

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

UNITED STATES OF AMERICA	)	
	)	No.
v.	)	
	)	Judge
LAWSON PRODUCTS, INC.	)	

DEFERRED PROSECUTION AGREEMENT

Defendant LAWSON PRODUCTS, INC. (“LAWSON PRODUCTS”), a company headquartered in Des Plaines, Illinois, by its undersigned attorneys, pursuant to authority granted by its Board of Directors, and the UNITED STATES OF AMERICA, through PATRICK J. FITZGERALD, United States Attorney for the Northern District of Illinois, enter into this Deferred Prosecution Agreement (“the Agreement”), which shall apply to LAWSON PRODUCTS and all its affiliates and subsidiaries, including Drummond American Corporation and Cronatron Welding Systems, Inc. The terms and conditions of this agreement are as follows:

1. LAWSON PRODUCTS accepts and acknowledges that, in connection with the execution of this Agreement, the United States will file a one-count criminal Information (attached hereto as Appendix A) in the United States District Court for the Northern District of Illinois. The Information will charge LAWSON PRODUCTS with mail fraud, in violation of 18 U.S.C. § 1341. LAWSON PRODUCTS knowingly and voluntarily waives its right to indictment on this charge, as well as all rights to a speedy trial pursuant to the Sixth Amendment to the United States Constitution, 18 U.S.C. § 3164, and Federal Rule of

Criminal Procedure 48(b). Prosecution of LAWSON PRODUCTS on the charge set forth in the Information shall be deferred for a three-year period. As further provided below, if LAWSON PRODUCTS fully complies with its obligations under this Agreement during the Agreement's three-year term, the United States will dismiss the Information with prejudice.

2. LAWSON PRODUCTS admits, accepts, and acknowledges that it is responsible for the acts of its officers, employees, and sales agents, as set forth in the Information and the Statement of Facts attached as Appendix B to this Agreement (the "Statement of Facts"), and that the facts described therein are true and accurate. Should the United States initiate the prosecution that is deferred by this Agreement, LAWSON PRODUCTS agrees that it will neither contest the admissibility of, nor contradict, in any criminal proceeding or civil forfeiture proceeding, the Statement of Facts.

3. LAWSON PRODUCTS agrees to place a total of \$30,000,000 in an escrow account to fund the payment of restitution and a civil forfeiture judgment as further set forth below. LAWSON PRODUCTS will fund this escrow account in three equal payments of \$10,000,000. LAWSON PRODUCTS shall make the first \$10,000,000 payment on or before the date that LAWSON PRODUCTS executes this Agreement. LAWSON PRODUCTS shall make its subsequent two \$10,000,000 payments within twelve months and twenty-four months of its execution of this Agreement. At any point, should a controlling interest in LAWSON PRODUCTS be sold, the remaining payments shall be accelerated and due at the closing of that sale.

4. LAWSON PRODUCTS acknowledges that the United States will file a complaint for *in rem* civil forfeiture, which is attached as Appendix C to this Agreement (the “Forfeiture Petition”), for forfeiture of the funds in the escrow account described in paragraph 3. LAWSON PRODUCTS agrees not to contest the forfeiture of this property in the civil forfeiture proceeding. LAWSON PRODUCTS further agrees to the entry of a judgment with respect to the civil forfeiture proceeding. LAWSON PRODUCTS agrees that the funds in the escrow account shall be forfeited and disposed of according to law. LAWSON PRODUCTS and the United States agree that the forfeiture of the funds in the escrow account, once fully funded by LAWSON PRODUCTS pursuant to paragraph 3, shall satisfy all monetary claims by the United States with respect to the civil forfeiture action. Nothing, including a dismissal of the Information or a breach by LAWSON PRODUCTS of this Agreement, shall cause any portion of the funds in the escrow account forfeited pursuant to the civil forfeiture judgment to be refunded. The United States agrees, however, that in the event of a subsequent breach and prosecution, it will recommend to the Court that the amount forfeited pursuant to this Agreement be offset against any monetary penalty the Court may impose as part of its judgment. LAWSON PRODUCTS understands that such a recommendation will not be binding on the Court.

5. LAWSON PRODUCTS acknowledges that if it were convicted of mail fraud, as charged in the information, that it would be obligated to provide restitution to the victims of the scheme, pursuant to 18 U.S.C. § 3663A. The United States and LAWSON PRODUCTS have agreed that LAWSON PRODUCTS will make restitution payments to

customers of LAWSON PRODUCTS that (a) employed individuals who received over \$10,000 in Winners Choice checks; (b) employed individuals who have been or later are convicted of mail fraud as a result of their receipt of Winners Choice checks; or (c) purchased LAWSON PRODUCTS merchandise from sales agents who have been or later are convicted of mail fraud for providing Winners Choice checks to the customers' employees (collectively, "the Victims"). Accordingly, LAWSON PRODUCTS agrees to pay restitution in a total amount of \$806,431, as set out in Appendix D. In making these payments, LAWSON PRODUCTS further agrees to advise the Victims in writing as to the circumstances leading to the payments.

6. LAWSON PRODUCTS hereby represents and warrants that it will not re-employ as an officer or elect as a director any individual who formerly served in either of those positions, and who left such a position with the company on or before the date of this Agreement.

7. This Agreement shall be in effect for three years from the date of its execution (except as provided below in Paragraph 15 of this Agreement, which provides for earlier termination under certain circumstances involving a sale of LAWSON PRODUCTS). During the term of this Agreement, LAWSON PRODUCTS agrees to cooperate fully with the United States Attorney's Office for the Northern District of Illinois and any other authority or agency investigating LAWSON PRODUCTS or any of its present or former directors, officers, employees, or sales agents, in any and all matters relating to corrupt

payments or benefits in connection with its sales or operations. LAWSON PRODUCTS agrees that its cooperation shall include, but not be limited to, the following:

a. LAWSON PRODUCTS shall provide the United States with all documents and records that the United States requests and are not subject to valid claims of attorney-client or work product privileges. The United States shall not assert that any act by LAWSON PRODUCTS known to the United States as of the date of this Agreement constitutes a waiver of its attorney-client or work product privileges in any respect as to matters relating to the scheme described in the Information and Statement of Facts.

b. LAWSON PRODUCTS shall designate knowledgeable present or former directors, executives, officers, or employees to provide the United States with information regarding matters under investigation that the United States requests. LAWSON PRODUCTS shall use its best efforts to make available for interviews or testimony, as requested by the United States, present or former directors, executives, officers, and employees of LAWSON PRODUCTS or any of its present or former affiliates and subsidiaries. This includes, but is not limited to, sworn testimony before a federal grand jury or in federal trials, as well as interviews with law enforcement authorities. LAWSON PRODUCTS will use its best efforts to ensure that the information that it provides in this manner is complete, truthful, and accurate.

c. With respect to any information, testimony, document, record, or other tangible evidence provided to the United States pursuant to this Agreement, LAWSON PRODUCTS consents to any and all disclosures to other government agencies, including

federal and state agencies, of such materials as the United States, in its sole discretion, shall deem appropriate.

8. LAWSON PRODUCTS has implemented and will continue to implement a compliance and ethics program designed to prevent and detect violations of federal and state anti-corruption laws throughout its sales and operations, including those by its affiliates and subsidiaries. LAWSON PRODUCTS has disclosed the components of its compliance and ethics program to the United States. LAWSON PRODUCTS agrees during the term of this Agreement to immediately notify the United States Attorney's Office for the Northern District of Illinois of any violation or suspected violation of federal and state anti-corruption laws that it receives notice of or detects.

9. LAWSON PRODUCTS expressly agrees that it shall not, through its present or future attorneys, directors, executives, officers, or any other person authorized to speak for the company, make any public statement, in litigation or otherwise, contradicting LAWSON PRODUCTS's acceptance of responsibility set forth above or the factual statements set forth in the Statement of Facts. Any such contradictory statement shall constitute a breach of this Agreement as governed by Paragraph 13, and LAWSON PRODUCTS thereafter would be subject to prosecution as set forth in Paragraphs 13 and 14 of this Agreement. The decision of whether any public statement contradicts the Statement of Facts shall be solely that of the United States. Should the United States determine that a public statement by any such person contradicts the Statement of Facts, the United States

shall notify LAWSON PRODUCTS. LAWSON PRODUCTS may avoid a breach of this Agreement by publicly repudiating such statement within 48 hours after such notification.

10. If LAWSON PRODUCTS is in full compliance with all of its obligations under this Agreement, the United States, within thirty days of the expiration of the period set forth in paragraph 7 above, will seek dismissal with prejudice of the Information filed against LAWSON PRODUCTS pursuant to Paragraph 1 and this Agreement shall expire.

11. If the United States determines, in its sole discretion, that LAWSON PRODUCTS, at any time between the execution of this Agreement and completion of defendant's cooperation, provided deliberately false, incomplete, or misleading information under this Agreement, has committed any federal or state crime subsequent to the date of this Agreement, or has otherwise violated any provision of this Agreement, LAWSON PRODUCTS shall thereafter be subject to prosecution for any federal criminal violation of which the United States has knowledge. Any such prosecutions may be premised on information provided by LAWSON PRODUCTS, including the Statement of Facts, which shall be admissible at any trial of LAWSON PRODUCTS. Moreover, LAWSON PRODUCTS agrees that any prosecutions that are not time-barred by the applicable statute of limitations on the date of this Agreement may be commenced against LAWSON PRODUCTS in accordance with this Agreement.

12. Should the United States determine, in its sole discretion, that LAWSON PRODUCTS has, at any time between the execution and termination of this Agreement as set forth in paragraph 7, committed any federal or state crime, provided deliberately false,

incomplete, or misleading information under this Agreement, or has otherwise knowingly and willfully breached any other material provision of this Agreement, the United States shall provide written notice to LAWSON PRODUCTS of the alleged breach and provide LAWSON PRODUCTS with a two-week period from receipt of such notice in which to make a presentation to the United States to demonstrate that no federal or state crime was committed, no breach occurred, or, to the extent applicable, that the breach was not material or knowingly and willfully committed or has been cured.

13. In the event that the United States still determines, in its sole discretion and after providing LAWSON PRODUCTS with notice of the alleged breach and an opportunity to make a presentation, that LAWSON PRODUCTS has committed any federal or state crime, provided deliberately false, incomplete, or misleading information under this Agreement, or has otherwise knowingly and willfully breached any other material provision of this Agreement: (a) all statements made by or on behalf of LAWSON PRODUCTS to the United States, the Statement of Facts executed in connection with this Agreement, and any testimony given by LAWSON PRODUCTS before a grand jury, shall be admissible in evidence in any criminal proceeding brought by the United States against LAWSON PRODUCTS, and (b) LAWSON PRODUCTS shall not assert any claim that any statements made by or on behalf of LAWSON PRODUCTS are inadmissible or should be suppressed.

14. LAWSON PRODUCTS acknowledges that the United States has made no representations, assurances, or promises concerning what sentence may be imposed by the Court should LAWSON PRODUCTS breach this Agreement and this matter proceed to judgment. LAWSON PRODUCTS further acknowledges that any such sentence would be solely within the



discretion of the Court and that nothing in this Agreement binds or restricts the Court in the exercise of such discretion.

15. LAWSON PRODUCTS agrees that in the event it sells or merges all or substantially all of its business operations as they exist as of the date of this Agreement, whether such sale is structured as a stock or asset sale, it shall include in any contract for sale or merger a provision binding the purchaser or successor to the obligations described in the Agreement; provided, however, that if there should occur a corporate transaction whereby LAWSON PRODUCTS sells substantially all of its assets or engages in a merger or similar transaction whereby LAWSON PRODUCTS is not a surviving corporate entity; and provided the \$30,000,000 obligation and restitution provided for herein in paragraphs 3 and 5 has been paid and satisfied; and further provided that the new entity controlling the former assets or business of LAWSON PRODUCTS is not controlled by a person or entity that has a significant previous affiliation with LAWSON PRODUCTS, then the United States agrees to terminate this Agreement and dismiss the Information within 30 days after the transaction or by August 11, 2009, whichever comes later. In the event that LAWSON PRODUCTS continues in existence following such sale and is not transferring title to any substantial portion of its assets pursuant to such sale, LAWSON PRODUCTS rather than the purchaser of those assets remains obligated under the Agreement.

16. This Agreement is binding on LAWSON PRODUCTS and the United States Attorney's Office for the Northern District of Illinois, but specifically does not bind any other federal agencies, or any state or local law enforcement or regulatory agencies, although the United States Attorney's Office for the Northern District of Illinois will bring the cooperation of LAWSON

PRODUCTS and its compliance with its other obligations under this Agreement to the attention of such agencies and authorities if requested to do so by LAWSON PRODUCTS and its attorneys.

17. This Agreement is entirely voluntary and represents all the terms of the Deferred Prosecution Agreement between LAWSON PRODUCTS and the United States Attorney. No modifications or additions to this Agreement shall be valid unless they are in writing and signed by the United States Attorney, LAWSON PRODUCTS's attorneys, and a duly authorized representative of LAWSON PRODUCTS.

18. Any notice to LAWSON PRODUCTS under this Agreement shall be given by personal delivery, overnight delivery by a recognized delivery service, or registered or certified mail, addressed to William Heinz, Jenner & Block, 330 North Wabash Avenue, Chicago, IL 60611. Notice shall be effective upon actual receipt by LAWSON PRODUCTS.

AGREED:

For LAWSON PRODUCTS:

\_\_\_\_\_  
THOMAS J. NERI  
President and Chief Executive Officer  
Lawson Products, Inc.

\_\_\_\_\_  
WILLIAM D. HEINZ  
JENNER & BLOCK  
Counsel for Lawson Products, Inc..

For the UNITED STATES OF AMERICA:

\_\_\_\_\_  
PATRICK J. FITZGERALD  
United States Attorney

\_\_\_\_\_  
BRANDON D. FOX  
NANCY MILLER  
KRUTI TRIVEDI  
Assistant United States Attorneys

## **OFFICER'S CERTIFICATE**

I have read this Agreement and carefully reviewed every part of it with counsel for Lawson Products, Inc. ("Lawson Products"). I understand the terms of this Agreement and voluntarily agree, on behalf of Lawson Products, to each of its terms. Before signing this Agreement, I consulted with the attorney for Lawson Products. The attorney fully advised me of Lawson Products's rights, of possible defenses, of the Sentencing Guidelines' provisions, and of the consequences of entering into this Agreement.

I have carefully reviewed this Agreement with the Board of Directors of Lawson Products. I have advised and caused investigative and outside counsel for Lawson Products to advise that Board fully of Lawson Products's rights, of possible defenses, of the Sentencing Guidelines' provisions, and of the consequences of entering into the Agreement.

No promises or inducements have been made other than those contained in this Agreement. Furthermore, no one has threatened or forced me or, to my knowledge, any person authorizing this Agreement on behalf of Lawson Products, in any way to enter into this Agreement. I am also satisfied with Lawson Products's representation in this matter.

I certify that I am an officer of Lawson Products and that I have been duly authorized by Lawson Products to execute this Agreement on behalf of Lawson Products and all the subsidiaries named herein.

Date: \_\_\_\_\_

Lawson Products, Inc.

By:

\_\_\_\_\_  
THOMAS J. NERI  
President and Chief Executive Officer  
Lawson Products, Inc.