

SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into by and between the California Air Resources Board (ARB), with its principal office at 1001 I Street, Sacramento, California, and Lawson Products, Inc. with its principal place of business at ~~1666 East Touhy Avenue, Des Plaines, Illinois 60018.~~

6770 W. Birchmont Ave. Suite 400,

RECITALS

Chicago, IL 60631

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1. Lawson Products, Inc. voluntarily disclosed to the ARB that from 2007 through 2010, it sold, supplied, or manufactured for sale in California products that were subject to the volatile organic compound (VOC) limits, toxic air contaminant prohibitions, or product weighted maximum incremental reactivity (PW-MIR) limits in ARB's Consumer Product Regulations Title 17, California Code of Regulations (CCR). These products are listed in Exhibit A.
2. Lawson Products, Inc. voluntarily disclosed to the ARB that products listed in Exhibit A contained concentrations of volatile organic compounds in excess of the limits specified in the Table of Standards in title 17 CCR Section 94509(a) and were manufactured after the specified effective dates.
3. Lawson Products, Inc. voluntarily disclosed to the ARB that the aerosol coating products listed in Exhibit A contained reactive organic compounds that have a PW-MIR in excess of the limits specified in the Table of Limits in Title 17 CCR, Section 94522(a)(3) and were manufactured after the effective date.
4. Lawson Products, Inc. voluntarily disclosed to the ARB that Lawson Products, Inc. failed to file an explanation for the code indicating the date of manufacture on the listed in Exhibit A prior to January 31, 2006 or on an annual basis as required under title 17, CCR, section 94512(c)(1).
5. Lawson Products, Inc. voluntarily disclosed to the ARB that the Outstrip adhesive remover, Gasket and Carbon Stripper adhesive remover, Bonafide electrical cleaner, Bond N Seal contact adhesive, and Bonafide general purpose cleaner products listed in Exhibit A were in violation of Title 17 CCR, Section 94509(m)(1), which states that no person shall sell, supply, offer for sale, or manufacture for sale in California any adhesive remover, electrical cleaner, contact adhesive, or general purpose cleaner product that, at the time of sale or manufacture, contains methylene chloride, perchloroethylene or trichloroethylene.
6. Lawson Products, Inc. voluntarily disclosed to the ARB that the Non-Flammable Break Clean automotive break cleaner, One Shot Break Cleaner automotive break cleaner, Super 77 Carb and Choke Cleaner carburetor cleaner, and Carb & Choke Cleaner carburetor cleaner products listed in Exhibit A were in violation of Title 17 CCR, Section 93111(d), which states

that no person shall sell, supply, offer for sale, or manufacture for sale in California any automotive break cleaner or carburetor cleaner product that, at the time of sale or manufacture, contains methylene chloride, perchloroethylene or trichloroethylene.

7. Based on the forgoing voluntary disclosures, ARB alleges that civil penalties could be imposed against Lawson Products, Inc. as provided in Health and Safety Code sections 42402 et seq. for each and every unit involved in the violations Lawson Products Inc. disclosed.
8. Lawson Products, Inc. admits the violations described in recital paragraphs 1, 2, 3, 4, 5, and 6, but denies any liability resulting from them.
9. The parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

Therefore, the parties agree as follows:

TERMS AND CONDITIONS

1. Lawson Products, Inc. shall not sell, supply or offer for sale for use in California any consumer products in violation of ARB's Chlorinated Toxic Air Contaminants Airborne Toxic Control Measure set forth in title 17, CCR, Section 93111 et seq. or the Consumer Products Regulations set forth in title 17, CCR, Section 94500 et seq. however, the terms and conditions set forth in this agreement will remain valid and enforceable notwithstanding any future violations that may occur.
2. Lawson Products, Inc. in settlement of the above-described violations of, agrees to pay a penalty to ARB in the amount of \$126,500 paid to the California Air Pollution Control Fund, concurrent with the execution of this Agreement.
3. This settlement shall apply to and be binding upon Lawson Products, Inc. and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this settlement.
4. The parties stipulate that this Agreement shall be the final resolution of ARB's claims regarding the above-described violations and shall have the same res judicata effect as a judgment in terms of acting as bar to any civil action by ARB against Lawson Products, Inc., its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations. This Agreement shall be deemed the recovery of civil penalties for purposes of precluding subsequent criminal action as provided in Health and Safety Code section 42400.7(a).

5. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice of law rules.
6. This Agreement constitutes the entire agreement and understanding between ARB and Lawson Products, Inc. concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between the ARB and Lawson Products, Inc. concerning these claims.
7. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all parties to this Agreement.
8. Each of the undersigned represents and warrants that he or she has full power and authority to enter into this Agreement.
9. **SB 1402 Statement.** California Health and Safety Code (HSC) section 39619.7 (Senate Bill 1402 - Dutton, Chapter 413, statutes of 2010) requires ARB to provide information on the basis for the penalties it seeks. This Settlement Agreement includes this information, which is also summarized here.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

The penalty provisions being applied in this case is HSC section 39674 and section 42402, et seq. because Lawson Products, Inc. sold, supplied, offered for sale, or manufactured for sale consumer products for commerce in California in violation of ARB's Chlorinated Toxic Air Contaminants Airborne Toxic Control Measure, Title 17 CCR Section 93111, et. seq. and ARB's Consumer Product Regulations Title 17 CCR 94500, et seq.

The manner in which the penalty amount was determined, including aggravating and mitigating factors and per unit or per vehicle basis for the penalty.

Penalties must be set at levels sufficient to discourage violations. ARB considered all relevant circumstances in determining penalties, including HSC 39674 and the eight factors specified in HSC section 42403.

Under HSC section 39674, et seq. the penalties for strict liability violations of the Chlorinated Toxic Air Contaminants Airborne Toxic Control Measure are a maximum of \$1,000 per day of violation, with each day being a separate violation and under HSC section 42402, et seq. the penalties for strict liability violations of the Consumer Product Regulations are a maximum of \$1,000 per

day of violation, with each day being a separate violation. In cases involving unintentional first time violations of the Consumer Products Regulations where the violator cooperates with the investigation, the ARB has sought and obtained penalties of approximately \$17,000 per ton of excess emissions of volatile organic compounds and \$25,000 per ton of excess emissions of toxic air contaminants attributable to the violation. These per ton penalty amounts represent an average cost to retire a ton of volatile organic compound emission credits and reformulate a product or the increased cost to retire a ton of toxic air contaminants, respectively, to comply with the Consumer Product Regulations. In this case the total penalty is \$126,500 for 2.11 tons of excess volatile organic compound emissions, 5.59 tons of excess toxic air contaminant emissions, twelve aerosol coating violations and an administrative violation reflecting the self-disclosed nature of the violations, and the fact that Lawson Products, Inc. discovered the violations as a result of a self-audit of its product line and promptly reformulated or discontinued the non-complying products. Penalties in future cases might be smaller or larger on a per ton basis.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of excess emissions, if it is practicable to do so.

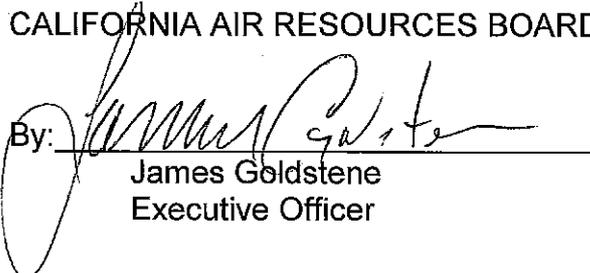
Neither the Chlorinated Toxic Air Contaminants Airborne Toxic Control Measure nor the Consumer Product Regulations prohibit emissions above a specified level, but they do limit the concentration of volatile organic compounds and the inclusion of toxic air contaminants in regulated products. In this case, however, a quantification of the excess emissions attributable to the violations was practicable because Lawson Products, Inc. made the product formulation and sales data necessary to make this quantification available to the ARB. Based upon this information (which the Lawson Products, Inc. has designated as confidential), the violations were calculated to have caused 2.11 tons of volatile organic compounds and 5.59 tons of toxic air contaminants to be emitted to the atmosphere in California.

10. Lawson Products, Inc. acknowledges that ARB has complied with SB1402 in investigating and settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC section 39674 and section 42403, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed and has considered and determined that while this penalty is not being assessed under a provision of law that prohibits the emission of pollutants at a specified level, it is practicable for ARB to quantify the excess emissions from the alleged violations, has done so and has included this information in this Settlement Agreement.

11. Final penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar negotiated cases, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days resulting in quantifiable harm to the environment considered together with the complete circumstances of this case listed above. The penalty was discounted in this matter based on Lawson Products, Inc. self-disclosure, the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation. Penalties in future cases might be smaller or larger on a per ton basis.
12. The final penalty in this case was based in part on confidential business information provided by Lawson Products, Inc. that is not retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and Lawson Products, Inc. that ARB does not retain in the ordinary course of business either. The penalty also reflects ARB's assessment of the relative strength of its case against Lawson Products, Inc., the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Lawson Products, Inc. may have secured from its actions.

CALIFORNIA AIR RESOURCES BOARD

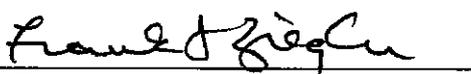
Dated: 6-14-2012

By: 

James Goldstene
Executive Officer

LAWSON PRODUCTS, INC.

Dated: 5/24/12

By: 

Frank J. Ziegler
Vice President and Counsel
Chief Compliance Officer

Exhibit A

LAWSON PRODUCT	PRODUCT CATEGORY	EFFECTIVE DATE	VOC / PW-MIR LIMIT
Cronabond Release Agent	Adhesive Remover (General Purpose)	12/31/06	20%
Outstrip	Adhesive Remover (Gasket or Threadlocking)	12/31/06	50%
Gasket & Carbon Stripper	Adhesive Remover (Gasket or Threadlocking)	12/31/06	50%
Clear Flex Guard	Aerosol Coating/ General Coating (Clear Coating)	6/01/02	1.50
Unrelastic Color Coating Avalanche Gray	Aerosol Coating/ General Coating (Nonflat Paint Product)	6/01/02	1.40
Unrelastic Medium Smoke	Aerosol Coating/ General Coating (Nonflat Paint Product)	6/01/02	1.40
Unrelastic Color Coating Titanium	Aerosol Coating/ General Coating (Nonflat Paint Product)	6/01/02	1.40
Stone Guard	Aerosol Coating/ General Coating (Primers)	6/01/02	1.20
Weldable Zinc Primer	Aerosol Coating/ General Coating (Flat Paint Products)	6/01/02	1.20
Outlast Black	Aerosol Coating/ General Coating (Flat Paint Products)	6/01/02	1.20
Outlast White	Aerosol Coating/ General Coating (Flat Paint Products)	6/01/02	1.20
Euro Stone Chip Black	Aerosol Coating/ General Coating (Flat Paint Products)	6/01/02	1.20
Foghorn	Air Freshener (Dual Purpose/Disinfectant Aerosol)	1/1/94	60%
Liquid Static Wipes	Anti-Static Product (non-aerosol)	12/31/06	11%
One Shot Brake Cleaner	Automotive Brake Cleaner	12/31/10	10%
Non-Flammable Brake Clean	Automotive Brake Cleaner	12/31/10	10%
Liquid Protective Finish	Automotive Wax, Polish, Sealant or Glaze	1/1/05	15%
Clear Image Liquid Wax	Automotive Wax, Polish, Sealant or Glaze	1/1/05	15%
Buff 'N Wax	Automotive Wax, Polish, Sealant or Glaze	1/1/05	15%
Liquid Rubbing Compound	Automotive Rubbing or Polishing Compound	1/1/05	17%

Carb & Choke Cleaner	Carburetor or Fuel Injection Air Intake Cleaner	12/31/10	10%
Super 77 Carb & Choke Cleaner	Carburetor or Fuel Injection Air Intake Cleaner	12/31/10	10%
Catch 22	Dusting Aid	12/31/10	17%
Lawson Cleaning Pad	Electronic Cleaner	12/31/07	75%
Contax	Electronic Cleaner	12/31/07	75%
Contax HP	Electronic Cleaner	12/31/07	75%
PowrOff Contact Cleaner	Electronic Cleaner	12/31/07	75%
Take Charge	Electrical Cleaner	12/31/06	45%
321 Contact	Electrical Cleaner	12/31/06	45%
Bonafide	Electrical Cleaner	12/31/06	45%
Electro Clean	Electrical Cleaner	12/31/06	45%
Bonafide	General Purpose Cleaner (aerosol)	12/31/08	8%
Screen Clean	General Purpose Cleaner (aerosol)	12/31/08	8%
Arrive	General Purpose Cleaner (aerosol)	12/31/08	8%
Devine	General Purpose Cleaner (aerosol)	12/31/08	8%
Vinyl Cleaner & Restorer	General Purpose Cleaner (aerosol)	12/31/08	8%
Formula 77 Vynalock	General Purpose Contact Adhesive (non-aerosol)	12/31/06	55%
Bond N Seal	General Purpose Contact Adhesive (non-aerosol)	12/31/06	55%
Flush Off	General Purpose Degreaser	12/31/04	4%
Squeezy	General Purpose Degreaser (non-aerosol)	12/31/04	4%
EZ Wipes	General Purpose Degreaser (non-aerosol)	12/31/04	4%
Perpetrator	General Purpose Degreaser (non-aerosol)	12/31/04	4%
Aggressor	General Purpose Degreaser (non-aerosol)	12/31/04	4%
Greasewhacker	General Purpose Degreaser (non-aerosol)	12/31/04	4%
Brake Klean	General Purpose Degreaser (non-aerosol)	12/31/04	4%
NC-NF Metal Surface Cleaner	General Purpose Degreaser (aerosol)	12/31/10	10%
Metallic Surface Degreaser	General Purpose Degreaser (aerosol)	12/31/10	10%
Trouper	General Purpose Degreaser (aerosol)	12/31/10	10%
Reclaim	Floor Wax Stripper	1/1/02	3-12%
Glass Kleen RTU	Glass Cleaner (non-aerosol)	12/31/04	4%
Expunge	Graffiti Remover (aerosol)	12/31/06	50%
Layout Fluid Remover	Paint Remover or Stripper	1/1/05	50%
Scot Free	Penetrant	1/1/03	50%
Open & Shut	Penetrant	1/1/03	50%
Silicone Lubricant	Rubber & Vinyl Protectant (aerosol)	1/1/05	10%

Super Silicone Spray	Rubber & Vinyl Protectant (aerosol)	1/1/05	10%
High Tack Gasket Sealant	Sealant or Caulking Compound (all forms)	12/31/02	4%
Permatex Form A-Gasket Sealant #1	Sealant or Caulking Compound (all forms)	12/31/02	4%
Permatex Form A-Gasket Sealant #2	Sealant or Caulking Compound (all forms)	12/31/02	4%
Permatex Aviation Form A- Gasket Sealant Liquid	Sealant or Caulking Compound (all forms)	12/31/02	4%
Euro undercoat	Undercoating	1/1/02	40%
Rubber Guard Coating	Undercoating	1/1/02	40%