

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

Commission file number 1-13293

The Hillman Companies, Inc. (formerly SunSource, Inc.)
(Exact name of registrant as specified in its charter)

Delaware

23-2874736

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

10590 Hamilton Avenue
Cincinnati, Ohio

45231

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (513) 851-4900

Securities registered pursuant to Section 12(b) of the Act:

Title of Class		Name of Each Exchange on Which Registered
11.6% Junior Subordinated Debentures		None
Preferred Securities Guaranty		
Preferred Share Purchase Rights		

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

On August 14, 2002 there were 7,138,665 Common Shares issued and outstanding by the Registrant and 4,217,724 Trust Preferred Securities issued and outstanding by the Hillman Group Capital Trust (formerly SunSource Capital Trust). The Trust Preferred Securities trade on the American Stock Exchange under symbol HLM.Pr.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)

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Item 1.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

<u>ASSETS</u>	June 30, 2002 (Unaudited)	December 31, 2001
Current assets:		
Cash and cash equivalents	\$ 1,960	\$ 2,059
Restricted investments	1,142	1,187
Accounts receivable, net	41,310	28,399
Inventories	47,291	49,937
Deferred income taxes	9,136	9,136
Other current assets	3,320	5,868
Total current assets	104,159	96,586
Property and equipment, net	59,949	55,285
Goodwill, net	126,687	120,585
Other intangibles, net	11,811	12,553
Deferred income taxes	24,091	25,443
Restricted investments	6,331	7,462
Other investments	16,831	16,185
Deferred financing fees	5,975	5,536
Other assets	3,730	4,929
Total assets	\$359,564	\$ 344,564
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 20,383	\$ 17,124
Current portion of senior term loans	7,049	3,813
Current portion of capitalized lease obligations	53	74
Deferred income tax liability	31	31
Accrued expenses:		
Salaries and wages	2,953	5,337
Income and other taxes	1,234	2,014
Deferred compensation	1,142	1,187
Other accrued expenses	17,955	15,427
Total current liabilities	50,800	45,007
Long term senior term loans	60,326	50,312
Bank revolving credit	32,337	34,052
Long term capitalized lease obligations	222	248
Long term unsecured subordinated notes to related party	41,156	40,240
Deferred compensation	6,331	7,462
Deferred income tax liability	4,603	4,603
Other non-current liabilities	6,372	7,122
Total liabilities	202,147	189,046
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	102,169	102,104
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par, 1,000,000 shares authorized, none outstanding		—
Common stock, \$.01 par, 20,000,000 shares authorized, 7,138,665 issued and outstanding	71	71
Additional paid-in capital	56,252	56,252
Accumulated deficit	(1,075)	(2,909)
Accumulated other comprehensive income	—	—
Total stockholders' equity	55,248	53,414
Total liabilities and stockholders' equity	\$359,564	\$ 344,564

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED,
(dollars in thousands)

	Successor	Predecessor
	June 30, 2002	June 30, 2001
Net sales	\$75,778	\$116,611
Cost of sales	34,018	67,232
Gross profit	41,760	49,379
Operating expenses:		
Selling, general and administrative expenses	28,200	37,441
Depreciation	2,622	3,043
Amortization	373	1,003
Management fee	450	—
Total operating expenses	31,645	41,487
Other income (expense), net	1,410	76
Income from operations	11,525	7,968
Interest expense, net	3,321	3,086
Distributions on guaranteed preferred beneficial interests	3,057	3,058
Equity in earnings of affiliate (Note 3)	—	444
Income before income taxes	5,147	2,268
Income tax provision	2,047	2,054
Net income	\$ 3,100	\$ 214

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE SIX MONTHS ENDED,
(dollars in thousands)

	Successor	Predecessor
	June 30, 2002	June 30, 2001
Net sales	\$139,203	\$226,540
Cost of sales	62,493	132,192
Gross profit	76,710	94,348
Operating expenses:		
Selling, general and administrative expenses	54,749	75,141
Depreciation	5,705	6,088
Amortization	743	1,906
Management fee	900	—
Total operating expenses	62,097	83,135
Other income (expense), net	1,462	(293)
Income from operations	16,075	10,920
Interest expense, net	6,771	6,301
Distributions on guaranteed preferred beneficial interests	6,114	6,116
Equity in earnings of affiliate (Note 3)	—	945
Income (loss) before income taxes	3,190	(552)
Income tax provision	1,352	1,863
Net income (loss)	\$ 1,838	\$ (2,415)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED,
(dollars in thousands)

	Successor	Predecessor
	June 30, 2002	June 30, 2001
Cash flows from operating activities:		
Net income (loss)	\$ 1,838	\$ (2,415)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	6,448	7,994
Equity in earnings of affiliate	—	(945)
Deferred income tax	1,352	1,188
PIK interest on unsecured subordinated notes	916	—
Changes in current operating items:		
Increase in accounts receivable	(12,127)	(11,362)
Decrease in inventories	3,919	537
Decrease in income taxes receivable	—	27
Decrease (increase) in other current assets	2,370	(871)
Increase in accounts payable	3,259	1,861
Decrease in other accrued liabilities	(1,642)	(3,391)
Other items, net	(738)	1,377
Net cash provided by (used for) operating activities	5,595	(6,000)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	104	625
Capital expenditures	(10,737)	(7,779)
R&B Acquisition	(6,225)	—
Other, net	393	(957)
Net cash used for investing activities	(16,465)	(8,111)
Cash flows from financing activities:		
Borrowings (repayments) of senior term loans	13,250	(125)
(Repayments) borrowings of revolving credit loans, net	(1,715)	16,974
Repayments of unsecured subordinated notes	—	(2,785)
Principal payments under capitalized lease obligations	(47)	(481)
Financing fees	(717)	—
Repayments under other credit facilities, net	—	(407)
Net cash provided by financing activities	10,771	13,176
Net decrease in cash and cash equivalents	(99)	(935)
Cash and cash equivalents at beginning of period	2,059	2,811
Cash and cash equivalents at end of period	\$ 1,960	\$ 1,876

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of The Hillman Companies, Inc., (the "Company"), formerly SunSource Inc., and its indirect, wholly owned subsidiaries including an investment trust, Hillman Group Capital Trust, (the "Trust"), formerly SunSource Capital Trust. Also, the Company has a minority investment in STS Operating, Inc., its former SunSource Technology Services subsidiary ("STS" or "Technology Services"). See Note 3, Contribution of Subsidiaries/Acquisitions/Divestitures. All significant intercompany balances and transactions have been eliminated.

On September 26, 2001, SunSource Inc. ("SunSource") was acquired by Allied Capital Corporation ("Allied Capital") pursuant to the terms and conditions of an Agreement and Plan of Merger dated as of June 18, 2001, by and among Allied Capital, Allied Capital Lock Acquisition Corporation and SunSource (the "Merger Transaction"). Certain members of management and other stockholders continued as stockholders of the Company after the merger. The total transaction value was \$74,027, consisting of the cash purchase price paid for the outstanding common stock of the Company aggregating \$71,494 and management's common shares valued at \$2,533. The Company was the surviving entity in the merger and organized as an independently managed, privately held portfolio company of Allied Capital.

On September 28, 2001, the Company refinanced its \$115,000 bank revolving credit and \$21,500 term loan with \$105,000 in senior secured credit facilities (the "Refinancing").

The Company's Statements of Operations and Cash Flows for the periods presented prior to the September 26, 2001 Merger Transaction are referenced herein as the predecessor financial statements (the "Predecessor" or "Predecessor Financial Statements"). The Company's Consolidated Balance Sheet as of June 30, 2002 and December 31, 2001 and Statement of Operations and Cash Flow for the three and six months ended June 30, 2002 are referenced herein as the successor financial statements (the "Successor" or "Successor Financial Statements"). The Successor Financial Statements include the effects of the Merger Transaction and related transactions completed subsequent to the Merger Transaction, including the Refinancing and sale of the Technology Services subsidiary.

The accompanying Successor Financial Statements reflect the allocation of the aggregate purchase price of \$74,027 to the assets and liabilities of the Company based on fair values at the date of the merger in accordance with Accounting Principles Board Opinion No. 16, Accounting for Business Combinations for transactions initiated prior to June 30, 2001.

The accompanying unaudited consolidated condensed financial statements present information in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, they do not include all information or footnotes required by generally accepted accounting principles for complete financial statements. Management believes the financial statements include all normal recurring accrual adjustments necessary for a fair presentation. Operating results for the three months and six months ended June 30, 2002 do not necessarily indicate the results that may be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2001.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

1. Basis of Presentation, continued:

Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002. Under SFAS No. 142, goodwill and certain other intangible assets are no longer amortized but are reviewed for impairment. In connection with the adoption of SFAS No. 142, the Company has completed the first step of the transitional goodwill impairment test, which requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units as of January 1, 2002. Based on this analysis, the Company has concluded that no impairment existed at the time of adoption, and, accordingly, the Company has not recognized any transitional impairment loss.

Results for periods prior to the adoption of SFAS 142 have not been restated to reflect the effect of discontinuing goodwill amortization. The following table reconciles the reported net loss to results that would have been reported if SFAS 142 had been adopted as of January 1, 2001:

	Three Months ended June 30		Six Months ended June 30	
	2002	2001	2002	2001
Reported net income (loss)	\$ 3,100	\$ 214	\$ 1,838	\$ (2,415)
Goodwill amortization, net of income taxes	—	632	—	1,163
Adjusted net income (loss)	\$ 3,100	\$ 846	\$ 1,838	\$ (1,252)

Intangible assets subject to amortization consisted of the following as of June 30, 2002:

	Carrying Amount	Accumulated Amortization
Trademarks	\$ 6,500	\$ 585
Patents	6,700	1,884
Proprietary software	1,000	281
Non-compete agreements	1,250	889
	<u>\$15,450</u>	<u>\$ 3,639</u>

Amortization expense for intangible assets for the three months and six months ended June 30, 2002 was \$373 and \$743, respectively. Amortization expense for the next five years is estimated to be as follows:

Year Ended December 31	Amount
2002	\$1,485
2003	\$1,437
2004	\$1,238
2005	\$1,223
2006	\$1,222

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

2. Summary of Significant Accounting Policies:

Cash Equivalents:

Cash equivalents consist of commercial paper, U.S. Treasury obligations and other liquid securities purchased with initial maturities less than 90 days and are stated at cost which approximates market value.

Restricted Investments:

Restricted investments represent assets held in a Rabbi Trust to fund deferred compensation liabilities due to the Company's employees.

Inventories:

Inventories consisting predominantly of finished goods are valued at the lower of cost or market, cost being determined principally on the first-in, first-out method.

Property and Equipment:

Property and equipment, including assets acquired under capital leases, are carried at cost and include expenditures for new facilities and major renewals. Maintenance and repairs are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and the resulting gain or loss is reflected in current operations.

Depreciation:

For financial accounting purposes, depreciation, including that related to plant and equipment acquired under capital leases, is computed on the straight-line method over the estimated useful lives of the assets, generally three to ten years, or, if shorter, over the terms of the related leases.

Goodwill and Other Intangible Assets:

For the Predecessor Financial Statements, goodwill related to the excess of acquisition cost over the fair value of net assets acquired is amortized on a straight-line basis over twenty-five to forty years. Effective January 1, 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly, goodwill is no longer amortized, but is reviewed periodically for impairment (See Note 1, Basis of Presentation). Other intangible assets arising principally from acquisitions are amortized on a straight-line basis over periods ranging from three to twenty-five years.

Long-Lived Assets:

Under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company has evaluated its long-lived assets and certain identifiable intangibles including goodwill for financial impairment and will continue to evaluate them based on the estimated undiscounted future cash flows as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

2. Summary of Significant Accounting Policies, continued:

Income Taxes:

Deferred income taxes are computed using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Retirement Benefits:

Certain employees of the Predecessor and Successor are covered under profit-sharing retirement plans ("defined contribution plans") for which contributions are determined on an annual basis in accordance with the requirements of each plan. Certain employees of the Predecessor were covered under post-retirement benefit plans for which benefits were determined in accordance with the requirements of each plan.

Revenue Recognition:

Revenue from sales of products is recorded upon the passing of title and risks of ownership which occurs upon the shipment of goods.

Fair Value of Financial Instruments:

Cash, accounts receivable, short-term borrowings, accounts payable, accrued liabilities and bank revolving credit are reflected in the consolidated financial statements at fair value due to short-term maturity or revolving nature of these instruments.

Translation of Foreign Currencies:

For the Predecessor Financial Statements, the translation of applicable foreign-currency-based financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The translation of foreign currency transactions is not applicable to the Successor Financial Statements as a result of the sale of STS.

Exchange adjustments resulting from foreign currency transactions are recognized in net income in the Predecessor Statements of Operations and were immaterial for the three and six-month periods ended June 30, 2001.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

3. Contribution of Subsidiaries/Acquisitions/Divestitures:

On March 2, 2000, the Company contributed the interests in its Kar Products, Inc. and A & H Bolt & Nut Company Limited operations (collectively, the "Kar" or "Kar Products" business) to a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership, GC-Sun Holdings L.P. ("G-C"). The Company received \$105,000 in cash proceeds from the transaction through repayment of assumed debt by G-C and retained a minority ownership in G-C. Affiliates of Glencoe hold a controlling interest in G-C.

On April 13, 2002, the Company entered into a Unit Repurchase Agreement with G-C, pursuant to which G-C exercised its call right under the G-C partnership agreement to purchase the Company's interest in G-C. The Unit Repurchase Agreement was closed on June 25, 2002. In exchange for its interest in G-C, the Company received a \$10,000 subordinated note from G-C. Interest on the note is payable quarterly at a rate of 18% from May 1, 2002 to April 30, 2003, 17% from May 1, 2003 to April 30, 2004, and 16% thereafter. G-C's payment of interest on the note is subject to certain restrictions under the terms of the subordinated note agreement. If such restrictions do not permit the current payment of interest in cash when due, accrued interest is added to the principal. For the two-month period ended June 30, 2002 the Company added \$301 of accrued interest to the principal. As of June 30, 2002, the Company's consolidated balance sheet includes \$10,301 in other investments related to the notes and interest accrued, thereon.

On September 28, 2001, the Company sold substantially all of the assets of its Technology Services subsidiary. The sales price aggregated \$25,546 in cash and preferred stock, subject to post-closing adjustments, plus the assumption of certain liabilities by the buyer. The sale of assets resulted in no gain or loss on the sale transaction because the assets and liabilities of Technology Services were recorded at fair value in conjunction with the Merger Transaction. As of June 30, 2002, the Company's consolidated balance sheet includes \$6,530 in other investments related to the Company's investment in the preferred stock of the buyer of the Technology Services business. The cash proceeds from the sale were distributed to Allied Capital and certain members of management, who are the remaining common shareholders of the Company.

During the third quarter of 2002, the Company intends to distribute the note receivable from G-C and any interest accrued thereon and the Company's investment in preferred stock of the Technology Services business to its common stockholders. There can be no assurances the transaction described herein will be completed.

On September 26, 2001, SunSource was acquired by Allied Capital pursuant to the terms and conditions of an Agreement and Plan of Merger dated as of June 18, 2001, (the "Merger Transaction"). Certain members of management and other stockholders continued as stockholders of the Company after the merger. The total transaction value was \$74,027, consisting of the cash purchase price paid for the outstanding common stock of the Company aggregating \$71,494 and management's common shares valued at \$2,533. The Company was the surviving entity in the merger and organized as an independently managed, privately held portfolio company of Allied Capital. See Note 1, Basis of Presentation.

On May 1, 2002 the Company purchased certain assets of the Lowe's specialty fastener business from R&B, Inc. for cash consideration of \$6,225. In connection with this transaction, the Company settled litigation filed by R&B, Inc. in February 1996 related to the Company's sale of the Dorman Products division (See Note 4, Contingencies). The litigation settlement in the amount of \$1,250 was fully reserved on the Company's balance sheet, and accordingly, there was no charge to income.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

3. Contribution of Subsidiaries/Acquisitions/Divestitures, continued:

The accompanying financial statements reflect the allocation of the aggregate purchase price of \$6,225 to the assets and liabilities of the Company based on fair values at the date of the transaction in accordance with SFAS No. 141, "Business Combinations". The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price:

Accounts Receivable	\$ 785
Inventory	1,350
Property and equipment	138
Goodwill	4,252
	<hr/>
Total assets acquired	\$6,525
Less assumed liabilities	300
	<hr/>
Total purchase price	\$6,225

The following disclosures indicate the Company's estimate of pro forma financial results for the three months and six months ended June 30, 2001 had the sale of the Technology Services subsidiary, the Company's Refinancing and the acquisition of the Lowe's specialty fastener business been consummated on January 1, 2001:

	Three months ended June 30, 2001	Six months ended June 30, 2001
	<hr/>	<hr/>
Net sales	\$ 67,068	\$ 125,747
Net income (loss)	\$ 1,907	\$ (151)

4. Contingencies:

On February 27, 1996, a lawsuit was filed against the Company by the buyer, R&B, Inc., of its Dorman Products division for alleged misrepresentation of certain facts by the Company upon which the buyer allegedly based its offer to purchase Dorman. On May 1, 2002, the Company settled this litigation in conjunction with the purchase of certain assets of the Lowe's specialty fastener business from R&B, Inc. (See Note 3, Contribution of Subsidiaries/Acquisitions/Divestitures).

Certain other legal proceedings are pending which are either in the ordinary course of business or incidental to the Company's business. Those legal proceedings incidental to the business of the Company are generally not covered by insurance or other indemnity.

In the opinion of management, the ultimate resolution of the pending litigation matters will not have a material effect on the consolidated financial position, operations or cash flows of the Company.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

5. Segment Information:

The Successor is organized as a single business segment and the Predecessor has two reportable segments (see Note 1, Basis of Presentation) which were disaggregated based on the products and services provided, markets served, marketing strategies and delivery methods. The Successor and the Predecessor each measure profitability and allocate corporate resources based on each segment's Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") which is defined as income from operations before depreciation and amortization. The segment profitability can be further measured after recording depreciation and amortization based on Earnings Before Interest and Taxes ("EBIT").

Following is a tabulation of segment information for the three months and six months ended June 30, 2002 and 2001. Corporate information is included to reconcile segment data to the consolidated financial statements.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
	(Successor)	(Predecessor)	(Successor)	(Predecessor)
Net Sales				
Hillman Group	\$ 75,778	\$ 65,390	\$ 139,203	\$ 122,391
Technology Services	—	51,221	—	104,149
Consolidated net sales - business segments	\$ 75,778	\$ 116,611	\$ 139,203	\$ 226,540
EBITDA				
Hillman Group	\$ 15,663	\$ 13,145	\$ 24,818	\$ 21,742
Technology Services	—	144	—	(278)
EBITDA — business segments	\$ 15,663	\$ 13,289	\$ 24,818	\$ 21,464
EBIT				
Segment Profit — EBITDA	\$ 15,663	\$ 13,289	\$ 24,818	\$ 21,464
Hillman Group — Depreciation	(2,622)	(2,589)	(5,705)	(5,178)
Technology Services — Depreciation	—	(454)	—	(910)
Hillman Group — Amortization	(373)	(859)	(743)	(1,618)
Technology Services — Amortization	—	(144)	—	(288)
EBIT — business segments	\$ 12,668	\$ 9,243	\$ 18,370	\$ 13,470
Reconciliation of Segment Profit to				
Income (Loss) Before Income Taxes				
Segment Profit — EBIT	\$ 12,668	\$ 9,243	\$ 18,370	\$ 13,470
Management fee expense	(450)	—	(900)	—
Dividend income — STS Operating, Inc.	173	—	345	—
Corporate expenses	(866)	(1,275)	(1,740)	(2,550)
Income from operations	11,525	7,968	16,075	10,920
Equity in earnings of affiliate	—	444	—	945
Interest expense, net	(3,321)	(3,086)	(6,771)	(6,301)
Distributions on guaranteed preferred beneficial interests	(3,057)	(3,058)	(6,114)	(6,116)
Income (loss) before income taxes	\$ 5,147	\$ 2,268	\$ 3,190	\$ (552)

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

6. Lines of Credit/Notes Payable/Long-Term Debt:

On September 28, 2001, the Company, through its Hillman subsidiary, refinanced its Revolver and Term Loan with \$105,000 in senior secured credit facilities (the "New Refinancing") consisting of \$50,000 revolving credit (the "Revolver"), a \$20,000 term loan (the "Term Loan A"), and a \$35,000 term loan (the "Term Loan B"). This new credit agreement has a five-year term for the Revolver and Term Loan A and a seven-year term for Term Loan B (the "Credit Agreement"). The Credit Agreement provides borrowings at interest rates based on LIBOR plus a LIBOR margin of between 3.25% and 3.75%, or prime (the "Base Rate") plus a margin of between 2.0% and 2.5% (the "Base Rate Margin"). In accordance with the Credit Agreement, letter of credit commitment fees are based on the average daily face amount of each outstanding letter of credit multiplied by three and one quarter percent (3.25%) per annum. Also, the Company pays an annual commitment fee of 0.5% per annum on the unused Revolver balance.

On May 1, 2002 the Credit Agreement was amended to provide an additional \$10,000 of availability under the revolving credit facility and to increase Term Loan A by \$15,000. In addition to funding the purchase of certain assets of the Lowe's specialty fastener business from R&B, Inc (see Note 3, Contribution of Subsidiaries/Acquisitions/Divestitures) the cash proceeds and additional availability will be used to finance the planned expansion and automation of the Company's distribution facilities.

As of June 30, 2002, the Company had \$24,438 available under the Revolver. The Company had \$99,987 of outstanding debt at June 30, 2002 consisting of Revolver borrowings of \$32,337, outstanding Term Loans of \$67,375 and capital lease obligations of \$275. The Company had letter of credit commitments outstanding of \$3,225 at June 30, 2002.

As of June 30, 2002, the estimated fair value of the Company's Term Loans approximates the recorded value as determined in accordance with SFAS 107. The Company discounted the future cash flows of its Term Loans based on borrowing rates for debt with similar terms and remaining maturities. The fair value estimate is made at a specific point in time, is subjective in nature, and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

On December 28, 2000, the Company issued \$30,000 of unsecured subordinated notes (the "Subordinated Debt Issuance"), maturing December 28, 2006. The Company issued Allied Capital, the holder of the subordinated notes, the right to purchase 285,000 shares of the Company's common stock at a nominal value. In accordance with APB 14 – Accounting for Convertible Debt and Debt Issued with Stock Purchased Warrants, the Company recorded the Subordinated Debt Issuance and stock purchase rights issued to Allied Capital at a fair value of \$29,103.

On September 28, 2001 the Company amended the Subordinated Debt Issuance to increase the existing subordinated debenture to \$40,000 maturing on September 29, 2009 (the "Amended Subordinated Debt Issuance"). Interest on the Amended Subordinated Debt Issuance is at a fixed rate of 18.0% per annum, with cash interest payments required on a quarterly basis at a fixed rate of 13.5% commencing November 15, 2001. The outstanding principal balance of the Amended Subordinated Debt Issuance shall be increased on a quarterly basis at the remaining 4.5% fixed rate (the "PIK Amount"). All of the PIK Amounts are due on the fifth anniversary of the Amended Subordinated Debt Issuance. The outstanding principal balance of the Amended Subordinated Debt Issuance is included in long term unsecured subordinated notes on the Company's consolidated balance sheet at June 30, 2002 in the amount of \$41,156 of which \$1,156 represents the PIK amount.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
(formerly SunSource Inc. and Subsidiaries)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

7. Defined Benefit Retirement Plan:

In December 1999, the Company froze the benefit accruals under the Technology Services defined benefit retirement plan (the "STS Plan"), resulting in a curtailment gain of \$5,608. In December 2000, the STS Plan was merged with another Company owned plan which was held for certain divested operations, and the Company terminated the merged plans as of December 31, 2000 resulting in a pre-tax loss of \$4,279. In April 2002, the settlement of the STS Plan was completed and the Company received cash proceeds from plan assets in excess of settlement obligations totaling \$3,903. Other income in the second quarter of 2002 includes a favorable income adjustment of \$1,231 to the previously recorded estimated loss on termination resulting from final settlement of the STS Plan.

8. Recent Accounting Pronouncements:

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for certain Employee Termination benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following discussion provides information which management believes is relevant to an assessment and understanding of the Company's operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

General

The Hillman Companies, Inc. ("Hillman" or the "Company"), formerly SunSource Inc. ("SunSource") is one of the largest providers of value-added merchandising services and hardware-related products to retail markets in North America. Also, the Company has a minority investment in STS Operating, Inc., the former SunSource Technology Services business.

The Company through its wholly owned subsidiary, The Hillman Group, Inc. (the "Hillman Group") provides merchandising services and hardware and related products, such as, fasteners and similar items, key duplication equipment, keys and related accessories and identification equipment and items to retail outlets, primarily hardware stores, home centers and mass merchants.

Merger Transaction

On September 26, 2001, SunSource was acquired by Allied Capital Corporation ("Allied Capital") pursuant to the terms and conditions of an Agreement and Plan of Merger dated as of June 18, 2001 (the "Merger Transaction"). Certain members of management and other stockholders continued as stockholders of the Company after the merger. The total transaction value was \$74.0 million or \$10.375 per SunSource common share, consisting of the cash purchase price paid for the outstanding common stock of the Company aggregating approximately \$71.5 million and management's common shares valued at approximately \$2.5 million. SunSource was the surviving entity in the merger and organized as an independently managed, privately held portfolio company of Allied Capital.

In connection with the Merger Transaction, on September 28, 2001, the Company completed the sale of substantially all of the assets of its SunSource Technology Services business (the "STS Business") to STS Operating, Inc. ("STS OP"), an entity formed by certain officers and managers of the STS Business, Allied Capital and Easton Hunt Capital Partners, L.P. for the purpose of acquiring the STS Business. The purchase price aggregated approximately \$25.5 million in cash and preferred stock, subject to post-closing adjustments plus the assumption of certain liabilities. An equity investment in STS OP continues to be held by the Hillman Group.

The Company's operations for the periods presented prior to September 30, 2001 are referenced herein as the predecessor operations (the "Predecessor" or "Predecessor Operations"). The Company's operations for the period presented since the Merger Transaction are referenced herein as the successor operations (the "Successor" or "Successor Operations") and include the effects of the Merger Transaction and related transactions completed subsequently, including the Company's debt refinancing and sale of the STS business (see Financing Arrangements below).

Financing Arrangements

On September 28, 2001, the Company refinanced its \$115 million bank revolving credit and \$21.5 million term loan with \$105 million in senior secured credit facilities (the "Refinancing"). The new senior debt arrangement has a \$50 million revolving credit line and a \$20 million term loan that expires on September 27, 2006 and a \$35 million term loan that expires on September 27, 2008.

On May 1, 2002, the Senior Credit Agreement was amended to provide an additional \$10 million of availability under the revolving credit facility and to increase the \$20 million term loan expiring September 27, 2006 by \$15 million. Proceeds of the additional financing were used to finance the purchase of the specialty fastener business of Lowe's, Inc. from R&B, Inc., the settlement of litigation with R&B, Inc. and the planned expansion and automation of the Company's distribution facilities. As of June 30, 2002 the outstanding balance of the term loans aggregated \$67.4 million.

On December 28, 2000, the Company issued \$30 million of unsecured subordinated notes to Allied Capital and issued an additional \$10 million of these notes to Allied Capital on September 28, 2001 in conjunction with the Refinancing noted above (the "Amended Subordinated Debt Issuance"). The majority of the cash proceeds generated from the Amended Subordinated Debt Issuance were used to repay at a discount an unsecured subordinated note issued in connection with the consummation of the acquisition of Axxess Technologies.

Segment Sales and Profitability for the Three Months and Six Months Ended June 30, 2002 and 2001

FOR THE THREE MONTHS ENDED,

FOR THE SIX MONTHS ENDED,

(a) “EBITDA” (earnings before interest, taxes, depreciation and amortization) is defined as income (loss) from ongoing operations before depreciation and amortization.

(b) Represents equity in earnings from the Company’s Kar Products, Inc. and A & H Bolt & Nut Company, Limited business (collectively, the “affiliate”) which was contributed on March 2, 2000 to a newly formed partnership affiliated with Glencoe Capital L.L.C.

The comparisons of operating results for the periods presented below reflect ongoing operations only (the Hillman Group and Corporate Expenses). Excluded from this discussion are the operating results of the sold STS Business as identified in the preceding Results of Operations financial table.

Three Months Ended June 30, 2002 and 2001

Net sales from the Hillman Group ongoing operations increased \$10.4 million or 15.9% in the second quarter of 2002 to \$75.8 million from \$65.4 million in 2001. Hillman entered into a supply agreement in April 2001 to provide fastener related products to 360 Lowe's, Inc ("Lowe's") stores. In September 2001, Hillman was named the exclusive, chain-wide supplier of fastener related products for all Lowe's locations. In May 2002, Hillman began supplying all Lowe's locations from the specialty fastener business acquired from R&B, Inc. The total fastener sales to Lowe's represented \$6.1 million of the \$10.4 million total sales increase in the second quarter. Sales to other national accounts including Home Depot, Wal-Mart, Petsmart, and Tractor Supply increased by an aggregate \$3.3 million in the second quarter of 2002 compared to the second quarter of 2001, primarily as a result of new store growth. In addition, the regional accounts together with franchise and independent ("F&I") accounts increased \$1.0 million over the comparable period in 2001. The regional accounts represent mid-sized hardware and lumber chains. The F&I accounts are typically individual dealers who are members of larger cooperatives, such as TruServ, Ace, and Do-It-Best.

The Hillman Group's gross margin was 55.1% in the second quarter of 2002 compared with 56.5% in the second quarter of 2001. The large increase in sales volume to Lowe's and other large national accounts described above and the resultant shift in sales mix contributed to the 1.4% decline in gross margin in the comparison period.

The Company's consolidated selling, general and administrative expenses ("S,G&A") decreased \$9.2 million or 24.6% from \$37.4 million in the second quarter of 2001 to \$28.2 million in the second quarter of 2002. Excluding the sold STS Business from the Predecessor Operations, the S,G&A expenses from ongoing operations increased \$3.1 million or 12.4% from \$25.1 million in the second quarter of 2001 to \$28.2 million in the second quarter of 2002. Selling expenses increased \$1.2 million or 9.3% primarily as a result of servicing costs at new national account stores. Warehouse and delivery expenses increased \$1.9 million or 28.4% primarily as a result of increased freight and labor costs from new business in 2002. In addition, the Company recorded a gain of \$0.4 million in the second quarter of 2001 for property tax refunds. General and administrative expenses decreased by \$0.1 million or 1.8% primarily as a result of a reduction in corporate overhead costs following elimination of the Philadelphia corporate office in May 2002.

Total S,G&A expenses from ongoing operations expressed as a percentage of sales compared with the second quarter of 2001 are as follows:

As of a % of Sales	Three Months ended June 30,	
	2002	2001
Selling Expenses	18.6%	19.7%
Warehouse and Delivery Expenses	11.4%	10.2%
General and Administrative Expenses	7.2%	8.6%
Total S,G&A Expenses	37.2%	38.5%

EBITDA from ongoing operations after corporate expenses for the second quarter of 2002 was \$14.5 million compared with \$11.9 million for the same prior-year period, representing an increase of 21.8%.

The Company's consolidated operating profit margin from ongoing operations (EBITDA as a percentage of sales) after corporate expenses increased to 19.2% in the second quarter of 2002 compared with 18.2% in 2001. The operating profit margin benefited from the reduction of S,G&A expenses as a percentage of sales. However, the S,G&A benefit was offset by the margin decrease which was primarily the result of pricing pressures and

from costs associated with the opening and servicing of a large number of new national account customer locations. The remaining operating profit margin improvement was primarily due to other income of \$1.2 million recorded from the termination of the STS pension plan.

Depreciation expense from ongoing operations of \$2.6 million in the second quarter of 2002 was unchanged from the same quarter of 2001.

Amortization expense from ongoing operations decreased \$0.5 million to \$0.4 million in the second quarter of 2002 from \$0.9 million in the second quarter of 2001. The decrease in amortization was the result of an accounting standard change which discontinued the recognition of amortization expense on goodwill from the Company's acquisitions.

Interest expense, net of interest income, increased \$0.2 million to \$3.3 million in the second quarter of 2002 from \$3.1 million in the same period of 2001. The increase was primarily the result of an increase in borrowings needed to finance the Company's higher seasonal working capital requirements and purchase the Lowe's specialty fastener business from R&B, Inc. The Company also recorded interest income of \$0.3 million in the second quarter of 2002 on the \$10.0 million note received from Glencoe from sale of the Company's interest in GC-Sun Holdings L.P.

The Company has recorded a management fee charge of \$0.45 million for the three months ended June 30, 2002. In connection with the Merger Transaction, the Company is obligated to pay management fees to a subsidiary of Allied Capital for management services rendered in the amount of \$1.8 million for calendar years subsequent to 2001. The payment of management fees is due annually after delivery of the Company's annual audited financial statements to the Board of Directors of the Company.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities at the rate of 11.6% per annum on their face amount of \$105.4 million, or \$12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the three months ended June 30, 2002 and 2001, the Company paid \$3.1 million in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust on the Trust Preferred Securities.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian operation as accounted for in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes." Deferred income taxes represent differences between the financial statement and tax basis of assets and liabilities as classified on the Company's balance sheet. The Company recorded a tax provision for income taxes of \$2.0 million on pre-tax income of \$5.1 million in the second quarter of 2002. The effective tax rate in the second quarter of 2002 was 39.8% compared to 90.5% in the second quarter of 2001. The effective tax rate in the first quarter of 2001 was significantly greater than the Company's statutory tax rate primarily due to non-deductible goodwill and other items related to acquisition and divestiture activities.

Six Months Ended June 30, 2002 and 2001

Net sales from the Hillman Group ongoing operations increased \$16.8 million or 13.7% in the first half of 2002 to \$139.2 million from \$122.4 million in 2001. Hillman entered into a supply agreement in April 2001 to provide fastener related products to 360 Lowe's stores. In September 2001, Hillman was named the exclusive, chain-wide supplier of fastener related products for all Lowe's locations. In May 2002, Hillman began supplying all Lowe's locations from the specialty fastener business acquired from R&B, Inc. The total fastener sales to Lowe's represented \$10.5 million of the \$16.8 million total sales increase in the first half. Sales to other national accounts including Home Depot, Wal*Mart, Petsmart, and Tractor Supply increased by an aggregate \$4.6 million in the first half of 2002 compared to the same period of 2001, primarily as a

result of new store growth. In addition, the regional accounts together with franchise and independent (“F&I”) accounts increased \$1.7 million over the comparable period in 2001. The regional accounts represent mid-sized hardware and lumber chains. The F&I accounts are typically individual dealers who are members of larger cooperatives, such as TruServ, Ace, and Do-It-Best.

The Hillman Group’s gross margin was 55.1% in the first half of 2002 compared with 56.5% in the first half of 2001. The large increase in sales volume to Lowe’s and other large national accounts described above and the resultant shift in sales mix contributed to the 1.4% decline in gross margin in the comparison period.

The Company’s consolidated S,G&A expenses decreased \$20.4 million or 27.2% from \$75.1 million in the first half of 2001 to \$54.7 million in the first half of 2002. Excluding the sold STS Business from the Predecessor Operations, the S,G&A expenses from ongoing operations increased \$5.1 million or 10.3% from \$49.7 million in the first half of 2001 to \$54.7 million in the first half of 2002. Selling expenses increased \$2.5 million or 9.7% primarily as a result of servicing costs at new national account stores. Warehouse and delivery expenses increased \$3.0 million or 23.4% as a result of increased freight and labor costs to process and ship the additional sales volume. General and administrative expenses decreased by \$0.5 million or 4.6% primarily as a result of reduced corporate expenses.

Total S,G&A expenses from ongoing operations expressed as a percentage of sales compared with the first half of 2001 are as follows:

As of a % of Sales	Six Months ended June 30,	
	2002	2001
Selling Expenses	20.3%	21.0%
Warehouse and Delivery Expenses	11.3%	10.4%
General and Administrative Expenses	7.7%	9.2%
Total S,G&A Expenses	39.3%	40.6%

EBITDA from ongoing operations after corporate expenses for the first half of 2002 was \$22.5 million compared with \$19.2 million for the same prior-year period, representing an increase of 17.2%.

The Company’s consolidated operating profit margin from ongoing operations (EBITDA as a percentage of sales) after corporate expenses increased to 16.2% in the first half of 2002 compared with 15.7% in 2001. The operating profit margin benefited from the reduction of S,G&A expenses as a percentage of sales. However, the S,G&A benefit was offset by the margin decrease which was primarily the result of pricing pressures and from costs associated with the opening and servicing of a large number of new national account customer locations. The remaining operating profit margin improvement was primarily due to other income of \$1.2 million recorded from the termination of the STS pension plan which was partially offset by \$0.9 million in management fee expense.

Depreciation expense from ongoing operations increased \$0.5 million to \$5.7 million in the first half of 2002 from \$5.2 million in the same period of 2001 primarily as a result of an increase in the depreciable fixed asset base in connection with the production of new key duplication machines used for national accounts.

Amortization expense from ongoing operations decreased \$0.9 million to \$0.7 million in the first half of 2002 from \$1.6 million in the first half of 2001. The decrease in amortization was the result of an accounting standard change which discontinued the recognition of amortization expense on goodwill from the Company’s acquisitions.

Interest expense, net of interest income, increased \$0.5 million to \$6.8 million in the first half of 2002 from \$6.3 million in the same period of 2001. The increase was primarily the result of an increase in borrowings needed to finance the Company’s higher seasonal working capital requirements and purchase the Lowe’s specialty fastener business from R&B, Inc. The Company also recorded interest income of \$0.3 million in

the first half of 2002 on the \$10.0 million note received from Glencoe from sale of the Company's interest in GC-Sun Holdings L.P.

The Company has recorded a management fee charge of \$0.9 million for the six months ended June 30, 2002. In connection with the Merger Transaction, the Company is obligated to pay management fees to a subsidiary of Allied Capital for management services rendered in the amount of \$1.8 million for calendar years subsequent to 2001. The payment of management fees is due annually after delivery of the Company's annual audited financial statements to the Board of Directors of the Company.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities at the rate of 11.6% per annum on their face amount of \$105.4 million, or \$12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the six months ended June 30, 2002 and 2001, the Company paid \$6.1 million in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust on the Trust Preferred Securities.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian operation as accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") 109, "Accounting for Income Taxes." Deferred income taxes represent differences between the financial statement and tax basis of assets and liabilities as classified on the Company's balance sheet. The Company recorded a tax provision for income taxes of \$1.4 million on pre-tax income of \$3.2 million in the first six months of 2002. The effective tax rate in the first six months of 2002 was 42.3%. In the first six months of 2001, the Company recorded a tax provision for income taxes of \$1.9 million on a pre-tax loss of \$0.6 million. This was primarily the result of non-deductible goodwill and other items related to acquisition and divestiture activities.

For the six months ended June 30, 2002, Hillman's net sales and EBITDA were above plan. For the year ended December 31, 2002, Hillman is projected to achieve net sales of approximately \$276.0 million, EBITDA of approximately \$48.2 million, and profits before taxes of approximately \$6.8 million. There can be no assurance that Hillman will be able to meet these projections. See "Forward Looking Statements."

Cash Flows

The statements of cash flows reflect the changes in cash and cash equivalents for the six months ended June 30, 2002 and 2001 by classifying transactions into three major categories: operating, investing and financing activities.

Operating Activities

The Company's main source of liquidity is cash generated from operating activities consisting of net earnings from operations adjusted for non-cash operating items such as depreciation and changes in operating assets and liabilities such as receivables, inventories and payables.

Cash provided by operating activities for the first half of 2002 was \$5.6 million compared to cash used of \$6.0 million in the same prior year period. The positive net change of \$11.6 million in the current half year was primarily due to increased earnings in The Hillman Group and the elimination of losses and working capital associated with the STS Business sold in September 2001.

Investing Activities

The principal recurring investing activities are property additions primarily for key duplicating machines. Net property additions for the first six months of 2002 were \$10.7 million compared to \$7.8 million in the comparable prior year period. The increase in capital expenditures in the first half of 2002 compared to the year earlier period is primarily the result of the capital expenditures incurred for the expansion and automation of the new Cincinnati distribution facility in the amount of \$4.7 million. Additionally, the Company paid \$6.2 million in the first half of 2002 to purchase the Lowe's specialty fastener business from R&B, Inc.

Financing Activities

Net borrowings under the Company's senior credit facilities of \$10.8 million for the six months ended June 30, 2002 decreased \$2.4 million from the comparable prior year period as a result primarily of improved cash flow from operations. See Operating Activities noted above.

Liquidity and Capital Resources

The Company's working capital position of \$53.4 million at June 30, 2002 represents an increase of \$1.8 million from the December 31, 2001 level of \$51.6 million primarily as a result of the seasonal increase in accounts receivable of \$12.1 million offset by an increase in accounts payable of \$3.3 and a decrease in inventories of \$3.9 million. The Company's current ratio decreased slightly to 2.05x at June 30, 2002 from 2.15x at December 31, 2001.

As of June 30, 2002, the Company had \$24.4 million available under its secured credit facilities. The Company had approximately \$100.0 million of outstanding debt under its secured credit facilities at June 30, 2002, consisting of \$67.4 million in term loans, \$32.3 million in revolving credit borrowings and \$0.3 million in capitalized lease obligations. The term loans consisted of a \$34.6 million Term B Loan (the "Term Loan B") currently at a six (6) month LIBOR rate of 6.06% and a \$32.8 million Term A loan (the "Term Loan A") consisting of \$17.0 million currently at a six (6) month LIBOR rate of 5.63% and \$15.8 million currently at a three (3) month LIBOR rate of 5.13%. The revolver borrowings (the "Revolver") consist of \$20.0 million currently at a three (3) month LIBOR rate of 5.30%, \$12.0 million at a three (3) month LIBOR rate of 5.19% and \$0.3 million at an effective rate of 6.75%. The capitalized lease obligations were at various interest rates.

The Company increased its revolving credit facility by \$10 million and its Term A Loan by \$15 million on May 1, 2002 to finance the asset purchase of the Lowe's specialty fastener business and to provide capital to fund the Company's planned expansion and automation of its distribution facilities. Quarterly principal payments on the additional \$15 million Term A loan totaling \$705 will be paid in the year ended December 31, 2002 followed by quarterly payments of \$953 beginning March 31, 2003 and ending September 30, 2007.

As of June 30, 2002 the Company had firm purchase commitments for capital expenditures in connection with the automation of its Cincinnati distribution center of approximately \$4.2 million.

The Company's net interest coverage ratio from continuing operations for the six months ended June 30, 2002 increased to 1.25X (earnings before interest, distributions on trust preferred securities and income taxes, over net interest expense and distributions on trust preferred securities), from 0.96X in the 2001 comparison period as a result of increased earnings.

Interest on the Amended Subordinated Debt Issuance of \$40 million which matures September 29, 2009 is at a fixed rate of 18.0% per annum, with cash interest payments being required on a quarterly basis at a fixed rate of 13.5% commencing November 15, 2001. The outstanding principal balance of the Amended Subordinated Debt Issuance shall be increased on a quarterly basis at the remaining 4.5% fixed rate (the "PIK Amount"). All of the PIK Amounts are due on the fifth anniversary of the Amended Subordinated Debt Issuance. As of June 30, 2002, the outstanding Amended Subordinated Debt Issuance including the PIK Amounts was \$41.2 million.

In accordance with the Company's senior credit agreement, Hillman must maintain its fixed charge coverage at all times in excess of 1.05x through December 31, 2002 and 1.10x thereafter to continue monthly distributions on its Trust Preferred Securities (\$1.0 million per month). Hillman's fixed charge coverage was 1.36x for the twelve-month period ended June 30, 2002. The fixed charge test measures adjusted EBITDA, as defined in the senior credit agreement, less capital expenditures over cash interest expense, Trust Preferred Security distributions, scheduled senior debt repayments and other fixed charge items.

The Company has deferred tax assets aggregating \$33.2 million and deferred tax liabilities of \$4.6 million as of June 30, 2002, as determined in accordance with SFAS 109. Management believes that the Company's deferred tax assets will be realized through the reversal of existing temporary differences between the financial statement and tax bases, as well as through future taxable income.

During the third quarter of 2002 the Company intends to distribute the note receivable from G-C and any interest accrued thereon and the Company's investment in preferred stock of the Technology Services business to its common stockholders. There can be no assurances the transaction described herein will be completed.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in Note 2, Summary of Significant Accounting Policies, of Notes To Consolidated Financial Statements. As disclosed in Note 2, Summary of Significant Accounting Policies, of Notes To Consolidated Financial Statements, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the consolidated financial statements.

The most significant accounting estimates inherent in the preparation of the Company's consolidated financial statements include estimates associated with its evaluation of the recoverability of goodwill as well as those used in the determination of liabilities related to insurance programs, litigation, discontinued operations, taxation, restructuring, and environmental matters. In addition, significant estimates form the basis for the Company's reserves with respect to sales and pricing allowances, collectibility of accounts receivable, inventory valuations, post-retirement benefits, post-employment benefits, and certain benefits provided to current employees. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial techniques. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Specific factors are as follows: recoverability of goodwill is based on discounted future cash flows; litigation and environmental matters are based on projections provided by legal counsel; insurance programs and post-retirement benefits are actuarially determined; discontinued operations and restructuring charges are based on expected termination costs; deferred taxes are based on the Company's projections of future taxable income; sales and returns and allowances are based on historical activity and customer contracts; accounts receivable reserves are based on doubtful accounts and aging of outstanding balances; inventory reserves are based on expected obsolescence and excess inventory levels; and post-employment and other employee benefits are based on benefit plan requirements and severance agreements. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Cash Equivalents:

Cash equivalents consist of commercial paper, U.S. Treasury obligations and other liquid securities purchased with initial maturities less than 90 days and are stated at cost which approximates market value.

Restricted Investments:

Restricted investments represent assets held in a Rabbi Trust to fund deferred compensation liabilities due to the Company's employees.

Inventories:

Inventories consisting predominantly of finished goods are valued at the lower of cost or market, cost being determined principally on the first-in, first-out method.

Property and Equipment:

Property and equipment, including assets acquired under capital leases, are carried at cost and include expenditures for new facilities and major renewals. Maintenance and repairs are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and the resulting gain or loss is reflected in current operations.

Depreciation:

For financial accounting purposes, depreciation, including that related to plant and equipment acquired under capital leases, is computed on the straight-line method over the estimated useful lives of the assets, generally three to ten years, or, if shorter, over the terms of the related leases.

Goodwill and Other Intangible Assets:

For the Predecessor Financial Statements, goodwill related to the excess of acquisition cost over the fair value of net assets acquired is amortized on a straight-line basis over twenty-five to forty years. Effective January 1, 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly, goodwill is no longer amortized, but is reviewed periodically for impairment (See Note 1, Basis of Presentation). Other intangible assets arising principally from acquisitions are amortized on a straight-line basis over periods ranging from three to twenty-five years.

Long-Lived Assets:

Under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company has evaluated its long-lived assets and certain identifiable intangibles including goodwill for financial impairment and will continue to evaluate them based on the estimated undiscounted future cash flows as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes:

Deferred income taxes are computed using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Retirement Benefits:

Certain employees of the Predecessor and Successor are covered under profit-sharing retirement plans ("defined contribution plans") for which contributions are determined on an annual basis in accordance with the requirements of each plan. Certain employees of the Predecessor were covered under post-retirement benefit plans for which benefits were determined in accordance with the requirements of each plan.

Revenue Recognition:

Revenue from sales of products is recorded upon the passing of title and risks of ownership which occurs upon the shipment of goods.

Fair Value of Financial Instruments:

Cash, accounts receivable, short-term borrowings, accounts payable, accrued liabilities and bank revolving credit are reflected in the consolidated financial statements at fair value due to short-term maturity or revolving nature of these instruments.

Translation of Foreign Currencies

For the Predecessor Financial Statements, the translation of applicable foreign-currency-based financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The translation of foreign currency transactions is not applicable to the Successor Financial Statements as a result of the sale of STS.

Exchange adjustments resulting from foreign currency transactions are recognized in net income in the Predecessor Statements of Operations and were immaterial for the three and six-month periods ended June 30, 2001.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Please reference Note 1, Basis of Presentation, of Notes To Consolidated Financial Statements for additional related information.

Inflation

Inflation in recent years has had a modest impact on the operations of the Company. Continued inflation, over a period of years at higher than current rates, would result in significant increases in inventory costs and operating expenses. However, such higher cost of sales and operating expenses can generally be offset by increases in selling prices, although the ability of the Company's operating divisions to raise prices is dependent on competitive market conditions.

Forward Looking Statements

Certain disclosures related to acquisitions and divestitures, refinancing, capital expenditures, resolution of pending litigation and realization of deferred tax assets contained in this report involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those currently anticipated as a result of a number of factors, including the risks and uncertainties discussed under captions "Risk Factors" set forth in Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," "project" or the negative of such terms or other similar expressions. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of interest rate changes as borrowings under our senior credit facility bear interest at variable interest rates. It is our policy to enter into interest rate transactions only to the extent considered necessary to meet our objectives. On March 31, 2002 the Company entered into an interest rate cap agreement on a notional amount of \$26.5 million of senior term debt. The interest rate cap agreement, which expires September 30, 2004, caps the LIBOR interest rate at 6% plus the senior credit facility LIBOR margin of between 2% and 2.5%. Based on our exposure to variable rate borrowings at June 30, 2002, a one percent (1%) change in the weighted average interest rate would change our annual interest expense by approximately \$0.9 million.

**PART II
OTHER INFORMATION**

Items 1, 2, 3, 4 & 5 — None

Item 6 – Exhibits and Reports on Form 8-K

- a)
- | | |
|--------|---|
| 10.1* | <u>Exhibits, Including Those Incorporated by Reference.</u>
Consent and First Amendment to the Credit Agreement dated as of September 28, 2001, by and among The Hillman Group, Inc. as Borrower and Heller Financial, Inc. as Agent, an Issuing Lender and a Lender and Antares Capital Corporation, General Electric Capital Corporation and Madison Capital Funding, LLC, each as Co-Agent and the other financial institutions party hereto as lenders. |
| 10.2** | Unit Repurchase Agreement by and among The Hillman Companies, Inc., SunSub Holdings LLC and GC-Sun Holdings, L.P. |
| 99.1** | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2** | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

b) **Reports on Form 8-K.**

None

* Filed as an exhibit to Quarterly Report on Form 10-Q for the Quarter ended March 31, 2002.

** Filed herewith

SIGNATURES

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

THE HILLMAN COMPANIES, INC.

/s/ James P. Waters

James P. Waters
Vice President — Finance
(Chief Financial Officer)

/s/ Harold J. Wilder

Harold J. Wilder
Controller
(Chief Accounting Officer)

DATE: August 14, 2002

UNIT REPURCHASE AGREEMENT

THIS UNIT REPURCHASE AGREEMENT, dated as of April 13, 2002 (together with the Exhibits hereto, this "Agreement"), is by and among The Hillman Companies, Inc., a Delaware corporation (formerly known as SunSource Inc.) ("SunSource"), SUNSUB HOLDINGS, LLC., a Delaware limited liability company and wholly-owned subsidiary of SunSource, together with its successors and assigns ("SunSub"), and collectively with SunSource, the "SunSource Entities", GC-SUN HOLDINGS, L.P., a Delaware limited partnership (the "Partnership").

RECITALS

WHEREAS, pursuant to the Contribution Agreement between SunSource, certain of its affiliates and the Partnership, dated February 10, 2000 and amended on March 2, 2000 (the "Contribution Agreement"), SunSource contributed its membership interest in Kar Products, LLC and the capital stock of A. & H. Bolt & Nut Company Limited, a company organized under the laws of the Province of Ontario ("A&H Bolt"), and SunSource Canada Investment Company, an unlimited liability company organized under the laws of the Province of Nova Scotia (collectively, the "SunSource Contribution"), to the Partnership on March 2, 2000, in exchange for an interest in the Partnership;

WHEREAS, on October 4, 2000, SunSource's interest in the Partnership was transferred and assigned to SunSub;

WHEREAS, pursuant to Sections 9.5 and 9.6 of the Fourth Amended and Restated Agreement of Limited Partnership of GC-SUN Holdings, L.P., dated December 5, 2001 (the "Partnership Agreement"), the Partnership has the right to call SunSub's Class B Units and Class F Units of the Partnership (collectively, "SunSub Units");

WHEREAS, on January 4, 2002, the Partnership exercised its call rights pursuant to Sections 9.5 and 9.6 of the Partnership Agreement and provided SunSub with the requisite notice of such call exercises in accordance with the terms of the Partnership Agreement; and

WHEREAS, the parties have mutually agreed to the terms of the repurchase of the SunSub Units pursuant to Sections 9.5 and 9.6 of the Partnership Agreement and SunSub and the Partnership wish to hereby evidence such agreement and the repurchase of SunSub's Class B Unit and Class F Units by the Partnership.

NOW, THEREFORE, in consideration of the respective representations, warranties, covenants, conditions, agreements and premises contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I. PURCHASE AND SALE

Section 1.1 **Purchase and Sale of Shares.** Upon the terms and conditions of this Agreement, at the Closing, SunSub hereby agrees to sell, transfer, convey, assign and deliver to the Partnership, free and clear of any Liens, and the Partnership hereby agrees to purchase, acquire and accept from SunSub the SunSub Units for the consideration described in Section 1.2 below (the "Unit Purchase").

Section 1.2 **Purchase Price**

The aggregate consideration for the SunSub Units shall be TEN MILLION DOLLARS AND ZERO CENTS (\$10,000,000.00) (the "Purchase Price"), which amount shall be payable at the Closing, by issuance of the Note by the Partnership to SunSub.

Section 1.3 **Closing.** The closing of the Unit Purchase and the other transactions contemplated by this Agreement (the "Closing") shall take place on the first Business Day after satisfaction or waiver (as permitted by this Agreement and applicable law) of the conditions to Closing (other than those conditions that, by their terms, cannot be satisfied until the Closing Date) set forth in Article VI (the "Closing Date"), unless another time or date is agreed to in writing by the parties hereto. The Closing shall be held at a location or by other means mutually agreed upon by the parties hereto.

Section 1.4 **Closing Procedures and Deliveries.**

(a) **Transfer and Delivery of Shares.** To effect the sale and transfer of the SunSub Units, at the Closing SunSub shall transfer and deliver to the Partnership the Unit certificates representing the SunSub Units, free and clear of any Liens of any nature whatsoever, duly endorsed in blank for transfer, or accompanied by irrevocable stock powers duly executed in blank, in either case by the holders of record of such Units.

(b) **Issuance of Note.** At the Closing, upon receipt of the SunSub Units as provided in Section 1.1, the Partnership shall issue the Note to SunSub in accordance with Section 1.2 hereof.

(c) **Certificates, Opinions and Documents.** At the Closing, the Partnership and the SunSource Entities shall deliver the certificates, opinions and documents described in Article V of this Agreement required to be delivered at Closing as conditions to Closing.

(d) **Other Closing Transactions.** At the Closing, each of the parties hereto shall take such other actions reasonably required hereby to be performed by it prior to or on the Closing Date, including, without limitation, satisfying the conditions set forth in Article V of this Agreement.

ARTICLE II. REPRESENTATIONS AND WARRANTIES OF SUNSOURCE

SunSource represents and warrants to the Partnership that the statements contained in this Article II are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made at such time and as though the Closing Date were substituted for the date of this Agreement throughout this Article II).

Section 2.1 **Ownership of SunSub Units.** SunSub is the sole owner, beneficially and of record, of the SunSub Units, free and clear of any Liens. At the Closing, such SunSub will transfer good and valid title to the SunSub to the Partnership free and clear of any Liens.

Section 2.2 **Organization.** SunSub is duly formed, validly existing and in good standing under the laws of the State of Delaware. SunSource is duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

Section 2.3 **Authority; Enforceability.** Each of the SunSource Entities has all requisite corporate or company power and authority, and prior to Closing will have taken all corporate or company actions necessary, to execute and deliver the Note and this Agreement, to consummate the transactions contemplated by this Agreement, and to perform their respective obligations hereunder and thereunder. The execution and delivery by each of the SunSource Entities of this Agreement and the Note and the consummation by each of SunSource Entities of the transactions contemplated hereby and thereby have been duly approved by the requisite governing bodies of such entities. No other proceedings on the part of the SunSource Entities are necessary to authorize the execution and delivery of this Agreement and the Note and the consummation of the transactions contemplated hereby and thereby. This Agreement has been duly executed and delivered by each of the SunSource Entities party hereto, and constitutes the legal, valid and binding obligation of each of the SunSource Entities, enforceable against each such entity in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at law).

Section 2.4 **No Violations.** Except as provided in Schedule 2.4 hereof, the execution, delivery or performance by the SunSource Entities of this Agreement and the Note and the consummation of the transactions contemplated hereby and thereby and the compliance by each of the SunSource Entities with any of the provisions hereof, do not and will not (a) violate, conflict with or result in the breach of any provision of the Organizational Documents of either of the SunSource Entities, (b) conflict with or violate any Law or Governmental Order pertaining to the SunSource Entities, or (c) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment or acceleration of, or result in the creation of any Lien on the SunSub Units pursuant to, any Contract to which any of the SunSource Entities is a party or subject or by which any of the SunSource Entities is bound or affected.

Section 2.5 **Governmental Consents.** The execution, delivery and performance by the SunSource Entities of this Agreement and the Note and the transactions contemplated hereby and thereby do not and will not require any consent, approval, authorization, satisfaction or other order of, review or action by, filing with or notification to any Governmental Authority.

Section 2.6 **No Other Agreements to Purchase** No Person (other than the Partnership hereunder or the Class A Holder (as defined in the Partnership Agreement)) has any written or oral agreement or option or any right or privilege whatsoever, whether by law, pre-emptive or contractual, capable of becoming an agreement or option for the purchase or acquisition from SunSub of any of the SunSub Units.

Section 2.7 **Brokers and Finders.** No investment banker, broker or finder which has been retained by or is authorized to act on behalf of the SunSource Entities, is entitled to any fee or commission from either of the SunSource Entities, in connection with the transactions contemplated by this Agreement.

Section 2.8 **Litigation.** There are no Proceedings pending or, to the knowledge of the SunSource Entities, threatened against either of the SunSource Entities affecting the SunSub Units or which could conflict with or limit the SunSource Entities' ability to perform their obligations under this Agreement.

Section 2.9 **Release of Claims.** The SunSource Entities have not currently assigned or transferred any interest in any of the Claims to be released by Section 4.1 hereof and the SunSource Entities will not in the future, assign or transfer any interest in any such released Claims. The SunSource Entities acknowledge that they have been given the opportunity to review all information and documents with respect to the Claims to be released by Section 4.1 hereof prior to entering into this Agreement. The SunSource Entities further acknowledge that they have made an independent investigation in making their decision to agree to the release set forth in Section 4.1 hereof. The SunSource Entities are not relying on any statements or representations by the Partnership or any Partnership Releasee in agreeing to the release set forth in Section 4.1 hereof.

ARTICLE III. REPRESENTATIONS AND WARRANTIES OF THE PARTNERSHIP

The Partnership hereby represents and warrants to the SunSource Entities that the statements contained in this Article III are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made at such time and as though the Closing Date were substituted for the date of this Agreement throughout this Article III).

Section 3.1 **Organization.** The Partnership is duly formed, validly existing and in good standing under the laws of the State of Delaware.

Section 3.2 **Authority.** The Partnership has all requisite partnership power and authority, and prior to Closing will have taken all partnership actions necessary, to execute and

deliver this Agreement and the Note, to consummate the transactions contemplated by this Agreement and the Note and to perform its obligations hereunder and thereunder. The execution and delivery by the Partnership of this Agreement and the Note and the consummation by the Partnership of the transactions contemplated hereby and thereby have been duly approved by all necessary partnership action on the part of the Partnership. No other proceedings on the part of the Partnership are necessary to authorize the execution and delivery of this Agreement and the Note and the consummation of the transactions contemplated hereby and thereby.

Section 3.3 **Enforceability.** This Agreement and the Note have been duly executed and delivered by the Partnership and constitute legal, valid and binding obligations of the Partnership, enforceable against the Partnership in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at law).

Section 3.4 **No Conflict or Violation.** Except for consents or waivers that may be required under the Credit Documents and set forth on Schedule 3.4 hereto, the execution, delivery and performance by the Partnership of this Agreement and the Note and the consummation of the transactions contemplated hereby and thereby and the compliance by the Partnership with any of the provisions hereof and thereof, do not and will not (a) violate, conflict with or result in the breach of any provision of the Partnership Agreement or any other organizational documents of the Partnership, (b) conflict with or violate any Law or Governmental Order applicable to the Partnership or any of its assets or properties, or (c) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment or acceleration of, or result in the creation of any Lien on any of the assets or properties of the Partnership pursuant to, any Contract to which the Partnership is a party or by which any of its assets or properties is bound or affected.

Section 3.5 **Governmental Consents.** The execution, delivery and performance by the Partnership of this Agreement and the Note and the transactions contemplated hereby do not and will not require any consent, approval, authorization, satisfaction or other order of, review or action by, filing with or notification to any Governmental Authority.

Section 3.6 **Brokers.** No investment banker, broker or finder which has been retained by or is authorized to act on behalf of the Partnership, is entitled to any fee or commission from the Partnership in connection with the transactions contemplated by this Agreement.

Section 3.7 **Litigation.** There are no Proceedings pending or, to the knowledge of the Partnership, threatened against the Partnership which could conflict with or limit the Partnership's ability to perform its obligations under this Agreement.

Section 3.8 **Release of Claims.** The Partnership has not currently assigned or transferred any interest in any of the Claims to be released by Section 4.2 hereof and the Partnership will not in the future, assign or transfer any interest in any such released Claims.

The Partnership acknowledges that it has been given the opportunity to review all information and documents with respect to the Claims to be released by Section 4.2 hereof prior to entering into this Agreement. The Partnership further acknowledges that it has made an independent investigation in making its decision to agree to the release set forth in Section 4.2 hereof. The Partnership is not relying on any statements or representations by the SunSource Entities or any SunSource Releasee in agreeing to the release set forth in Section 4.2 hereof.

Section 3.9 **Financial Statements.** The Partnership has previously provided to SunSource a true and complete copy of the unaudited consolidated and consolidating financial statements pertaining to the fiscal year ended December 31, 2001 (the "Unaudited Financials"). The Unaudited Financials were prepared in accordance with GAAP, are true and correct in all material respects and fairly present the operating income and financial condition of the Partnership and each of its subsidiaries at such date and for the period then ended.

ARTICLE IV. ADDITIONAL AGREEMENTS

Section 4.1 Release of Claims by SunSource Releasers.

(a) **Waiver.** Upon Closing, the SunSource Entities shall, for themselves and on behalf of the SunSource Releasers (as herein defined), hereby waive and release any rights to initiate or prosecute or participate in the initiating or prosecuting of any Claims (hereinafter defined) against or with respect to the Partnership, or any Releasee (hereinafter defined), arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement (other than the right to receive accrued but unpaid tax distributions through the date hereof as provided in Section 4.1 of the Partnership Agreement), in each case whether any such Claims are existing as of, or at anytime prior to, Closing or arising anytime thereafter; provided, however, such waiver and release shall not in any way limit the SunSource Entities' rights under this Agreement or the Note or the SunSource Indemnified Parties' ability to seek indemnity under Article VI of this Agreement.

(b) **Release.** Upon Closing, the SunSource Entities shall, for themselves and on behalf of the SunSource Releasers, hereby release and forever discharge the Partnership and all Partnership Releasees (hereinafter defined) of and from any and all manner of Claims which the SunSource Releasers have or may have as of, or at any time prior to, Closing or may anytime thereafter have against any Releasee (hereinafter defined) arising out of, concerning in any way or resulting from the (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement (other than the right to receive accrued but unpaid tax distributions through the date hereof as provided in Section 4.1 of the Partnership Agreement), in each case whether any such Claims are existing as of or at any time prior to Closing or arising anytime thereafter; provided, however, such release and discharge shall not in any way limit the SunSource Entities' rights under this Agreement or the Note or the SunSource Indemnified Parties' ability to seek indemnity under Article VI hereunder.

(c) **Claims.** "Claims" shall mean any action or actions, cause or causes of action, in law or in equity, suits, debts, liens, liabilities, claims, demands, damages, punitive damages, losses, costs or expenses, and reasonable attorneys' fees of any nature whatsoever,

including, without limitation, claims based upon breach of fiduciary or other duty, legal fault, misrepresentation or omission, negligence, offense, quasi-offense, contract, quasi-contract or any other theory, or for actions taken or omitted to be taken in regard to the (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement (other than the right to receive accrued but unpaid tax distributions through the date hereof as provided in Section 4.1 of the Partnership Agreement), in each case whether fixed or contingent, including knowing, suspected or Unknown Claims (hereinafter defined).

(d) SunSource Releasors. “SunSource Releasor” or “SunSource Releasors” shall mean any or all of the SunSource Entities, and any corporation, partnership, joint venture, or business enterprise controlled by, under common control with or controlling such companies, each of the officers, directors, corporate representatives of such companies, and all direct or indirect subsidiaries of such entities, and each of the parents, subsidiaries, equity holders, officers, directors, corporate representatives, employees, agents, advisors, lawyers or accountants thereof.

(e) Partnership Releasees. “Partnership Releasee” or “Partnership Releasees” shall mean any or all of Partnership, GC-SUN, Inc. and any corporation, partnership, joint venture, or business enterprise controlled by, under common control with or controlling such companies, each of the officers, directors, corporate representatives of such companies, and all direct or indirect subsidiaries of such entities, and each of the parents, subsidiaries, equity holders, officers, directors, corporate representatives, employees, agents, advisors, lawyers or accountants thereof.

(f) Unknown Claims Generally. For the purposes of this Section 4.1, “Unknown Claims” means any and all Claims including, without limitation, any Claim the SunSource Releasors’ do not know or do not suspect to exist in their favor at the time of the giving of the release which, if known by them might have affected their decision regarding the releases. The SunSource Entities, for themselves and on behalf of the SunSource Releasors, hereby acknowledge that the Releasors might after Closing discover facts in addition to or different from those which they knew at Closing or believed to be true with respect to the subject matter of the Claims released by this Section 4.1, but nonetheless the SunSource Releasors’ shall be deemed to have fully, finally and forever settled and released any and all Claims arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement (other than the right to receive accrued but unpaid tax distributions through the date hereof as provided in Section 4.1 of the Partnership Agreement), in each case whether any such Claims are known or unknown, suspected or unsuspected, contingent or non-contingent, which existed at or prior to Closing or may come to exist in the future upon any theory of law or equity now existing or coming into existence in the future.

(g) Scope of Release. The release provided for in this Section 4.1 is intended by the SunSource Entities, for themselves and on behalf of the SunSource Releasors, to be as broad as the law allows and is intended specifically to be a compromise and release generally of all released Claims of the SunSource Releasors against all Partnership Releasees arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement (other than the right to receive accrued but unpaid

tax distributions through the date hereof as provided in Section 4.1 of the Partnership Agreement), in each case whether any such Claims are existing as of or at anytime prior to Closing or arising anytime thereafter; provided, however, such release and compromise shall not in any way limit the SunSource Entities' rights under this Agreement or the Note or the SunSource Indemnified Parties' ability to seek indemnity under Article VI hereunder.

(h) Waiver. The SunSource Entities, for themselves and the SunSource Releasors, hereby specifically waive any purported right to challenge the validity or seek rescission of, or to vitiate, this release provided under this Section 4.1 of the Agreement on the ground that any information was kept concealed from the SunSource Releasors by any of the Partnership Releasees, and agree, on behalf of themselves and the SunSource Releases, that no remedy shall be available for any such alleged non-disclosure, and that the right to rescind this release on any such grounds is hereby expressly waived.

(i) Indemnification. From and after the Closing, SunSource shall indemnify, save and hold harmless the Partnership Releasees' from and against any and all Damages in connection with, arising out of, resulting from or incident to any Claims waived and released by the SunSource Releasors pursuant to this Section 4.1 of the Agreement.

(j) No Admission of Wrongdoing. Nothing in this Section 4.1 shall be construed as an admission of liability, fault or wrongdoing on the part of any Partnership Releasee.

Section 4.2 Release of Claims by Partnership Releasors

(a) Waiver. Upon Closing, the Partnership shall, for itself and on behalf of the Partnership Releasors (as herein defined), hereby waive and release any rights to initiate or prosecute or participate in the initiating or prosecuting of any Claims (hereinafter defined) against or with respect to the SunSource Entities, or any SunSource Releasee (hereinafter defined), arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement, in each case whether any such Claims are existing as of, or at any time prior to Closing or arising anytime thereafter; provided, however, such waiver and release shall not in any way limit the Partnership's rights under this Agreement, the Note or the Partnership Indemnified Parties' ability to seek indemnity under Article VI of this Agreement.

(b) Release. Upon Closing, the Partnership shall, for itself and on behalf of the Partnership Releasors, hereby release and forever discharge the SunSource Entities and all SunSource Releasees (hereinafter defined) of and from any and all manner of Claims which the Partnership Releasors have or may have as of, or at any time prior to, Closing or may anytime thereafter have against any SunSource Releasee (hereinafter defined) arising out of, concerning in any way or resulting from the (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement, in each case whether any such Claims are existing as of or at anytime prior to Closing or arising anytime thereafter; provided, however, such release and discharge shall not in any way limit the Partnership's rights under this Agreement, the Note or the Partnership Indemnified Parties' ability to seek indemnity under Article VI hereunder.

(c) Claims. “Claims” shall mean any action or actions, cause or causes of action, in law or in equity, suits, debts, liens, liabilities, claims, demands, damages, punitive damages, losses, costs or expenses, and reasonable attorneys’ fees of any nature whatsoever, including, without limitation, claims based upon breach of fiduciary or other duty, legal fault, misrepresentation or omission, negligence, offense, quasi-offense, contract, quasi-contract or any other theory, or for actions taken or omitted to be taken in regard to the (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement, in each case whether fixed or contingent, including knowing, suspected or Unknown Claims (hereinafter defined).

(d) Partnership Releasors. “Partnership Releasor” or “Partnership Releasors” shall mean any or all of the Partnership, and any corporation, partnership, joint venture, or business enterprise controlled by, under common control with or controlling such companies, each of the officers, directors, corporate representatives of such companies, and all direct or indirect subsidiaries of such entities, and each of the parents, subsidiaries, equity holders, officers, directors, corporate representatives, employees, agents, advisors, lawyers or accountants thereof.

(e) SunSource Releasees. “SunSource Releasee” or “SunSource Releasees” shall mean any or all of the SunSource Entities and any corporation, partnership, joint venture, or business enterprise controlled by, under common control with or controlling such companies, each of the officers, directors, corporate representatives of such companies, and all direct or indirect subsidiaries of such entities, and each of the parents, subsidiaries, equity holders, officers, directors, corporate representatives, employees, agents, advisors, lawyers or accountants thereof.

(f) Unknown Claims Generally. For the purposes of this Section 4.2, “Unknown Claims” means any and all Claims including, without limitation, any Claim the Partnership Releasors’ do not know or do not suspect to exist in their favor at the time of the giving of the release which, if known by him might have affected his decision regarding the releases. The Partnership, for itself and on behalf of the Partnership Releasors, hereby acknowledges that the Partnership Releasors might after Closing discover facts in addition to or different from those which they knew at Closing or believed to be true with respect to the subject matter of the Claims released by this Section 4.2, but nonetheless the Partnership Releasors’ shall be deemed to have fully, finally and forever settled and released any and all Claims arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement, in each case whether any such Claims are known or unknown, suspected or unsuspected, contingent or non-contingent, which existed at or prior to Closing or may come to exist in the future upon any theory of law or equity now existing or coming into existence in the future.

(g) Scope of Release. The release provided for in this Section 4.2 is intended by the Partnership, for itself and on behalf of the SunSource Releasors, to be as broad as the law allows and is intended specifically to be a compromise and release generally of all released Claims of the Partnership Releasors against all SunSource Releasees arising out of, concerning in any way or resulting from (i) the repurchase of the SunSub Units affected by this Agreement or (ii) the Partnership Agreement, in each case whether any such Claims are existing as of or at anytime prior to Closing or arising anytime thereafter; provided, however, such release and

compromise shall not in any way limit the Partnership's rights under this Agreement, the Note or the Partnership Indemnified Parties' ability to seek indemnity under Article VI hereunder.

(h) Waiver. The Partnership, for itself and on behalf of the Partnership Releasors, hereby specifically waives any purported right to challenge the validity or seek rescission of, or to vitiate, this release provided under this Section 4.2 of the Agreement on the ground that any information was kept concealed from the Partnership Releasors by any of the SunSource Releasees, and agrees on behalf of itself and the Partnership Releasees that no remedy shall be available for any such alleged non-disclosure, and that the right to rescind this Release on any such grounds is hereby expressly waived.

(i) Indemnification. From and after the Closing, the Partnership shall indemnify, save and hold harmless the SunSource Releasees' from and against any and all Damages in connection with, arising out of, resulting from or incident to any Claims waived and released by the Partnership Releasors pursuant to this Section 4.2 of the Agreement.

(j) No Admission of Wrongdoing. Nothing in this Section 4.2 shall be construed as an admission of liability, fault or wrongdoing on the part of any SunSource Releasee.

(k) Tax Allocations. Notwithstanding anything set forth in this Section 4.2, for all income and other tax purposes, SunSub shall be and shall be treated as a partner of the Partnership through the Closing Date and the Partnership shall be entitled to make with respect to SunSub all appropriate allocations of income, losses and other items, as provided in Article V of the Partnership Agreement with respect to all periods prior to the Closing Date.

Section 4.3 Partnership Reporting. Notwithstanding anything to the contrary contained herein, from time to time until the Closing Date, the Partnership shall provide to SunSource all reports and other information required to be provided under the Partnership Agreement to Partners under the Partnership Agreement, in connection with SunSub's ownership of the SunSub Units through the Closing Date.

Section 4.4 Further Assurances. The parties hereto agree (a) to use all commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, including, all actions necessary to satisfy the conditions to Closing set forth in Article V hereof, (b) to execute any documents, instruments or conveyances of any kind which may be reasonably necessary or advisable to carryout the transactions contemplated by this Agreement and (c) to cooperate with each other in connection with the foregoing.

Section 4.5 Call Right. If the transactions contemplated by this Agreement are not consummated and the Closing does not occur because of a failure to satisfy any of the conditions set forth in Section 5.2 hereof (other than Section 5.2(e)), the Partnership shall be deemed to have not exercised its call rights pursuant to Section 9.5 and 9.6 of the Partnership Agreement (the "Call Rights") and the Partnership shall retain its right to exercise such Call

Rights with respect to the SunSub Units at any time in the future, in accordance with the terms of the Partnership Agreement.

ARTICLE V. CONDITIONS TO CLOSING

Section 5.1 **Conditions to Obligations of the SunSource Entities.** The obligations of the SunSource Entities to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by the SunSource Entities), at or prior to the Closing, of each of the following conditions:

(a) **Representations and Warranties.** All representations and warranties of the Partnership contained in this Agreement that are qualified by materiality shall be true and correct as of the date hereof and as of the Closing Date as if made on the Closing Date, and all representations and warranties of the Partnership contained in this Agreement that are not so qualified shall be true and correct in all material respects as of the date hereof and as of the Closing Date as if made as of the Closing Date.

(b) **Performance of Agreements and Covenants.** The Partnership shall have duly performed and complied with in all material respects all of its agreements and covenants pursuant to this Agreement on or prior to the Closing Date.

(c) **No Order.** No order, statute, regulation, executive order, injunction, stay, decree, directive or restraining order shall have been enacted, entered, promulgated or enforced by any court or quasi-judicial or administrative agency of any federal, state, or local jurisdiction that would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation thereof.

(d) **Consents; Regulatory Compliance and Approval.** All consents, approvals and waivers from, registrations and filings with and notices to Governmental Authorities necessary to permit the consummation of the transactions contemplated by this Agreement shall have been obtained, unless the failure to obtain any such consent, approval or waiver or make such registration or filing or give such notice could not reasonably be expected have a material adverse effect on the ability of the Partnership to perform its obligations under this Agreement.

(e) **Officer's Certificates.** The Partnership shall have delivered to SunSource a certificate signed by a duly authorized officer of the Partnership to the effect that each of the conditions specified in Sections 5.1(a) and (b) of this Agreement is satisfied in all respects.

(f) **Note.** The Partnership shall have executed and delivered the Note.

(g) **Opinion of Counsel.** The Partnership shall have delivered to SunSource an opinion of their counsel, Latham & Watkins, dated as of the Closing Date, substantially in the form of Exhibit B hereto.

(h) Consents. SunSource shall have obtained the consents required to consummate the transactions contemplated hereby, which consents are set forth on Schedule 5.1(h) hereto.

(i) Financing Documents. SunSource shall have received copies of the Securities Purchase Agreement and the Senior Credit Agreement.

(j) Refund. SunSource shall have received \$25,000 in immediately available funds from the Partnership relating to the reimbursement of payments made by SunSource to Houlihan Lokey Howard & Zukin.

(k) General Partner Certificate. SunSource shall have received from the Partnership, (i) certified as of a recent date by the Secretary of State of the State of Delaware, a certificate as to the good standing of the Partnership as of a recent date, from such Secretary of State and (ii) a certificate of the General Partner dated as of the Closing Date and certifying (A) that attached thereto is a true and complete copy of the Partnership Agreement as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the General Partner authorizing the execution, delivery and performance of the Note and this Agreement and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the Partnership Agreement has not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each Person executing this Agreement, the Note or any other document delivered in connection herewith on behalf of the Partnership.

Section 5.2 Conditions to Obligations of the Partnership. The obligations of the Partnership to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by the Partnership in writing), at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties. All representations and warranties of SunSource contained in this Agreement that are qualified by materiality shall be true and correct as of the date hereof and as of the Closing Date as if made on the Closing Date, and all representations and warranties of SunSource contained in this Agreement that are not so qualified shall be true and correct in all material respects as of the date hereof and as of the Closing Date as if made as of the Closing Date.

(b) Performance of Agreements and Covenants. The SunSource Entities shall have duly performed and complied with in all material respects all of their respective agreements and covenants pursuant to this Agreement on or prior to the Closing Date.

(c) No Order. No Action shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement, (ii) cause any of the transactions contemplated by this Agreement to be rescinded

following consummation, or (iii) affect adversely the right of the Partnership to own the SunSub Units.

(d) Consents; Regulatory Compliance and Approval. All consents, approvals and waivers from, registrations and filings with and notices to Governmental Authorities necessary to permit the consummation of the transactions contemplated by this Agreement shall have been obtained, unless the failure to obtain any such consent, approval or waiver or make such registration or filing or give such notice could not reasonably be expected to have a material adverse effect on the ability of the SunSource Entities to perform their obligations under this Agreement.

(e) Bank Consents, Amendments or Waivers. The Partnership shall have received all required amendments, approvals, waivers, or consents with respect to the Credit Documents necessary for the Partnership consummate the transactions contemplated hereby, including the issuance of the Note and repurchase of the SunSub Units.

(f) Officer's Certificates. Each of the SunSource Entities shall have delivered to the Partnership a certificate signed by an appropriate officer thereof to the effect that each of the conditions specified in Sections 5.2(a) and (b) of this Agreement have been satisfied in all respects.

(g) Opinion of Counsel. The Partnership shall have delivered to SunSource an opinion of their counsel, Piper Marbury Rudnick & Wolfe LLP dated as of the Closing Date, substantially in the form of Exhibit C hereto.

(h) Secretary's Certificate. The Partnership shall have received from each of the SunSource Entities, (i) certified as of a recent date by the Secretary of State of the State of Delaware, a certificate as to the good standing of each of the SunSource Entities as of a recent date, from such Secretary of State and (ii) a certificate of the Secretary of each of the SunSource Entities dated as of the Closing Date and certifying (A) that attached thereto is a true and complete copy of each such entities' Organizational Documents as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors or other governing body of each of the SunSource Entities authorizing the execution, delivery and performance of the Note and this Agreement and that each such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the Organizational Documents for each of the SunSource Entities has not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each Person executing this Agreement, the Note or any other document delivered in connection herewith on behalf of each of the SunSource Entities.

(i) Pledges or Liens. The Partnership shall have received releases in form and substance satisfactory to the Partnership, effective to release all Liens in favor of PNC Bank, National Association or any other Persons on or relating to the SunSub Units.

ARTICLE VI. INDEMNIFICATION

Section 6.1 **Survival of Representations, Etc.** All of the representations, warranties, covenants and agreements of the parties contained in this Agreement or any other certificate, instrument or document delivered pursuant hereto shall survive the Closing; provided, however, that (a) except as provided in subsections (b) below, the representations and warranties contained in this Agreement shall survive for a period of eighteen (18) months following the Closing and (b) the representations and warranties contained in Sections 2.1 (Ownership of SunSub Units), 2.2 (Organization), 2.3 (Authority; Enforceability), 3.1 (Organization), 3.2 (Authority) and 3.3 (Enforceability) of this Agreement shall survive in perpetuity with respect to the matters addressed in such sections. The termination of the representations, warranties or indemnities provided in this Section 6.1 shall not affect the rights of any party hereto in respect of any claim with respect to which notice has been given under this Article VI prior to the expiration of the applicable survival period provided in this Section 6.1.

Section 6.2 **Indemnification**

(a) **Indemnification by SunSource.** From and after the Closing, SunSource shall indemnify, save and hold harmless the Partnership and its Affiliates and their respective Representatives (collectively, the "Partnership Indemnified Parties") from and against any and all Damages in connection with, arising out of, resulting from or incident to:

(i) any misrepresentation or breach of warranty in connection with any of the representations or warranties given or made by SunSource in this Agreement or any other agreement, certificate, instrument or other document executed and delivered by any of the SunSource Entities pursuant hereto (without regard to any qualification thereof as to materiality);

(ii) any breach of any covenant or agreement by the SunSource Entities contained in this Agreement or any other agreement, certificate, instrument or other document executed and delivered by the SunSource Entities pursuant hereto (without regard to any qualification thereof as to materiality);

(b) **Indemnification by the Partnership.** From and after the Closing, the Partnership shall indemnify, save and hold harmless the SunSource and its Affiliates and their respective Representatives (the "SunSource Indemnified Parties") from and against and all Damages arising out of, resulting from or incident to:

(i) any misrepresentation or breach of warranty in connection with any of the representations or warranties given or made by the Partnership in this Agreement or any other agreement, certificate, instrument or other document executed and delivered by the Partnership pursuant hereto;

(ii) any breach of any covenant or agreement by the Partnership contained in this Agreement or any other agreement, certificate, instrument or other document executed and delivered by the Partnership pursuant hereto;

(c) Notice of Claims; Defense of Claims. Any party hereto seeking indemnification under this Article VI (the “Indemnified Party”) shall give the party from whom indemnification is being sought (the “Indemnifying Party”) notice of any claim, Action or matter which such Indemnified Party has determined has given or could give rise to Damages for which indemnification may be sought under this Section 6.2 or would otherwise give rise to a right of indemnification under this Agreement (a “Claim”), as soon as practicable after the party hereto seeking indemnification becomes aware of such Claim; provided, however, that the failure to provide such notice shall not relieve the Indemnifying Party from any of its obligations under this Section 6.2 except to the extent the Indemnifying Party is materially prejudiced by such failure. Upon receipt of such notice, the Indemnifying Party shall be entitled at its cost, risk and expense to assume and control the defense and investigation of such Claim, and to employ and engage counsel of its choice, if the Indemnifying Party gives notice of its intention to do so to the Indemnified Party within thirty (30) days of the receipt of such notice; provided, however, that if there exists a material conflict of interest (other than one that is of a monetary nature) or if the Indemnified Party has been advised by counsel that there may be one or more legal defenses available to it that are different from or additional to those available to the Indemnifying Party, which, in either case, would make it inappropriate for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to retain its own counsel, at the expense of the Indemnifying Party (but the Indemnifying Party shall not be obligated to pay the reasonable fees and expenses of more than one separate counsel for all Indemnified Parties, taken together). In the event the Indemnifying Party exercises the right to undertake any such defense against any such Claim as provided in this Section 6.2(c), (i) the Indemnified Party may, at its own cost, participate in the investigation, trial and defense of such Claim and any appeal arising therefrom, and (ii) the Indemnified Party agrees to cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party, all witnesses, records, materials and information in the Indemnified Party’s possession or under the Indemnified Party’s control relating thereto as may be reasonably required by the Indemnifying Party. In the event the Indemnifying Party fails to assume the defense of such Claim within thirty (30) days after receipt of notice thereof, (i) the Indemnified Party against which such Claim has been asserted shall have the right to undertake the defense, compromise or settlement of such Claim on behalf of, at the expense of and for the account and risk of the Indemnifying Party, and (ii) the Indemnifying Party agrees to cooperate with the Indemnified Party in such defense and make available to the Indemnified Party, all witnesses, records, materials and information in the Indemnifying Party’s possession or under the Indemnifying Party’s control relating thereto as may be reasonably required by the Indemnified Party.

(d) Settlement of Claims. The Indemnifying Party shall not, without the written consent of the Indemnified Party (which consent shall not be unreasonably withheld), (i) settle or compromise any Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a written release from all liability in respect of such Claim of all Indemnified Parties affected by such Claim or (ii) settle or compromise any Claim if the settlement imposes equitable remedies or material obligations on the Indemnified Party other than financial obligations for which such Indemnified Party will be indemnified hereunder. No Claim which is being defended in good faith by the Indemnifying Party in accordance with the terms of this Agreement shall be settled or compromised by the Indemnified Party without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).

(c) Reduction of Damages. To the extent any Damages of an Indemnified Party are reduced by receipt of payment (i) under insurance policies which are not subject to retroactive adjustment or other reimbursement to the insurer in respect of such payment, or (ii) from third parties not affiliated with the Indemnified Party, such payments (net of the expenses of the recovery thereof) (such net payment, a “Reimbursement”) shall be credited against any such Damages; provided, however, (x) the pendency of such payments shall not delay or reduce the obligation of the Indemnifying Party to make payment to the Indemnified Party in respect of such Damages, and (y) the Indemnified Party shall have no obligation, hereunder or otherwise, to pursue payment under or from any insurer or third party in respect of such Damages. If any Reimbursement is obtained subsequent to payment by an Indemnifying Party in respect of any Damages, such Reimbursement shall be promptly paid over to the Indemnifying Party.

Section 6.3 Partnership’s Right of Set-Off.

(a) Notwithstanding anything to the contrary in this Agreement, and regardless of other means of obtaining payment, at any time and from time to time any Partnership Indemnified Party delivers a notice (“Judgment Notice”) to SunSource regarding any Claim for which the Partnership Indemnified Party is or may be entitled to indemnification from SunSource under this Article IX and which Claim has been reduced to a judgment in favor of such Partnership Indemnified Party by a Governmental Authority of competent jurisdiction (a “Judgement”), the Partnership is hereby authorized to withhold and set-off and apply against any amounts owing or that may be owed to any of the SunSource Entities by the Partnership under (i) this Agreement and (ii) the Note (as to the extent provided in such Note), up to such amounts as set forth in each such Judgement Notice. The rights of the Partnership under this Section 6.3(a) shall include, without limitation, the right to withhold and retain any payment due under the Note in accordance with the terms of the Note.

(b) Notwithstanding anything in this Agreement to the contrary (and without limiting the generality of Section 9.12), (i) the rights to set-off provided in the Note or otherwise pursuant to this Section 6.3 and (ii) any other rights and remedies under this Agreement or in equity or at law that any Partnership Indemnified Party may have with respect to the satisfaction of the indemnification obligations of SunSource under this Agreement shall be cumulative, and the exercise of any such right by any Person shall not be exclusive of any other right or remedy and shall not limit, modify, adversely affect, prejudice or impair the exercise (or ability to exercise) any such rights or remedies.

ARTICLE VII. TERMINATION

Section 7.1 Termination. This Agreement may be terminated at any time prior to the Closing:

- (a) by the mutual written consent of SunSource and the Partnership;
- (b) by SunSource upon written notice in the event of a material breach of any representation or warranty of the Partnership contained in this Agreement or any covenant or agreement to be performed or complied with by the Partnership pursuant to the terms of this

Agreement, which breach (i) has continued without cure for a period of ten (10) days following notice thereof by SunSource to the Partnership and (ii) would result in a condition to Closing set forth in Section 5.1 of this Agreement not being satisfied (which condition has not been waived by SunSource in writing); or

(c) by the Partnership upon written notice in the event of a material breach of any representation or warranty of SunSource contained in this Agreement or any covenant or agreement to be performed or complied with by the SunSource Entities pursuant to the terms of this Agreement, which breach (i) has continued without cure for a period of ten (10) days following notice thereof by the Partnership to SunSource and (ii) would result in a condition to Closing set forth in Section 5.2 of this Agreement not being satisfied (which condition has not been waived by the Partnership in writing).

Section 7.2 **Effect of Termination**. In the event of any termination of this Agreement in accordance with Section 7.1 of this Agreement, this Agreement shall forthwith become void and of no further force or effect and there shall be no liability on the part of any party hereto to any other Party, except that nothing herein shall relieve any party hereto from liability for any willful breach of this Agreement occurring prior to any such termination.

ARTICLE VIII. DEFINITIONS

Section 8.1 **Certain Defined Terms**. As used in this Agreement, the following terms shall have the following meanings. Any of such terms, unless the context otherwise requires, may be used in the singular or the plural.

“Action” shall mean any claim, action, cause of action, suit, order, writ, litigation, labor dispute, injunction, judgment, decree, criminal prosecution, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or arbitral body.

“Affiliate” shall mean, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

“Business Day” shall mean any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

“Class B Unit” shall have the meaning set forth in the Partnership Agreement.

“Class F Unit” shall have the meaning set forth in the Partnership Agreement.

“Contract” shall mean agreements, contracts, leases, licenses, notes, loans, evidence of indebtedness, purchase orders, bonds, mortgages, indentures, letters of credit, settlement agreements, franchise agreements, undertakings, covenants not to compete, employment agreements, licenses, instruments, obligations, commitments, understandings, purchase and sales orders, and other executory commitments to which any person is a party or to which any of the assets of the any person is subject, whether oral or written, express or implied.

"Credit Documents" shall mean the Senior Credit Agreement, all other Loan Documents (under and as defined in the Senior Credit Agreement), and the Note Documents.

"Damages" shall mean any and all costs, losses (including, without limitation, diminution in value), taxes, Liabilities, obligations, damages (including special damages), lawsuits, deficiencies, claims, demands, and expenses (whether or not arising out of a Claim), including, without limitation, reasonable attorneys' fees, interest, penalties, costs of mitigation, lost profits and all amounts paid in investigation, defense or settlement of any of the foregoing. As used in this Agreement, Damages shall not be limited to matters asserted by third parties against an Indemnified Party, but shall include Damages incurred or sustained by an Indemnified Party in the absence of third party claims.

"Governmental Authority" shall mean any federal, state, or local or any governmental, regulatory or administrative authority, agency or commission or any court, tribunal or judicial body.

"Governmental Order" shall mean any order, writ, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Law" shall mean any statute, law, by-law, ordinance, regulation or rule, code or policy of any Governmental Authority.

"Liabilities" shall mean any and all direct or indirect liability, indebtedness, obligation, commitment, expense, claim, deficiency, guaranty or endorsement of or by any person of any type, whether accrued, absolute, contingent, matured, liquidated or unliquidated, matured or unmatured or otherwise, including, without limitation, tax liabilities.

"Liens" means all liens, mortgages, easements, pledges, charges, restrictions, claims, security interests, options or other encumbrances of any nature.

"Note" shall mean that Subordinated Promissory Note in the original principal amount set forth in ~~Section 1.2~~ Section 1.2 hereof to be issued at Closing by the Partnership in accordance with Section 1.2 hereof, as the purchase price payable to the order of SunSub, in the form attached hereto as ~~Exhibit A~~ Exhibit A (together with such modifications as may be reasonably requested by any lender under the Credit Documents, provided such modifications do not materially change or modify the material terms of the Note (including the financial terms), it being understood that any substantive change to the economic or other substantive terms of the Note which adversely effect the Holder's rights or obligations thereunder shall be deemed a material change for the purposes of this provision).

"Note Documents" shall mean, the Securities Purchase Agreement, each Senior Subordinated Note and all other documents, instruments and agreements delivered pursuant to or in connection with the Securities Purchase Agreement and/or any Senior Subordinated Note.

"Organizational Documents" shall mean the charter, articles, memorandum or certificate of incorporation or associations, partnership agreement, certificate of limited partnership, operating agreement, limited liability company agreement, certificate of formation,

by-laws or other similar formation or governance agreements of any entity, whether or not filed with a Governmental Authority.

“Person” shall mean any individual, partnership, firm, corporation, association, trust, unincorporated organization, joint venture, limited liability company, unlimited liability

“Representative” shall mean any officer, director, principal, attorney, stockholder financial advisor, lender, accountant, general or limited partner, member, trustee, agent, employee or other representative of a Person or its Affiliates.

“Securities Act” shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Securities Purchase Agreement” means those certain Securities Purchase Agreements, originally dated March 2, 2000, among the Partnership, the Subsidiary Partnership, and the purchasers of Senior Subordinated Notes thereunder, as the same may be amended, restated, modified, replaced, refinanced or supplemented from time to time.

“Senior Credit Agreement” shall mean that certain Credit Agreement, dated as of March 2, 2000, among the Subsidiary Partnership, as borrower, Bank of America, N.A., as Administrative Agent and lender, and those other financial institutions signatory thereto, as lenders, as the same may be amended, restated, modified, replaced, refinanced or supplemented from time to time.

“Senior Subordinated Notes” means those certain 12% Senior Subordinated Notes of the Partnership due March 2, 2008 issued pursuant to the Securities Purchase Agreements, as the same may be amended, restated, modified, replaced, refinanced or supplemented from time to time.

“Subsidiary Partnership” shall mean GC-SUN Holdings II, L.P., a Delaware limited partnership.

“SunSub Units” shall mean the following Units in the Partnership issued to SunSub: (i) 49,000 Class B Units and (ii) 659.352 Class F Units.

“Unit” shall have the meaning set forth in the Partnership Agreement.

Section 8.2 **Other Interpretive Provisions.** The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Exhibit references are to this Agreement unless otherwise specified. The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE IX.
GENERAL PROVISIONS

Section 9.1 **Expenses.** Each party to this Agreement shall pay all fees and expenses incurred by it in connection with this Agreement and the transactions contemplated by this Agreement.

Section 9.2 **Notices.** Any notices or other communications required or permitted under, or otherwise in connection with, this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or upon confirmation of receipt when transmitted by facsimile transmission (but only if followed by transmittal by national overnight courier or hand for delivery on the next Business Day) or on receipt after dispatch by registered or certified mail, postage prepaid, addressed, or on the next Business Day if transmitted by national overnight courier, in each case as follows:

- (a) if to any of the SunSource Entities, to:

The Hillman Companies, Inc.
10590 Hamilton Road
Cincinnati, OH, 45231
Facsimile: (215) 282-1290
Attention: James P. Waters

with a copy to (but not as required notice hereunder):

Piper Marbury Rudnick & Wolfe LLP
1200 19th Street, N.W.
Washington, D.C. 20036
Facsimile: (202) 223-2085
Attention: Anthony H. Rickert, Esq.

- (b) if to the Partnership, to:

GC-SUN Holdings, L.P.
c/o Glencoe Capital, L.L.C.
190 S. LaSalle Street, Suite 2330
Chicago, Illinois 60603
Facsimile: (312) 795-0455
Attention: Ronald D. Wray

with a copy to (but not as required notice hereunder):

Latham & Watkins
233 S. Wacker Drive
Sears Tower, Suite 5800
Chicago, Illinois 60606
Telecopy: (312) 993-9767
Attention: Mark D. Gerstein, Esq.

or such other address as the person to whom notice is to be given has furnished in writing to the other parties. A notice of change in address shall not be deemed to have been given until received by the addressee.

Section 9.3 **Headings; Table of Contents**. The descriptive headings contained in this Agreement and table of contents of this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 9.4 **Severability**. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

Section 9.5 **Entire Agreement**. This Agreement (including all exhibits, documents, and materials hereunder referred to) constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, among the parties hereto with respect to the subject matter hereof.

Section 9.6 **Assignment**. This Agreement may not be assigned (by operation of law or otherwise) by the SunSource Entities without the prior written consent of the Partnership, which consent shall not be unreasonably withheld. This Agreement may not be assigned (by operation of law or otherwise) by the Partnership without the prior written consent of SunSource, which consent may be granted or withheld in its sole discretion, except that the Partnership may, without the prior written consent of any SunSource Entity, transfer or assign this Agreement by operation of law or otherwise to any wholly-owned Affiliate of the Partnership, provided the Partnership remains bound by its obligations under this Agreement. Notwithstanding anything in this Agreement, including, without limitation, this Section 9.6, (a) the Partnership may, without the prior consent of any Person, collaterally assign any or all of its rights under this Agreement to the lenders, or agents therefor, providing any financing to the Partnership and (b) any of the SunSource Entities may, without the prior consent of any Person, collaterally assign any or all of its rights under this Agreement to the Bank of America. Any attempted assignment in violation of this Section 9.7 shall be null and void.

Section 9.7 **No Third Party Beneficiaries**. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or

equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 9.8 **Amendment.** This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

Section 9.9 **Waiver.** Any party to this Agreement may (a) extend the time for the performance of any of the obligations or other acts of any other party, (b) waive any inaccuracies in the representations and warranties of another party contained herein or in any document delivered by another party pursuant hereto, or (c) waive compliance with any of the covenants, agreements or conditions of another party contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

Section 9.10 **GOVERNING LAW; WAIVER OF JURY TRIAL.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO ANY CONFLICTS OF LAWS. ALL ACTIONS AND PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE HEARD AND DETERMINED IN ANY FEDERAL COURT SITTING IN THE COUNTY OF NEW CASTLE, UNLESS THERE IS NO FEDERAL COURT JURISDICTION, IN WHICH CASE THE ACTION OR PROCEEDING SHALL BE HEARD AND DETERMINED IN ANY STATE COURT SITTING IN THE COUNTY OF NEWCASTLE, AND THE PARTIES HERETO HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH ACTION OR PROCEEDING AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM WITH RESPECT THERETO. THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS-COMPLAINT IN ANY ACTION OR OTHER PROCEEDING BROUGHT BY ANY PARTY HERETO AGAINST ANY OTHER PARTY OR PARTIES HERETO WITH RESPECT TO ANY MATTER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH OR RELATED TO, THIS AGREEMENT OR ANY PORTION THEREOF, WHETHER BASED UPON CONTRACTUAL, STATUTORY, TORTIOUS OR OTHER THEORIES OF LIABILITY. EACH PARTY IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO SUCH PARTY AT ITS ADDRESS FOR NOTICE UNDER SECTION 9.2 OF THIS AGREEMENT. NOTHING IN THIS SECTION 9.10 SHALL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW. THE CONSENTS TO JURISDICTION SET FORTH IN THIS SECTION 9.10 SHALL NOT CONSTITUTE GENERAL CONSENTS TO SERVICE OF PROCESS IN THE VENUES SPECIFIED ABOVE AND SHALL HAVE NO EFFECT FOR ANY PURPOSE EXCEPT AS PROVIDED IN THIS SECTION 9.10 AND SHALL NOT BE DEEMED TO CONFER RIGHTS ON ANY PERSON OTHER THAN THE PARTIES HERETO.

Section 9.11 **Specific Performance.** Each of the parties hereto acknowledges and agrees that the other parties hereto would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the parties hereto agrees that the other parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to specifically enforce this Agreement and the terms and provisions hereof in any action instituted in any court having jurisdiction over the parties hereto and the matter (subject to the provisions set forth in this Section 9.11 of this Agreement), in addition to any other remedy to which they may be entitled, at law or in equity.

Section 9.12 **Counterparts.** This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

GC-SUN HOLDINGS, L.P.

By: GC-SUN G.P., Inc., its general partner

By: /s/ Ronald D. Wray

Name:
Title:

THE HILLMAN COMPANIES, INC.

By: /s/ Maurice P. Andrien, Jr.

Name: Maurice P. Andrien, Jr.
Title: Chief Executive Officer

SUNSUB HOLDINGS, LLC

By: /s/ Maurice P. Andrien, Jr.

Name: Maurice P. Andrien, Jr.
Title: Manager

Exhibit 99.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of The Hillman Companies, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Max W. Hillman, Chief Executive Officer of The Hillman Companies, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Max W. Hillman

Max W. Hillman
Chief Executive Officer
August 14, 2002

Exhibit 99.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of The Hillman Companies, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Waters, Chief Financial Officer of The Hillman Companies, Inc., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James P. Waters

James P. Waters
Chief Financial Officer
August 14, 2002