LAWSON PRODUCTS INC/NEW/DE/
Form DEF 14A
March 30, 2018
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)

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Lawson Products, Inc.
8770 West Bryn Mawr Avenue, Suite 900
Chicago, Illinois 60631

NOTICE OF ANNUAL MEETING
OF STOCKHOLDERS
May 15, 2018

TO THE STOCKHOLDERS:

You are cordially invited to attend the annual meeting of stockholders ("Annual Meeting") of Lawson Products, Inc. (the “Company”, “Lawson”, “we” & “our”), which will be held at 8770 West Bryn Mawr Avenue, Room 933, Chicago, Illinois, 60631 on May 15, 2018, at 10:00 a.m., Central Time.

What will I be voting on?

(1) Election of three directors to serve three years (see page 5);

(2) Ratification of the Appointment of BDO USA, LLP (see page 8);

(3) To approve, in a non-binding vote, the compensation of our named executive officers (see page 9); and

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

Who is entitled to vote at the Annual Meeting?

You may vote at the meeting if you were a Lawson stockholder of record at the close of business on the record date. The Board of Directors of the Company (the “Board” or “Board of Directors”) has fixed the close of business on March 21, 2018, 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 2017 Annual Report on Form 10-K. We are electronically disseminating our Annual Meeting materials by using the “Notice and Access” method approved by the Securities and Exchange Commission. We believe this process will provide a convenient way to access your proxy materials and vote. The Notice of Internet Availability of Proxy Materials contains specific instructions on how to access Annual Meeting materials via the internet as well as instructions on how to receive paper copies if preferred. Additionally, a copy of this Notice, the accompanying Proxy Statement and a copy of the Company's 2017 Annual Report on Form 10-K are available at www.edocumentview.com/LAWS.

By Order of the Board of Directors
Neil E. Jenkins
Secretary

Chicago, Illinois
March 30, 2018

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ANNUAL MEETING OF STOCKHOLDERS
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QUESTIONS AND ANSWERS ABOUT THE 2018 ANNUAL MEETING AND VOTING

How do I vote?
You can vote either in person at the Annual Meeting or by proxy without attending the meeting. 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.

Can I change my vote?
Yes. If you are a registered stockholder, you can change your proxy vote or revoke your proxy at any time before the Annual Meeting by:
(1) Revoking it by written notice to Neil E. Jenkins, our Secretary, at 8770 West Bryn Mawr Avenue, Chicago, Illinois, 60631 before your original proxy is voted at the Annual Meeting;
(2) Delivering a later-dated proxy (including a telephone or Internet vote); or
(3) Voting in person at the meeting.

If you are a beneficial owner and hold your shares in "street name," please refer to the information forwarded by your bank, broker, or other holder of record for procedures on revoking or changing your proxy.

How many votes do I have?
You will have one vote for every share of Lawson common stock that you owned at the close of business on March 21, 2018.

How many shares are entitled to vote?
There are 8,888,335 shares of Lawson common stock outstanding as of March 21, 2018 and entitled to be voted at the meeting. Each share is entitled to one vote.

How many votes are needed for the proposals to pass?
- 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.
- 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.
- Because directors are elected by a plurality of the votes cast at the meeting, a proxy card marked "Withhold" with respect to one or more director nominees will have no effect on the election of the nominees.

What if I vote "abstain"?
A vote to "abstain" on the election of directors will have no effect on the outcome.

If you vote "abstain," your shares will be counted as present for purposes of determining whether enough votes are present to hold the Annual Meeting.

What if I don't return my proxy card and don't attend the Annual Meeting?

If you are a holder of record (that is, your shares are registered in your own name with our transfer agent) and you do not vote your shares, your shares will not be voted. If you are not a holder of record, your record holder cannot vote your shares without your specific instructions on the election of directors because this proposal is considered a non-routine matter. Therefore, banks, brokers or other nominees will not have the discretion to vote shares held by them on behalf of customers if no instructions are received.

“Broker non-votes” will be counted as present for purposes of determining whether enough votes are present to hold the Annual Meeting.

Is my vote confidential?
Yes. Your voting records will not be disclosed to us except:
- As required by law;
- To the inspectors of voting; or
- In the event the election is contested.

The tabulator, the proxy solicitation agent, and the inspectors of voting must comply with confidentiality guidelines that prohibit disclosure of votes to Lawson. The tabulator of the votes and at least one of the inspectors of voting will be independent of Lawson and our officers and directors.

If you are a holder of record and you write comments on your proxy card, your comments will be provided to us, but your vote will remain confidential.

When will I receive the Proxy Statement?
This Proxy Statement will be available to stockholders on or about March 30, 2018 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 21, 2018 are entitled to notice of and to vote at the Annual Meeting. We have retained Morrow & Co., LLC, 470 West Ave., Stamford, Connecticut, 06902, a firm specializing in the solicitation of proxies, to assist in the solicitation at a fee estimated to be $7,000 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.

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 his or her votes for one nominee or distribute them in any manner he or she 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 (the "Board" or "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 2021.

THE THREE NOMINEES FOR THE BOARD OF DIRECTORS

Nominees to Serve Until 2021

Name	Age	First Year Elected Director
Andrew B. Albert	72	2009
I. Steven Edelson	58	2009
Thomas S. Postek	76	2005

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.

Andrew B. Albert has served as Managing Director and Operating Partner of Svoboda Capital Partners LLC, a private equity investment firm, since February 2007. From December 2000 through May 2006, Mr. Albert served as Chairman and Chief Executive Officer of Nashua Corporation, a manufacturer and converter of specialty paper products and toner. Mr. Albert also served as non-executive Chairman of Nashua's Board of Directors from December 2006 through September 2009. Mr. Albert serves as a Director on the Boards of Transco, Inc., a diversified industrial company, the Parkinson's Foundation and the Advisory Board of the University of Wisconsin Entrepreneurship Center. These professional experiences, along with knowledge and experience acquired in managing distribution and technology firms, qualify Mr. Albert to serve as a Director.

I. Steven Edelson has served as co-founder and now a non-Managing Director of International Facilities Group, a leading facilities development and management company, since June 1995. Mr. Edelson is the founding principal of IFG Development Group, which provides development advisory services, as well as acts in a development capacity in multiple areas of the real estate industry. Mr. Edelson also serves as Principal and Managing Director of The Mercantile Capital Group, a Chicago-based private equity investment firm. Mr. Edelson is also a member of the Board of Governors of the Hebrew University in Jerusalem. Mr. Edelson is a Trustee at the Truman Institute for Peace and is the proud recipient of the 2005 Ellis Island Congressional Medal of Honor. In 2014, Mr. Edelson became a NACD Board Leadership Fellow. These professional experiences, along with Mr. Edelson's particular knowledge and experience in capital management, qualify him to serve as a Director.

Thomas S. Postek is a Chartered Financial Analyst currently affiliated with CIBC Atlantic Trust Private Wealth Management. Mr. Postek was a partner and principal of William Blair & Company, LLC, a Chicago-based investment firm, 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. These professional experiences, along with Mr. Postek's particular knowledge and expertise in finance and capital management, qualify him to serve as a Director.

Recommendation of the Board

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THESE NOMINEES.

DIRECTORS CONTINUING IN OFFICE

Directors to Serve Until 2019

Name	Age	First Year Elected Director
James S. Errant	69	2007
Lee S. Hillman	62	2004
Michael G. DeCata	60	2013

Directors to Serve Until 2020

Name	Age	First Year Elected Director
Ronald B. Port, M.D.	77	1984
Wilma J. Smelcer	69	2004
J. Bryan King	47	2017

James S. Errant developed, owned and operated thirteen restaurants over 38 years from 1973 - 2011. Mr. Errant was involved in all facets of the business including: design and construction, concept and product development, marketing, finance management, and employee management. These professional experiences qualify him to serve as a Director.

Lee S. Hillman has served as President of Liberation Advisory Group, a private management consulting firm, since 2003. Mr. Hillman has also served as Chief Executive Officer of Performance Health Systems, LLC, a business distributing Power Plate™ and bioDensity® branded, specialty health and exercise equipment since 2012, and its predecessor since 2009. From February 2006 to May 2008, Mr. Hillman served as Executive Chairman and Chief Executive Officer of Power Plate International (“Power Plate”) and from 2004 through 2006 as CEO of Power Plate North America. Previously, from 1996 through 2002, Mr. Hillman was CEO of Bally Total Fitness Corporation, then the world’s largest fitness membership club business. Mr. Hillman currently serves as a member of the board of trustees and member of the Audit Committee of Adelphia Recovery Trust, and as a board member and member of the Audit, Compensation and Nominating/Governance Committees of HC2 Holdings, Inc. He is also a board member and chair of the Audit Committee of Professional Diversity Network, Inc. and a chair of the Audit Committee and member of the Compensation Committee of Business Development Corporation of America. Previously he has served as a member of the Board of Directors of HealthSouth Corporation, Wyndham International, RCN Corporation (where he was Chairman of the Board) and Bally Total Fitness Corporation (where he was Chairman of the Board). These professional experiences along with Mr. Hillman’s particular knowledge and experience in and restructuring businesses and having served as Chief Executive Officer, Chief Financial Officer, and/or director of other publicly traded U.S. and international companies and as a former audit partner of an international accounting firm, qualify him to serve as a Director.

Michael G. DeCata was appointed President and CEO of Lawson Products on September 24, 2012. He was elected to the Board of Directors in 2013. Prior to his appointment, Mr. DeCata worked in private equity, conducting acquisition analysis and due diligence for private equity firms in New York, Connecticut and Boston from 2009 to 2012. Prior to that, he was President of Chefs' Warehouse, a $300 million specialty food distributor from 2006 to 2009. From 2008 until 2013, he served on the Board of Directors of Crescent Electric Supply. Prior to his position at Chefs' Warehouse, he was the Vice President of Fleet Operations and also led the Contractor Supplies Division of United Rentals, a $4.0 billion construction equipment rental company. From 1997 until 2002, he led the eastern region of W.W. Grainger representing over $1.4 billion in sales and consisting of 152 branch locations and a team of approximately 2,000. Mr. DeCata began his career at General Electric and worked in a variety of cross-functional as well as cross-business positions from 1979 until 1997. These professional experiences qualify him to serve as a Director.

Ronald B. Port, M.D. has served as Chairman of the Board of Directors since April 2007. He is a retired physician and has been a Director of the Company since 1984. He is the son of Sidney L. Port, founder of the Company. Dr. Port's long-term successful stewardship of the Company as a Director and the unique perspective and knowledge gained from his relationship with the Company's founder qualify him to serve as a Director.

Wilma J. Smelcer served as a member of the Board of Governors of the Chicago Stock Exchange from 2001 until April 2004. 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. These professional experiences, along with Ms. Smelcer's extensive financial knowledge, qualify her to serve as a Director.

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J. Bryan King, CFA, is a principal of Luther King Capital Management ("LKCM") with approximately $15 billion of assets under management and has acted as an investment manager responsible for micro and small-capitalization public and private investments since 1993. Mr. King established and leads several alternative investment partnerships, such as LKCM Capital Group, LKCM Private Discipline Partnership, and LKCM Headwater Investments, that focus approximately $2 billion of their collective flexible capital on long-term investment strategies in public and private companies. In 2003, Mr. King established the LKCM Distribution Holdings oversight advisory board of operating partners and thought leaders to support LKCM Capital Group and its affiliates' investment activities in the distribution, packaging, shop, field and engineering services, and rental focused businesses. TestEquity, Relevant Solutions, Leading Quality Assurance, Industrial Distribution Group, Rawson and Golden State Medical Supply are among the businesses where Mr. King has served as Chairman of the Board of Directors and the Managing Partner. He also has served in various capacities on and alongside of many other boards of both public and private companies, as well as numerous civic organizations. These professional experiences, along with Mr. King's particular knowledge and expertise in finance and capital management, qualify him to serve as a Director.

PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP

The Audit Committee of the Board of Directors has appointed BDO USA, LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018. Although the Company's governing documents do not require the submission of this matter to stockholders, the Board of Directors considers it desirable that the appointment of BDO USA, LLP be ratified by stockholders.

Audit services provided by BDO USA, LLP for the fiscal year ended December 31, 2017 included the audit of the consolidated financial statements of the Company, audit of the Company's internal control over financial reporting, and services related to periodic filings made with the Securities and Exchange Commission ("SEC"). Additionally, BDO USA, LLP provided certain consulting services related to domestic and international tax compliance. See "Fees Billed To The Company By BDO USA, LLP" for a description of the fees paid to BDO USA, LLP in 2017 and 2016, respectively.

One or more representatives of BDO USA, LLP will be present at the meeting. The representatives will have an opportunity to make a statement if they desire and will be available to respond to questions from stockholders.

If the appointment of BDO USA, LLP is not ratified, the Audit Committee of the Board of Directors will reconsider the appointment.

Recommendation of the Board

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP.

PROPOSAL 3: ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION (SAY-ON-PAY VOTE)

As required by Section 14A of the Securities Exchange Act of 1934 (the "Exchange Act") we are providing our stockholders with a vote on a non-binding, advisory basis on the compensation of our Named Executive Officers ("NEOs"), as such compensation is disclosed under Item 402 under the SEC's Regulation S-K in the Compensation Discussion and Analysis ("CD&A") section of this Proxy Statement, the accompanying tabular disclosure regarding such compensation and the related narrative disclosure.

The Company held its first advisory, non-binding stockholder vote on the compensation of the Company’s NEOs (commonly known as a "Say-on-Pay Proposal"), and its first stockholder vote on the frequency of such Say-On-Pay proposal, at its 2011 annual meeting of stockholders. At such meeting, the stockholders of the Company approved the overall compensation of the Company’s NEOs and elected to hold a say-on-pay vote every three years. At our annual meeting of stockholders held on May 13, 2014, our second Say-on-Pay Proposal received approximately 93% support from our stockholders (excluding broker non-votes and abstentions). At our annual meeting of stockholders held on May 16, 2017, our Say-on-Pay Proposal received approximately 99% support from our stockholders (excluding broker non-votes and abstentions). The Compensation Committee believes that this most recent stockholder vote strongly endorsed the compensation philosophy of the Company. The stockholders favored an annual frequency for the Say-on-Pay Proposal; therefore, the Compensation Committee implemented a stockholder vote on executive compensation on an annual basis.

Our executive compensation programs are designed to enable us to attract, motivate and retain executive talent critical to our success. Consistent with our performance-based compensation philosophy, we reserve a significant portion of potential compensation for performance- and equity-based programs. Our performance-based annual incentive program rewards the Company's NEOs for achievement of key operational goals that we believe will provide the foundation for creating long-term stockholder value, while our equity awards, mainly in the form of market stock units ("MSUs"), stock performance rights ("SPRs"), restricted stock units ("RSUs") and restricted stock awards ("RSAs"), reward long-term performance and align the interests of management with those of our stockholders.

Performance-based cash and equity awards directly align the long-term interests of our executives with those of our stockholders because the value of such awards is dependent upon the Company's stock price. In addition, performance-based cash and equity awards align with our growth strategy and provide significant financial upside if our growth objectives are achieved, while placing a significant portion of our executives' compensation at risk if our objectives are not achieved. The Company also has adopted and adheres to best practices in executive compensation, including the adoption and maintenance of clawback provisions, post-vest holding period requirements for selected executive officers, prohibitions on hedging, and other policies, and eschews problematic pay practices. For example:

- our compensation programs are heavily weighted toward performance-based compensation;
- we have adopted and maintain compensation clawback provisions;
- we require a post-vest holding period requirements for our CEO and EVPs;
- we prohibit executives and directors from hedging their company stock ownership;
- we do not provide for single-trigger payment or tax gross-ups for change-in-control payments;
- we do not provide supplemental pension benefits or any other perquisites for former or retired executives;
- we do not provide personal use of corporate aircraft, personal security systems maintenance and/or installation, car allowances or executive life insurance;
- we have a succession plan for the CEO and other NEOs;
- we have separated the roles of Board Chairman and CEO;
- we do not pay or provide payments for terminations for cause or resignations other than for good reason; and
- our Compensation Committee is composed solely of independent, outside directors and it retains its own independent compensation consultant.

The Board believes that this information provided on the previous page and within the CD&A section starting on page 19 of this Proxy Statement demonstrates that our executive compensation program was designed appropriately and is working to ensure that management's interests are aligned with our stockholders' interests and support long-term value creation. Accordingly, the following resolution is to be submitted for a stockholder vote at the meeting:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the NEOs, as disclosed pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the CD&A, the compensation tables and narrative disclosures in this Proxy Statement."

Because the vote is advisory, it will not be binding on the Board. The vote on this Say-On-Pay Proposal is not intended to address any specific element of compensation. However, as in the past, the Board and the Compensation Committee will review the voting results and take into account the outcome when considering future executive compensation arrangements. The Board and management are committed to our stockholders and understand that it is useful and appropriate to obtain the views of our stockholders when considering the design and initiation of executive compensation programs.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" PROPOSAL 3 TO APPROVE THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS, AS DESCRIBED IN THE CD&A, THE COMPENSATION TABLES AND NARRATIVE DISCLOSURES IN THE PROXY STATEMENT.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of March 21, 2018 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 and director nominee, each named executive officer, and all executive officers and directors as a group. Unless otherwise noted below, the address of each beneficial owner listed in the table is 8770 West Bryn Mawr Avenue, Chicago, Illinois, 60631. Because the voting or dispositive power of certain stock listed in the following table is shared, in some cases the same securities are included with more than one name in the table. The total number of the Company's shares of common stock issued and outstanding as of March 21, 2018 is 8,888,335.

	Sole Voting and Dispositive Power		Shared Voting and Dispositive Power		Restricted Stock Awards (1)	Total	%
Five Percent Stockholders							
Luther King Capital Management Corporation	2,574,202	(2)	—		—	2,574,202	29.0%
301 Commerce Suite 1600							
Fort Worth, Texas 76102							
Trusts for the benefit of Dr. Port's family	—		831,041	(3)	—	831,041	9.3%
Dimensional Fund Advisors LP	571,657	(4)	—		—	571,657	6.4%
6300 Bee Cave Road							
Austin, Texas 78746							
BlackRock, Inc	471,176	(5)	—		—	471,176	5.3%
55 East 52nd Street							
New York, New York 10055							
James K. Gardner, Trustee	—		460,430	(6)	—	460,430	5.2%
Non-Executive Directors							
Andrew B. Albert	42,870		—		3,788	46,658	0.5%
I. Steven Edelson	27,870		—		3,788	31,658	0.4%
James S. Errant	388,074	(7)	—		3,788	391,862	4.4%
Lee S. Hillman	32,159		—		3,788	35,947	0.4%
J. Bryan King	2,570,414	(8)	—		3,788	2,574,202	29.0%
Ronald B. Port M.D.	40,158	(9)	831,041	(10)	3,788	874,987	9.8%
Thomas S. Postek	60,455		—		3,788	64,243	0.7%
Wilma J. Smelcer	30,659		—		3,788	34,447	0.4%
Named Executive Officers							
Michael G. DeCata	23,591		—		2,000	25,591	0.3%
Neil E. Jenkins	6,945		—		10,029	16,974	0.2%
Ronald J. Knutson	12,211		—		9,282	21,493	0.2%
Shane T. McCarthy	4,330		—		3,897	8,227	*
Matthew J. Brown	—		—		3,289	3,289	*
All Officers & Directors	669,322		831,041		55,013	1,555,376	17.5%

* Less than 0.1%

(1) Unvested restricted stock awards, which have no voting or dividend rights and are non-transferable, will be exchanged for shares of the Company's Common Stock on their respective vesting dates.

(2) Based on a Schedule 13D/A filed with the SEC on March 7, 2018. Includes (i) 1,689,358 shares held by PDLP Lawson, LLC (PDP), (ii) 250,000 shares held by LKCM Investment Partnership, L.P. (LIP), (iii) 26,102 shares held by LKCM Micro-Cap Partnership, L.P. (Micro), (iv) 10,128 shares held by LKCM Core Discipline, L.P. (Core) and (v) 592,326 shares held by LKCM Headwater Investments II, L.P. (Headwater). Luther King Capital Management Corporation is the investment manager for PDP, LIP, Micro, Core, and Headwater. J. Luther King, Jr. is a controlling stockholder of Luther King Capital Management Corporation and general partner of LIP, J. Luther King, Jr. and J. Bryan King are controlling members of the general partners of Micro and Core, and J. Bryan King is a controlling member of the general partners of Headwater. Each of the persons and entities listed in this footnote expressly disclaims membership in a group under the Securities Exchange Act of 1934, as amended, and expressly disclaims beneficial ownership of the securities reported in the table, except to the extent of its pecuniary interest therein. See also footnote (8).

(3) Consists of 831,041 shares owned by trusts established for the benefit of Dr. Port and his family. Dr. Port and Charles Levun are co-trustees of these trusts, and accordingly share voting and dispositive power with regard to those shares.

(4) Based on Schedule 13G filed with the SEC on February 9, 2018, Dimensional Fund Advisors LP beneficially held sole voting power for 552,209 shares and held sole dispositive power for 571,657 shares on December 31, 2017.

(5) Based on a Schedule 13G filed with the SEC on February 1, 2018. BlackRock, Inc. beneficially held sole dispositive power for 471,176 shares and sole voting power for 466,191 shares on December 31, 2017.

(6) James Gardner is the co-trustee of the Samantha E. Borstein Exempt Trust (247,082 shares) and the Jenna Walsh Exempt Trust (213,348 shares), Samantha Borstein is co-trustee of the Samantha E. Borstein Trust and Jenna Walsh is co-trustee of the Jenna Walsh Exempt Trust. Mr. Gardner has no monetary interest in the shares held by the trusts.

(7) Consists of 32,322 shares held directly by James Errant and 353,720 shares owned by trusts for the benefit of Mr. Errant's family. Mr. Errant is the sole trustee of these trusts.

(8) Includes (i) 1,689,358 shares held by LKCM Private Discipline Master Fund, SPC, on behalf of its wholly owned subsidiary PDP, (ii) 26,102 shares held by Micro, (iii) 10,128 shares held by Core and (iv) 592,326 shares held by Headwater. LKCM Private Discipline Management, L.P. holds the management shares of PDP, and LKCM Alternative Management, LLC (PDP GP) is its general partner. LKCM Micro-Cap Management, L.P. (Micro GP) is the general partner of Micro. LKCM Core Discipline Management, L.P. (Core GP) is the general partner of Core. LKCM Headwater Investments II GP, L.P. (Headwater GP) is the general partner of Headwater. Mr. King is a controlling member of PDP GP, Micro GP, Core GP, and Headwater GP. Mr. King expressly disclaims beneficial ownership of the securities reported herein, except to the extent of his pecuniary interest therein. See also footnote 2.

(9) Consists of 32,583 shares owned by Mr. Port and 11,363 shares of common stock as financial advisor of a trust.

(10) Consists of 831,041 shares of common stock held along with Charles Levun as co-trustees of trusts formed for the benefit of Dr. Port and his family, as described in footnote 3.

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CORPORATE GOVERNANCE

Board Leadership Structure

Our Amended and Restated By-Laws provide that the roles of Board Chairman and President and Chief Executive Officer ("CEO") may be filled by the same or different individuals. This provides the Board the flexibility to determine whether these roles should be combined or separated based on the Company's circumstances and needs at any given time. The role of Chairman of the Board is currently held by Ronald B. Port, M.D. and the position of CEO is currently held by Mr. Michael G. DeCata. This separation of the Chairmanship and the CEO position has been in place since 2007. The separation of the Chairmanship and the CEO functions provides the Board with additional independence and oversight. The Board believes this leadership structure has served the Company well and believes it is in the best interest of the Company's stockholders to continue with this structure at this time.

Board of Director Meetings and Committees

The Board of Directors has standing Audit, Compensation, Financial Strategies, Management Development, and Nominating and Governance Committees. All committees have 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., 8770 W. Bryn Mawr Avenue, Chicago, Illinois, 60631.

Annual Meeting Attendance Policy

The Company expects all members of the Board of Directors to attend the Annual Meeting, but from time to time, other commitments may prevent all directors from attending each meeting.

Director Attendance at Board of Directors and Committee Meetings

In 2017, the directors attended on average, either in person or via teleconference, 100% of the meetings of the Board of Directors and over 97% of the respective committees' meetings on which they served with the exception of Mr. King who was elected to the Board effective March 21, 2017. Mr. King attended 70% of meetings held during the time he served on the Board. All of the directors attended the last Annual Meeting held on May 17, 2017. The following chart shows the membership and chairpersons of our board committees, committee meetings held and committee member attendance.

Director	Board of Directors (1)	Audit (2)	Compensation	Financial Strategies (3)	Management Development	Nominating & Corporate Governance (4)
Andrew B. Albert	5	8	4	3*	3	4*
Michael G. DeCata	5			4		
I. Steven Edelson	5		4	4	3	
J. Bryan King	4	2		1		
James S. Errant	5		4	4	3	1
Lee S. Hillman	5	8	4*	4		
Ronald B. Port, M.D.	5*			4	3	3
Thomas S. Postek	5	8*		4		3

Wilma J. Smelcer	5	8			3*	4
Number of Meetings Held	5	8	4	4	3	4

*Chairperson as of December 31, 2017

(1) Mr. King was elected to the Board of Directors at the March 20, 2017 Board Meeting effective March 21, 2017 and did not attend the 1 meeting held prior to his election.

(2) Mr. King was elected to the Audit Committee effective May 17, 2017 and did not attend the 4 meetings held prior to his election.

(3) Mr. Albert was elected as Chair of the Financial Strategies Committee effective March 21, 2017, and did not attend the 1 meeting held prior to his election. Mr. King was elected to the Financial Strategies Committee effective May 17, 2017, and did not attend the 2 meetings held prior to his election.

(4) Mr. Albert was elected as Chair of the Nominating & Corporate Governance Committee effective March 21, 2017, and did not attend the 1 meeting held prior to his election. Mr. Errant was removed from the Nominating & Corporate Governance Committee effective March 21, 2017 and did not attend the 3 meetings after his removal. Messrs. Port and Postek were elected to the Nominating & Corporate Governance Committee effective March 21, 2017, and did not attend the 1 meeting held prior to their election.

The Audit Committee
The functions of the Audit Committee include (i) reviewing the Company's procedures for monitoring internal control over financial reporting; (ii) overseeing the appointment, compensation, retention and oversight of the Company's independent auditors; (iii) reviewing the scope and results of the audit by the Company's independent auditors; (iv) reviewing the annual audited financial statements and quarterly financial statements with management and the independent auditors; (v) periodically reviewing with the Company's General Counsel potentially material legal and regulatory matters and corporate compliance; and (vi) reviewing and approving all related party transactions. Additionally, the Audit Committee provides oversight of the Company's Enterprise Risk Management program.
The Audit Committee consists of Thomas S. Postek (Chair), Lee S. Hillman, Andrew B. Albert, Wilma J. Smelcer and J. Bryan King. Each member of the Audit Committee satisfies the independence requirements of The Nasdaq Stock Market and the SEC and satisfies the financial sophistication requirements of The Nasdaq Stock Market. The Board of Directors has determined that Messrs. Postek and Hillman are both “audit committee financial experts” as such term is defined by the SEC.
The Compensation Committee

The Compensation Committee discharges the responsibilities of the Board of Directors relating to compensation of the CEO and establishes compensation for all other executive officers of the Company. The Compensation Committee is responsible for (i) reviewing and approving corporate goals and objectives relevant to the compensation for executive officers; (ii) evaluating the performance of executive officers in light of those goals and objectives; and (iii) setting the compensation level of executive officers based on this evaluation. The Compensation 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 of Directors with respect to the adoption, amendment, termination or replacement of the plans; and recommends to the Board of Directors the compensation for members of the Board of Directors. The Compensation Committee reviews and approves the compensation programs for the CEO and other executive officers whose compensation is included in this report. The CEO makes recommendations on compensation to the Compensation Committee for all executive officers except himself. The CEO may not be present in any meeting of the Compensation Committee in which his compensation is discussed.

The Compensation Committee consists of Lee S. Hillman (Chair), Andrew B. Albert, I. Steven Edelson and James S. Errant. Each member of the Compensation Committee satisfies the independence requirements of The Nasdaq Stock Market (including the enhanced independence requirements for Compensation Committee members) and is an “outside director” as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code").

The Financial Strategies Committee

The Financial Strategies Committee reviews and evaluates the Company's financial plans and financial structure, monitors the Company's relationship with its lenders, reviews financial results against established budgets, approves any proposed acquisitions, dispositions or liquidations and makes recommendations to the Board of Directors regarding significant capital expenditures.

The Financial Strategies Committee consists of Andrew B. Albert (Chair), I. Steven Edelson, James S. Errant, Lee S. Hillman, Ronald B. Port, M.D, Thomas S. Postek, J. Bryan King and Michael G. DeCata.

The Management Development Committee

The Management Development Committee is responsible for evaluating potential candidates for executive positions, reviewing management development and succession objectives and regularly reviewing the results of the annual evaluation process.

The directors who serve on the Management Development Committee are Wilma J. Smelcer (Chair), Andrew B. Albert, I. Steven Edelson, James S. Errant and Ronald B. Port, M.D.

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 Andrew B. Albert (Chair), Wilma J. Smelcer, Ronald B. Port, M.D and Thomas S. Postek. Each member of the Nominating and Governance Committee satisfies the independence requirements of The Nasdaq Stock Market.

Director Nominations

The Nominating and Governance Committee will consider Board of Director nominees recommended by stockholders. Those recommendations should be sent to the Chairman of the Nominating and Governance Committee, c/o Corporate Secretary of Lawson Products, Inc., 8770 West Bryn Mawr Avenue, Chicago, Illinois, 60631. In order for a stockholder to nominate a candidate for director, under the Company's Certificate of Incorporation, timely notice of the nomination must be given in writing to the Secretary of the Company. With respect to the meeting, in order to be timely, a stockholder's notice shall be mailed or delivered to the Secretary of the Company not less than 90 days nor more than 110 days prior to the first anniversary of the preceding year's meeting. The Company's Charter is not inconsistent with the By-Laws' provisions. The Company's Certificate of Incorporation specifies additional information regarding the nominee that must accompany the notice.

The Nominating and Governance Committee will follow procedures which the Nominating and Governance 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 members of the Board of Directors and by stockholders. The manner in which the Nominating and Governance Committee evaluates nominees for director is the same regardless of whether the nominee is recommended by a security holder.

The Nominating and Governance 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 Nominating and Governance Committee does not have a policy with regard to consideration of diversity in identifying director nominees. The Nominating and Governance 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, other relevant business experience, a candidate's technical background or professional qualifications and other public company boards of directors on which the candidate serves. The Nominating and Governance Committee will also consider whether the candidate would be “independent” for purposes of The Nasdaq Stock Market and the rules and regulations of the SEC. The Nominating and Governance Committee may, from time to time, engage the service of a professional search firm to identify and evaluate potential nominees.

Independent Lead Director

In March 2017, our Board created the position of Lead Director. Pursuant to our Corporate Governance Principles, the Lead Director shall be an independent, non-employee director designated by our Board who shall serve in a lead capacity to coordinate the activities of the other independent directors, interface with and advise the Chairman of the Board, and perform such other duties as are specified in the charter or as our Board may determine. The Independent Lead Director's responsibilities include that he/she:

- presides at all Board meetings at which the Chairman of the Board is not present and at all executive sessions;
- has authority to call meetings of the independent directors;
- serves as a liaison between the Chairman of the Board and the independent directors, and between the Chairman of the Board and CEO if the roles are held by different individuals, when necessary to provide a supplemental channel of

communication;

- works with the Chairman of the Board in developing, and approving, Board meeting agendas, schedules, and information provided to the Board;
- in conjunction with the Chairs of the Compensation and Management Development Committee, facilitates and communicates the Board's performance evaluation of the CEO;
- guides the CEO succession process together with the Compensation Committee and with input from the Nominating and Governance Committee (and similarly guides the Chairman of the Board succession process if the Chairman of the Board and CEO roles are held by different individuals);

- ensures the implementation of a Committee self-evaluation process; reviews reports from each Committee to the Board; and provides guidance to Committee Chairs, as needed, with respect to Committee topics, issues, and functions;
- facilitates the Board’s self-evaluation process; and
- communicates with significant stockholders and other stakeholders on matters involving broad corporate policies and practices when appropriate.

Determination of Independence

The Company's Board of Directors has determined that directors Andrew B. Albert, I. Steven Edelson, James S. Errant, Lee S. Hillman, J. Bryan King, Ronald B. Port, M.D., Thomas S. Postek, 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. Mr. DeCata, our CEO, is not considered an independent director.

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.

Code of Ethics

The Company has adopted a Code of Ethics (the “Code of Ethics”) applicable to all employees and to senior financial executives including the principal executive officer, principal financial officer and principal accounting officer of the Company. The Code of Ethics is available on the Corporate Governance page in the Investor Relations section of the Company's website at www.lawsonproducts.com. The Company intends to post on its website any amendments to or waivers from the Code of Ethics applicable to senior financial executives.

The Board of Directors Role in Risk Oversight and Assessment

The Board is responsible for overseeing the most significant risks facing the Company and for determining whether management is responding appropriately to those risks. The Board implements its risk oversight function both as a whole and through committees. The Board has formalized much of its risk management oversight function through the Audit Committee.

The Company has a formal Enterprise Risk Management (“ERM”) program. The goal of the ERM program is to provide the oversight, control and discipline to drive continuous improvement of our risk management capabilities in a constantly changing operating environment. In connection with the ERM, the Company retained a risk management consultant to assist management in identifying and prioritizing risk along with processes to mitigate such risks. The Company has developed metrics for reporting risks to the Board. Senior management has been tasked with continually assessing risks, developing mitigation plans on previously identified risks and communicating risk awareness throughout the Company.

In addition to the formal ERM program, the Board committees have significant roles in carrying out the risk oversight function which include, but are not limited to, the following:

- The Audit Committee oversees risks related to the Company's financial statements, the financial reporting process, accounting and legal matters and oversees the internal audit function;
- The Compensation Committee oversees the Company's compensation programs from the perspective of whether they encourage individuals to take unreasonable risks that could result in having a materially adverse effect on the Company;

- The Management Development Committee oversees management development and succession planning across senior management positions; and
- The Financial Strategies Committee oversees risk inherent in allocating capital and developing financial plans.

While the Board oversees risk management, Company management is charged with managing risk. Management is responsible for establishing and maintaining an adequate system of internal controls over financial reporting and establishing controls to prevent or detect any unauthorized acquisition, use or disposition of the Company's assets.

The Company has retained a consulting firm to serve as its internal audit department, which reports to the Audit Committee on a regular basis. Part of the internal audit department's mission, as described in its charter, is to bring a “systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” One way which the internal audit department carries this out is by evaluating the Company's network of risk management programs and reporting the results to the Audit Committee.

Management conducts detailed periodic business reviews of the Company's business. These reviews include discussions of future risks faced by various departments and functional areas across the organization. Additionally, the Company has established a Disclosure Committee which is comprised of senior management from various functional areas. The Disclosure Committee meets at least quarterly to review all disclosures and forward-looking statements made by Lawson to its security holders and ensure they are accurate and complete and fairly present Lawson's financial condition and results of operations in all material respects.

The Company has also established and communicated to its employees a Code of Ethics and maintains an ethics hotline where employees can confidentially and anonymously express any concerns they may have of any suspected ethics violations either through a dedicated website or through a toll free telephone number. The Company requires annual ethics training of all employees.

Compensation Risk Assessment

The Compensation Committee has reviewed the compensation programs of the Company to determine if they encourage individuals to take unreasonable risks and has determined that any risks arising from these compensation programs are not reasonably likely to have a material adverse effect on the Company. The Company’s existing compensation programs were reviewed, with particular attention to the performance metrics, programs and practices that mitigate risk (e.g., post-vest holding requirements, clawback policies), and the mix of short-term and long-term compensation, and the Compensation Committee concluded that no further review and inquiry was necessary.

Post-Vest Holding Requirement

In 2016, the Compensation Committee instituted a two-year post-vest holding requirement on market stock units ("MSUs"), restricted stock units ("RSUs") and restricted stock awards ("RSAs") granted to the top three Named Executive Officers - the President and Chief Executive Officer, the Chief Financial Officer, Treasurer and Controller, and the Secretary and General Counsel to further align these executives' long-term interests with those of our stockholders. The executives subject to the hold requirement cannot transfer or otherwise dispose of one-hundred percent (100%) of certain equity awards granted after January 1, 2016, which vest, net of taxes, and convert to shares of common stock.

Clawback Policy

In 2011, the Board of Directors approved a policy for recoupment of incentive compensation (the “Clawback Policy”). The Board of Directors adopted the Clawback Policy in order to protect the Company in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws.

If such an event occurs, the Company will recover from any current or former executive officer of the Company who received incentive-based compensation (including stock options awarded as compensation) based on the erroneous data during the 3-year period preceding the date on which the Company is required to prepare an accounting restatement in excess of what would have been paid to the executive officer under the accounting restatement, as determined by the Compensation Committee, in accordance with Section 10D of the Securities Exchange Act of 1934 as added by Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and any applicable guidance or rules issued or promulgated thereunder.

Anti-Hedging Policy

In 2011, the Board of Directors approved an Anti-Hedging Policy. Under the Anti-Hedging Policy, the Company prohibits any executive officer of the Company or member of the Company's Board of Directors (or any designee of such executive officer or director) from purchasing financial instruments (including prepaid variable forward contracts, equity swaps, collars, and exchange funds) that are designed to hedge or offset any decrease in the market value of Company common stock (a) granted to the executive officer or director by the Company as part of the compensation of the executive officer or director; or (b) held, directly or indirectly, by the executive officer or director.

Corporate Governance Principles (Guidelines)

The Corporate Governance Principles and the charters of the five standing committees of the Board of Directors describe our governance framework. The Corporate Governance Principles and charters are intended to ensure our Board has the necessary authority and practices in place to review and evaluate our business operations and to make decisions that are independent of management. Our Corporate Governance Principles also are intended to align the interests of directors and management with those of our stockholders, and comply with or exceed the requirements of the Nasdaq Stock Market and applicable law. They establish the practices our Board follows with respect to:

- Responsibilities of directors
- Board size
- Director independence
- Attendance at meetings
- Access to senior management

Copies of these Corporate Governance Principles are available through our website at www.lawsonproducts.com. The Company will also provide a copy of the Code of Ethics without charge upon written request directed to the Company at c/o Corporate Secretary, Lawson Products, Inc., 8770 W. Bryn Mawr Avenue, Chicago, Illinois, 60631.

Stockholder Communications with the Board of Directors

Stockholders may send communications to members of the Board of Directors by either sending a communication to the Board of Directors or a committee thereof and/or a particular member c/o Corporate Secretary, Lawson Products, Inc., 8770 W. Bryn Mawr Avenue, Chicago, Illinois, 60631. All such communications will be reviewed promptly and, as appropriate, forwarded to the Board of Directors or the relevant committee or individual member of the Board of Directors or committee based on the subject matter of the communication.

REMUNERATION OF EXECUTIVE OFFICERS

COMPENSATION DISCUSSION AND ANALYSIS ("CD&A")

This section of the Proxy Statement explains how our executive compensation programs are designed and operate in practice with respect to our executives and specifically the following Named Executive Officers ("NEOs").

Named Executive Officer	Title
Michael G. DeCata	President and Chief Executive Officer
Ronald J. Knutson	Executive Vice President, Chief Financial Officer, Treasurer and Controller
Neil E. Jenkins	Executive Vice President, Secretary and General Counsel
Shane T. McCarthy	Senior Vice President, Supply Chain and Business Development
Matthew J. Brown	Senior Vice President, Sales

The 2017 Summary Compensation Table ("SCT") on page 43 represents compensation earned by the NEOs in calendar 2017.

Executive Summary

Overview of 2017 Performance and Compensation

2017 Business Environment and Company Performance

Lawson serves the industrial, commercial, institutional and government maintenance, repair and operations ("MRO") market.
Our strategic focus in 2017 was to continue to invest in the business and improve profitability while continuing to drive sales growth by hiring sales representatives, improving sales representative productivity and acquiring companies. The Company's 2017 financial performance, including a substantial investment in our business through a robust hiring and acquisition strategy, leads us to believe we have created a scalable infrastructure that will allow us to take full advantage of future growth opportunities. Our efforts in 2017 resulted in the following strategic accomplishments:

- Increased Net Sales - Our Net Sales increased 10.6% from $276.6 million in 2016 to $305.9 million in 2017.
- Increased Adjusted EBITDA - Our Adjusted EBITDA increased 32.6% from $14.0 million in 2016 to $18.5 million in 2017.
- Acquisitions - We acquired Bolt Supply House Ltd. ("Bolt"), a Canadian MRO distributor. Bolt is expected to generate over $30 million of annual net sales through its network of 13 store locations in Alberta, Saskatchewan and Manitoba.
- Stock Price - The Company's stock price increased from $23.80 on December 31, 2016 to $24.75 on December 31, 2017.
- Increased Gross Profit Dollars - Gross profit dollars increased from $168.1 million in 2016 to $183.0 million in 2017.
- Lean Six Sigma - Over the past three years we have had well over 100 employees complete Lean Six Sigma training, which
is a systematic data driven approach to analyzing and improving business processes.
-

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

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Executive Compensation in 2017 Relative to Company Performance and Performance Measures

Pay-for-performance continues to be a fundamental tenet of our compensation philosophy, which includes the core principles of rewarding the attainment of performance goals and aligning our executives' objectives with our stockholders. We seek to closely align the interests of our Named Executive Officers with the interests of our stockholders. Our compensation programs are designed to reward our NEOs for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total stockholder return (“TSR”) (for additional detail, see the Total Stockholder Return section), while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

Our NEOs’ total compensation is comprised of a mix of base salary, annual cash incentive awards and long-term incentive awards that include performance-based cash and equity awards. The following tables highlight the year-over-year relationship of the performance on two of the key financial metrics that we use in evaluating the Company's performance relative to incentive compensation payable in our Annual Incentive Plan ("AIP").

(1) “Adjusted EBITDA” is a performance measure that is equal to our operating income adjusted to eliminate the effects of interest expense, income tax expense, depreciation and amortization, our AIP and our long-term incentive plan ("LTIP") compensation, foreign exchange impact, unplanned acquisition activity and other certain non-routine and non-operating items (for additional detail, see the Annual Incentive Plan section).

(2) “Adjusted Net Sales” is a performance measure that is equal to our net sales adjusted to eliminate the effects of the net effect of foreign exchange changes and unplanned acquisition sales (for additional detail, see the Annual Incentive Plan section).

Strong Pay for Attainment of Performance Measures. The close relationship between pay and stockholder value has resulted from the performance-based structure of our AIP and our LTIP. Our 2017 financial results as compared to our pre-established performance targets set for the 2017 AIP and 2015-2017 LTIP are described below:

- In connection with Mr. DeCata's 2017 employment agreement, he received a 9.8% base salary increase. Mr. DeCata has not received an increase to his base salary since 2014. In light of the individual performance of our NEOs and the Company's performance, the Compensation Committee approved modest base salary increases in 2017 for a select few of our other NEOs. 2017 base salary increases were approximately 3.1%, on average, for our other NEOs, which includes Mr. Brown's increase in salary in connection with his promotion to Senior Vice President, Sales. Two NEO’s received no salary increase in 2017.
- 90% of our CEO and other NEO's 2017 AIP award opportunities is based upon performance relative to Adjusted EBITDA and Adjusted Net Sales. In 2017, to support a key Company strategic growth initiative, Net Sales from Acquisitions was added as the other 10% of our CEO and other NEO's AIP award opportunity.
- These metrics provide for a balanced approach to measuring our NEO's performance. The Company's 2017 performance with respect to each of these metrics was above the target performance goals as follows: above the target, but below the maximum performance level for Adjusted EBITDA and Net Sales from Acquisitions, and above the maximum performance level for Adjusted Net Sales. Our financial results are provided below:

$18.5 million in Adjusted EBITDA (for additional detail, see the 2017 AIP section) compared to a $16.3 million target

$297.8 million in Adjusted Net Sales (for additional detail, see the 2017 AIP section) compared to a $283.3 million target

$32.8 million in Net Sales from Acquisitions (for additional detail, see the 2017 AIP section) compared to a $20.0 million target

Based upon better than expected financial results as described above, the 2017 AIP payouts were 132.5% of the CEO and other NEOs' target bonus award opportunity; whereas, the 2016 AIP payouts were equal to 36.6% of the aggregate target award opportunity for our CEO and other NEOs.

- Long-term compensation delivered by our LTIP is a significant portion of the compensation awarded to each of our NEOs. The LTIP is comprised of performance-based cash and equity awards whereby value delivered to the NEOs is determined by our stock price, directly linking increases to shareholder value to our NEO’s compensation.

One portion of the awarded opportunities granted as part of the 2015-2017 LTIP vested on December 31, 2017, in the form of SPRs (exercisable with a strike price of $25.16). The other portion consisted of MSUs, which were forfeited because the Company's trailing 30-day average closing stock price did not achieve the LTIP threshold price of $28.00. Additional details are provided in the "Long-Term Incentive Plan" section as well as the "Option/SPR Exercises and Stock Vested in 2017" table.

Compensation Program is aligned with Long-Term Stockholder Value. The following represents important elements of our long-term incentive plan:

We encourage a long-term orientation of our executives by requiring three-year cliff vesting under the terms of our LTIPs.

Only the Compensation Committee may approve equity incentive grants under the LTIP.

Our 2014 equity incentive plan does not permit repricing or replacing underwater stock options or stock appreciation rights without prior stockholder approval (including cash buyouts).

The NEOs are rewarded for growth in the same manner as stockholders and will realize value for the majority of their awards if the Company's stock price appreciates in value from the date the award is approved.

We require a post-vest holding period for our three most senior NEOs.

We are highlighting the Company's stock price performance from January 1, 2014, through December 31, 2017, reflecting an annual appreciation of 19.2% over this time period.

NEOs Compensation Aligns With Performance

The total compensation cost of our senior team continues to be aligned with our business results and the market value of the Company. For the 2015-2017 time period, we are disclosing the granted pay opportunity, realizable and realized compensation of our NEOs. At the same time, a meaningful portion of our NEO total compensation is provided in the form of SPRs and MSUs, with the actual value of these awards tied 100% to the Company’s share price performance. A significant increase in Net Sales and Adjusted EBITDA in 2017 contributed to achievement of the short-term incentive award, which positively impacted the realized portion of the other NEOs compensation.

To summarize how our CEO and other NEOs' compensation have been aligned with performance over the 2015-2017 time period, the narrative and tables provided in this CD&A illustrate the grant date value of the AIP and LTIP pay opportunities, as well as the compensation realizable and realized from these awards over the same time period. We believe the inclusion of realizable compensation enhances our compensation disclosure as realizable pay is compensation that focuses on the middle of our compensation lifecycle - after award opportunities have been granted but not yet vested. Additionally, realized compensation sets forth the compensation that has been earned based upon awards granted throughout the three-year performance cycle. The SCT on page 43 and the "Options/SPR Exercises and Stock Vested in 2017" table on page 50 measure value at the two ends of the compensation lifecycle - when the pay is granted, and when it is ultimately realized (vested) by the executive.

To illustrate this pay-for-performance alignment, we can note that the actual realized compensation is significantly lower than the granted pay opportunity:

(1) The 2015-2017 aggregate granted pay opportunity, realizable and realized compensation for Messrs. Jenkins, Knutson and McCarthy are included in the chart above. Mr. Brown was promoted to Senior Vice President, Sales effective March 16, 2017 and his granted pay opportunity, realizable and realized compensation is included in the chart above beginning with 2017.
(2) In the chart above, "Granted Pay Opportunity" equals the sum of the three prior years (i.e., 2015-2017): (i) Salary (as reported in the SCT on page 43), (ii) target award opportunity of AIP, and (iii) the grant date fair-value of LTIP awards as reported in the SCT.
(3) In the chart above, "Realizable Pay" equals the sum of the three prior years: (i) Salary earned, (ii) AIP earned, and (iii) the value of all earned long-term incentive awards for the completed performance cycle, as well as unvested LTIP awards for the ongoing performance cycle. This also includes Mr. Knutson's grant of 1,000 RSUs on January 13, 2017, in lieu of a 2017 base salary increase during the regular annual merit cycle, effective March 16, 2017. All unvested long-term incentive awards are valued based on our stock price as of December 31, 2017. The realizable value of the NEOs' 2016-2018 MSU awards is zero, as the Company's stock price as of December 31, 2017 does not meet threshold award levels. The realizable value of the NEOs' 2017-2019 MSU awards is shown in the table above, as the Company's stock price as of December 31, 2017 exceeds threshold award levels.
(4) In the chart above, "Realized Pay" equals the sum of the three prior years: (i) Salary earned, (ii) AIP earned, and (iii) the value of all earned LTIP awards for the completed performance cycle.

CEO Compensation is aligned with Performance and Stockholder Value

The Board has taken concerted actions to align the compensation of our CEO to tangible financial results and increases in stockholder value. We do this primarily by considering several key factors: the CEO's pay mix, our performance-based AIP, long-term incentives with potential value to be realized aligned with tangible growth in stockholder value, and by encouraging share ownership. We are providing additional discussion on each of these factors.

CEO pay mix emphasizes alignment to long-term stockholder return (SCT)
Our CEO’s mix is significantly more oriented to long-term value creation than that of our peer company CEOs, whereas our Core and Supplemental peer group's CEO mix is more oriented towards annual cash compensation.

Pay Mix Element	Lawson	Core Peer Group	Supplemental Peer Group
Base Salary	17 %	30 %	30 %
Annual Incentive	13 %	18 %	27 %
Long-Term Incentive	70 %	52 %	43 %

CEO AIP payout is 100% formula-based, linked to three key drivers of long-term value

Our CEO’s annual incentive opportunity is tied directly to organic growth in revenue, growth in adjusted EBITDA, and growth via acquisitions (new for 2017), the three key strategic drivers which we believe drive long-term growth in stockholder value. Over the 2015-2017 time period, our CEO’s annual bonus and performance on these performance metrics has been as follows:

	2015	2016	2017
Adjusted EBITDA	$17,129	$13,964	$18,522
Payout percentage	110.1 %	61.0 %	123.1 %
Adjusted EBITDA payout	$336,906	$186,521	$413,616
Adjusted Net Sales	$279,663	$274,156	$297,759
Payout percentage	— %	— %	150.0 %
Adjusted Net Sales payout	$—	$—	$252,000