Following the sale of substantially all of the assets of Automatic Screw Machine Products Company, Inc. (“ASMP”) (See Note 9 - Discontinued Operations), the Company operates in one reportable segment; the Maintenance, Repair and Operations ("MRO") segment as a distributor of products and services to the industrial, commercial, institutional, and governmental maintenance, repair and operations marketplace. The condensed consolidated financial statements have been reclassified for the three months ended March 31, 2013 to reflect current discontinued operations treatment. Such reclassifications had no effect on net income as previously reported.

The effect of restricted stock awards, market stock units and future stock option exercises equivalent to approximately 117,000 and 42,000 shares for the three months ended March 31, 2014 and 2013, respectively, would have been anti-dilutive and therefore were excluded from the computation of diluted earnings per share.

There have been no material changes in the Company's significant accounting policies during the three months ended March 31, 2014 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013. The Company has determined that there were no subsequent events to recognize or disclose in these condensed consolidated financial statements.

Note 2 — Restricted Cash

The Company has agreed to maintain $0.8 million in a money market account as collateral for an outside party that is providing certain commercial card processing services for the Company. The Company is restricted from withdrawing this balance without the prior consent of the outside party during the term of the agreement.

Note 3 — Inventories, net

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

	(Dollars in thousands)			
	March 31, 2014		December 31, 2013	
Inventories, gross	48,844		51,102	
Reserve for obsolete and excess inventory	(5,493	)	(5,328	)
Inventories, net	$43,351		$45,774	

Note 4 — Impairment loss and property held for sale

In the first quarter of 2014 the Company committed to a plan to sell its Reno distribution center. As part of the review of the potential impact of a sale, the Company determined that the full carrying amount of the asset was not recoverable. Therefore, the Company recorded a $2.9 million non-cash impairment charge to reduce the carrying value of the property to its $8.4 million estimated realizable value. The Reno distribution center has been reclassified to "Property held for sale" in the March 31, 2014 Condensed Consolidated Balance Sheet and no depreciation will be recorded after being classified as held for sale.

Note 5 — Loan Agreement

In 2012, the Company entered into a Loan and Security Agreement (“Loan Agreement”) which expires in August 2017. Due to the lock box arrangement and a subjective acceleration clause contained in the borrowing agreement, the revolving line of credit is classified as a current liability. The Loan Agreement consists of a $40.0 million revolving line of credit facility, which includes

Table of Contents

a $10.0 million sub-facility for letters of credit. In December 2013, the Company entered into a Second Amendment to Loan and Security Agreement ("Second Amendment") which revised certain terms of the original Loan Agreement.

Credit available under the Loan Agreement is based upon:

a) 80% of the face amount of the Company’s eligible accounts receivable, generally less than 60 days past due, and

b) the lesser of 50% of the lower of cost or market value of the Company’s eligible inventory, generally inventory expected to be sold within 18 months, or $20.0 million.

The applicable interest rates for borrowings are at the Prime rate or, if the Company elects, the LIBOR rate plus 1.50% to 1.85% based on the Company’s debt to EBITDA ratio. The Loan Agreement is secured by a first priority perfected security interest in substantially all existing assets of the Company. Dividends are restricted to amounts not to exceed $7.0 million annually.

At March 31, 2014, the Company had an outstanding balance of $11.6 million under its revolving line of credit facility and additional borrowing availability of $22.9 million. The Company paid interest of $0.3 million and $0.2 million for the three months ended March 31, 2014 and 2013, respectively. The weighted average interest rate was 2.98% for the three months ended March 31, 2014 and the outstanding balance approximates fair value.

In addition to other customary representations, warranties and covenants, we are required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the Loan Agreement, and a minimum quarterly tangible net worth level as defined in the Second Amendment. On March 31, 2014, we were in compliance with all financial covenants as detailed below:

Quarterly Financial Covenants	Requirement	Actual
EBITDA to fixed charges ratio	1.10 : 1.00	2.41 : 1.00
Minimum tangible net worth	$45.0 million	$54.5 million

Note 6 — Severance Reserve

Changes in the Company’s reserve for severance as of March 31, 2014 and 2013 were as follows:

	(Dollars in thousands)	
	Three Months Ended March 31,	
	2014	2013
Balance at beginning of period	$1,769	$4,417
Charged to earnings	728	—
Payments	(754)	(986)
Balance at end of period	$1,743	$3,431

Accrued severance charges are included in the following line items of the Condensed Consolidated Balance Sheets:

	(Dollars in thousands)	
	March 31, 2014	December 31, 2013
Accrued expenses and other liabilities	$1,304	$1,651
Other liabilities	439	118
Total accrued severance	$1,743	$1,769

8

Table of Contents

Note 7 — Stock-Based Compensation

The Company recorded expense related to stock-based compensation of approximately $1.1 million and $1.6 million during the three months ended March 31, 2014 and 2013, respectively. A summary of stock based awards issued during the three months ended March 31, 2014 follows:

Stock Performance Rights ("SPRs")
The Company issued 114,753 SPRs to key employees with an average exercise price of $12.89 per share. The SPRs issued in 2014 cliff vest on December 31, 2016 and have a termination date of December 31, 2021.

Market Stock Units ("MSUs")
The Company issued 51,292 MSUs to key employees with a vesting date of December 31, 2016. MSU's are exchangeable for the Company's common shares at the end of the vesting period. The number of shares of common stock that will be issued upon vesting, ranging from zero to 76,941, will be determined based upon the trailing thirty-day average closing price of the Company's common stock on December 31, 2016.

Note 8 — Income Taxes

Primarily due to the cumulative losses that the Company has incurred over the past three years, the Company determined that it was more likely than not that it will not be able to utilize its deferred tax assets to offset future taxable income. Therefore, substantially all deferred tax assets are subject to a tax valuation allowance until the Company can establish that the recoverability of its deferred tax assets is more likely than not to be realized. Although the Company is in a full tax valuation allowance position, a tax benefit of $0.8 million was recorded in continuing operations for the three months ended March 31, 2014, primarily due to the allocation of tax expenses between continuing and discontinued operations.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income tax of multiple state and foreign jurisdictions. As of March 31, 2014, the Company is subject to U.S. Federal income tax examinations for the years 2010 through 2012 and income tax examinations from various other jurisdictions for the years 2006 through 2012. The Company is also currently under examination by the Canada Revenue Authority ("CRA") for the years 2006 through 2010. The CRA examination was completed during May 2013 and resulted in proposed adjustments which amount to $3.4 million of additional tax for the 2008 and 2009 tax years. The Company is not in agreement with these adjustments and filed a request with Competent Authority programs in both the U.S. and Canada in October, 2013. The Competent Authority program assists taxpayers with respect to matters covered in the mutual agreement procedure provisions of tax treaties. Management has not recorded a reserve and is confident that the Company will prevail in this matter. The Company is unable to establish an estimated time frame in which this issue will be resolved through Competent Authority.

Earnings from the Company’s foreign subsidiaries are considered to be indefinitely reinvested. A distribution of these non-U.S. earnings in the form of dividends or otherwise would subject the Company to both U.S. Federal and state income taxes, as adjusted for foreign tax credits.

Table of Contents

Note 9 — Discontinued Operations

On February 14, 2014, the Company completed the sale of substantially all of the assets of ASMP, a wholly-owned subsidiary, to Nelson Stud Welding, Inc. ("Buyer"), an indirect subsidiary of Doncasters Group Limited, for a purchase price of $12.5 million, subject to adjustments based on the closing date net working capital, plus the assumption of certain liabilities. In addition, the Buyer agreed to lease the real property located in Decatur, Alabama currently used by ASMP. The Company has classified ASMP's operating results as discontinued operations for the period ended March 31, 2014 and 2013.

The following table details the components of income from discontinued operations:

	(Dollars in thousands, except per share data)	
	Three Months Ended March 31,	
	2014	2013
Net sales of ASMP	$2,462	$4,782
Pre-tax income (loss) from discontinued operations		
ASMP	$346	$667
Other discontinued operations	—	(29)
Total pre-tax income	346	638
Income tax expense	(133)	(257)
Income from discontinued operations	$213	$381
Sale of discontinued operations		
Pre-tax gain on sale of ASMP	$1,877	$—
Income tax expense	(723)	—
Net gain on sale of ASMP	$1,154	$—
Income from discontinued operations, net of taxes	$1,367	$381
Basic and diluted income per share		
ASMP	$0.16	$0.05
Other discontinued operations	—	—
Total	$0.16	$0.05

Note 10 — Contingent Liabilities

In 2012, the Company identified that a site it owns in Decatur, Alabama contains hazardous substances in the soil and groundwater as a result of historical operations prior to the Company's ownership. The Company has retained an environmental consulting firm to further investigate the contamination including the measurement and monitoring of the site. In August 2013, the site was enrolled in the state of Alabama's voluntary cleanup program. At this time insufficient data regarding the situation has been collected to reasonably estimate the extent of the contamination or the cost, if any, of remedying this situation. Accordingly, the Company has not established a reserve for any remediation costs.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

During the first quarter of 2014, we completed the previously announced sale of substantially all of the assets of Automatic Screw Machine Products Company, Inc. (“ASMP”), our wholly-owned subsidiary, to Nelson Stud Welding, Inc. (“Buyer”), an indirect subsidiary of Doncasters Group Limited, for net cash proceeds of $12.1 million, subject to adjustments based on the closing date net working capital, plus the assumption of certain liabilities. We currently operate in one reportable segment: the Maintenance, Repair and Operations ("MRO") segment as a distributor of products and services to the industrial, commercial, institutional, and governmental maintenance, repair and operations marketplace. Certain reclassifications have been made to prior period amounts to conform to current period presentation. Such reclassifications had no effect on net income as previously reported.

The 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, which is considered by many economists to be the most reliable near-term economic barometer available. A measure above 50 generally indicates expansion of the manufacturing sector while a measure below 50 generally represents contraction. The average monthly PMI was 52.7 in the first quarter of 2014 compared to 52.3 in the first quarter of 2013 indicating a modest increase in the U.S. manufacturing growth rate from a year ago.

Our sales are also affected by the number of sales representatives and the amount of sales which each representative can generate, which we measure as average sales per day per sales representative. In 2013, we began to focus on increasing the number of sales representatives, adding 49 net new sales representatives in 2013 and we added an additional 30 net new sales representatives in the first quarter of 2014, to a total of 836 at March 31, 2014. We plan to increase our sales force by approximately 15% to 20% in 2014. 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.

Average daily sales in the first quarter of 2014 rose above the average daily sales in the first quarter of 2013 by 3.0%, as we had an average of 57 more sales representatives participating in the first quarter of 2014 than we did in the prior year quarter.

Due to a continuing focus on controlling costs and improving the efficiency of our operations, our selling, general and administrative expenses continued to decrease as a percentage of sales in the first quarter of 2014 compared to a year ago. A $2.9 million non-cash impairment charge was recorded in the first quarter of 2014 related to the Reno distribution center.

Table of Contents

Quarter ended March 31, 2014 compared to quarter ended March 31, 2013

A summary of our financial performance for the three months ended March 31, 2014 and 2013 is presented below:

	2014			2013		
($ in thousands)	Amount		% of Net Sales	Amount		% of Net Sales
Net sales	$69,204		100.0 %	$67,213		100.0 %
Cost of goods sold	27,926		40.4 %	27,399		40.8 %
Gross profit	41,278		59.6 %	39,814		59.2 %
Operating expenses:						
Selling expenses	21,280		30.7 %	21,607		32.1 %
General and administrative expenses	21,797		31.5 %	21,737		32.4 %
Total SG&A	43,077		62.2 %	43,344		64.5 %
Impairment loss	2,914		4.2 %	—		— %
Total operating expenses	45,991		66.4 %	43,344		64.5 %
Operating loss	(4,713	)	(6.8)%	(3,530	)	(5.3)%
Other expenses, net	(392	)	(0.6)%	(274	)	(0.4)%
Loss from continuing operations before income taxes	(5,105	)	(7.4)%	(3,804	)	(5.7)%
Income tax benefit	(783	)	(1.2)%	(200	)	(0.3)%
Loss from continuing operations	$(4,322	)	(6.2)%	$(3,604	)	(5.4)%

Net Sales

Net sales for the first quarter of 2014 increased 3.0% to $69.2 million from $67.2 million in the first quarter of 2013. Excluding the Canadian exchange rate impact of $0.6 million, net sales increased 3.9% over the prior year quarter. Average daily sales increased to $1.098 million in the first quarter of 2014 compared to $1.067 million in the prior year quarter primarily due to an increase in the average number of sales representatives and existing sales representative productivity. Average daily sales per sales representative declined by 4.2% over the prior year period as newly hired sales representatives are in the early stages of building up customer relationships in their territories.

Table of Contents

Gross Profit

Gross profit increased 3.7% in the first quarter of 2014 to $41.3 million from $39.8 million in the prior year quarter and increased as a percent of net sales to 59.6% from 59.2% a year ago, primarily due to lower outbound freight expense.

Selling Expenses

Selling expenses consist of compensation paid to our sales representatives and related expenses to support our sales efforts. Selling expenses decreased $0.3 million to $21.3 million in the first quarter of 2014 from $21.6 million in the prior year quarter. As a percent of net sales, selling expenses decreased to 30.7% in the first quarter of 2014 compared to 32.1% in the first quarter of 2013, primarily due to $1.2 million for a national sales meeting conducted in the first quarter of 2013 which was not held in 2014 and lower health insurance costs, partially offset by severance and the increased costs of hiring and onboarding new sales representatives in the first quarter of 2014.

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 slightly to $21.8 million in the first quarter of 2014 from $21.7 million in the prior year quarter The increase was primarily driven by an increase of $0.7 million in severance expense, mostly offset by a reduction in temporary help as we continued to focus on cost control measures.

Impairment Loss

In the first quarter of 2014 we committed to a plan to sell our Reno distribution center. As part of the review of the potential impact of a sale, we determined that the full carrying amount of the asset was not recoverable. Therefore, we recorded a $2.9 million non-cash impairment charge to reduce the carrying value of the property to its $8.4 million estimated fair market value.

Other Expenses, Net

Other expenses, net of $0.4 million and $0.3 million for the three months ended March 31, 2014 and 2013, respectively, consist primarily of interest charged on the outstanding borrowings under our Loan Agreement.

Table of Contents

Income Tax Benefit

Primarily due to historical cumulative losses, substantially all of our deferred tax assets are subject to a tax valuation allowance. Although we are in a full tax valuation allowance position, an income tax benefit of $0.8 million and $0.2 million was recorded for the three months ended March 31, 2014 and 2013, respectively, primarily due to the allocation of income tax between continuing and discontinued operations.

Loss from Continuing Operations

We reported a loss from continuing operations of $4.3 million in the first quarter of 2014 compared to a loss from continuing operations of $3.6 million in the first quarter of 2013.

Liquidity and Capital Resources

Cash and cash equivalents were $1.0 million on March 31, 2014 compared to $0.7 million on December 31, 2013. Net cash used in continuing operations of $7.1 million for the three months ended March 31, 2014 was primarily used to fund an increase in accounts receivable of $3.0 million, reflecting increased sales during the first quarter compared to the fourth quarter of 2013, as well as to pay down accounts payable and other liabilities. The $2.2 million of net cash used in operations in the first three months months of 2013 was primarily used to fund increases in working capital.

In the first quarter of 2014, we received $12.1 million of net proceeds related to the sale of our ASMP subsidiary. Capital expenditures were $0.3 million in the first three months of 2014 compared to $1.2 million in the first three months of 2013. Capital expenditures in the first three months of 2014 were primarily for improvements to our information technology and to our McCook Facility. Capital expenditures in the first three months of 2013 were primarily for warehouse equipment to support the McCook facility and improvements to our sales order entry system and website.

We were able to pay down our revolving line of credit by $4.4 million in the first quarter of 2014 compared to a net borrowing of $3.7 million in the first three months of 2013. No dividends were paid to shareholders in the first three months of 2014 or 2013. Dividends are currently restricted under the Loan Agreement to amounts not to exceed $7.0 million annually.

Loan Agreement

In addition to other customary representations, warranties and covenants, we are required to meet a minimum trailing twelve month EBITDA to fixed charges ratio, as defined in the Loan Agreement, and a minimum quarterly tangible net worth level as defined in the Second Amendment. On March 31, 2014, we were in compliance with all financial covenants as detailed below:

Quarterly Financial Covenants	Requirement	Actual
EBITDA to fixed charges ratio	1.10 : 1.00	2.41 : 1.00
Minimum tangible net worth	$45.0 million	$54.5 million

While we met the minimum financial covenant levels for the quarter ended March 31, 2014, failure to meet these covenant requirements in future quarters could lead to higher financing costs, increased restrictions, or reduce or eliminate our ability to borrow funds and could have a material adverse effect on our business, financial condition and results of operations.

At March 31, 2014, we had an outstanding balance of $11.6 million under the revolving line of credit of our Loan Agreement and additional borrowing availability of $22.9 million. We believe cash provided by operations and funds available under our Loan Agreement are sufficient to fund our operating requirements, strategic initiatives and capital improvements throughout the remainder of 2014.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at March 31, 2014 from that reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

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

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II
OTHER INFORMATION
ITEMS 1, 1A, 2, 3, 4 and 5 of Part II are inapplicable and have been omitted from this report.
ITEM 6. EXHIBITS

Exhibit #	
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

	LAWSON PRODUCTS, INC. (Registrant)
Dated: April 24, 2014	/s/ Michael G. DeCata Michael G. DeCata President and Chief Executive Officer (principal executive officer)
Dated: April 24, 2014	/s/ Ronald J. Knutson Ronald J. Knutson Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

17