

UNITED STATES
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, 2004

Commission file number 1-13293

The Hillman Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

23-2874736

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

10590 Hamilton Avenue
Cincinnati, Ohio

(Address of principal executive offices)

45231

(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

11.6% Junior Subordinated Debentures
Preferred Securities Guaranty

Name of Each Exchange on Which Registered

None

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

On August 13, 2004 there were 6,212.9 Class A Common Shares issued and outstanding, 1,000.0 Class B Common Shares issued and outstanding, 2,787.1 Class C Common Shares issued and outstanding, 82,104.8 Class A Preferred Shares issued and outstanding by the Registrant and 57,282.4 Class A Preferred Shares issued and outstanding by the Hillman Investment Company and 4,217,724 Trust Preferred Securities issued and outstanding by the Hillman Group Capital Trust. The Trust Preferred Securities trade on the American Stock Exchange under symbol HLM.Pr.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

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THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	Successor	Predecessor
	June 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,218	\$ 1,528
Restricted investments	22	1,145
Accounts receivable, net	46,685	35,383
Inventories, net	68,031	64,772
Deferred income taxes	7,243	5,283
Other current assets	4,605	5,770
Total current assets	131,804	113,881
Property and equipment, net	62,294	64,601
Goodwill	229,655	134,725
Other intangibles, net	156,307	9,631
Deferred income taxes, net	—	20,498
Restricted investments	3,917	5,932
Deferred financing fees, net	7,323	5,638
Other assets	690	927
Total assets	\$ 591,990	\$ 355,833
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,692	\$ 16,836
Current portion of senior term loans	2,175	9,268
Current portion of capitalized lease obligations	41	54
Accrued expenses:		
Salaries and wages	2,669	4,467
Pricing allowances	6,474	8,242
Income and other taxes	2,323	1,966
Deferred compensation	22	1,145
Other accrued expenses	11,812	13,363
Total current liabilities	48,208	55,341
Long term senior term loans	214,781	51,290
Bank revolving credit	—	43,495
Long term capitalized lease obligations	121	140
Long term unsecured subordinated notes	47,544	—
Long term unsecured subordinated notes to related party	—	44,062
Junior subordinated debentures	114,626	—
Mandatorily redeemable preferred stock (Note 7)	58,766	—
Management purchased preferred options	3,342	—
Deferred compensation	3,917	5,932
Deferred income taxes, net	4,656	—
Other non-current liabilities	9,790	5,605
Total liabilities	505,751	205,865

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	Successor	Predecessor
	June 30, 2004 (Unaudited)	December 31, 2003
LIABILITIES AND STOCKHOLDERS' EQUITY (CONTINUED)		
Common stock with put options:		
Class A Common stock, \$.01 par, 23,141 shares authorized, 407.6 issued and outstanding at June 30, 2004	407	—
Class B Common stock, \$.01 par, 2,500 shares authorized, 1,000 issued and outstanding at June 30, 2004	1,000	—
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	—	102,364
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock:		
Preferred stock, \$.01 par, 1,000,000 shares authorized, none outstanding at December 31, 2003	—	—
Class A Preferred stock, \$.01 par, 238,889 shares authorized, 82,104.8 issued and outstanding at June 30, 2004	1	—
Common Stock:		
Common stock, \$.01 par, 20,000,000 shares authorized, 7,118,484 issued and outstanding at December 31, 2003	—	71
Class A Common stock, \$.01 par, 23,141 shares authorized, 5,805.3 issued and outstanding at June 30, 2004	—	—
Class C Common stock, \$.01 par, 30,109 shares authorized, 2,787.1 issued and outstanding at June 30, 2004	—	—
Additional paid-in capital	84,729	52,310
Accumulated Deficit	—	(4,647)
Accumulated other comprehensive income (loss)	102	(130)
Total stockholders' equity	84,832	47,604
Total liabilities and stockholders' equity	\$ 591,990	\$ 355,833

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands)

	Successor	Predecessor
	Three months ended June 30, 2004	Three months ended June 30, 2003
Net sales	\$ 92,636	\$ 84,263
Cost of sales	41,606	38,290
Gross profit	<u>51,030</u>	<u>45,973</u>
Operating expenses:		
Selling, general and administrative expenses	32,687	30,989
Depreciation	3,904	3,496
Amortization	2,679	372
Management fee to related party	256	450
Total operating expenses	<u>39,526</u>	<u>35,307</u>
Other (expense) income, net	(134)	131
Income from operations	11,370	10,797
Interest expense, net	4,591	3,920
Interest expense on mandatorily redeemable preferred stock	1,757	—
Interest expense on junior subordinated notes	3,058	—
Distributions on guaranteed preferred beneficial interests	—	3,058
Write-down of note receivable	—	600
Income before income taxes	1,964	3,219
Income tax provision	1,753	1,641
Net income	<u>\$ 211</u>	<u>\$ 1,578</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands)

	Successor	Predecessor	
	Three months ended June 30, 2004	Three months ended March 31, 2004	Six months ended June 30, 2003
Net sales	\$ 92,636	\$ 78,997	\$154,252
Cost of sales	41,606	35,780	69,954
Gross profit	<u>51,030</u>	<u>43,217</u>	<u>84,298</u>
Operating expenses:			
Selling, general and administrative expenses	32,687	30,999	59,189
Non-recurring expense (Note 9)	—	30,707	—
Depreciation	3,904	3,799	6,963
Amortization	2,679	321	743
Management fee to related party	256	524	900
Total operating expenses	<u>39,526</u>	<u>66,350</u>	<u>67,795</u>
Other (expense) income, net	(134)	(140)	184
Income (loss) from operations	11,370	(23,273)	16,687
Interest expense, net	4,591	3,841	7,555
Interest expense on mandatorily redeemable preferred stock	1,757	—	—
Interest expense on junior subordinated notes	3,058	3,058	—
Distributions on guaranteed preferred beneficial interests	—	—	6,116
Write-down of note receivable	—	—	6,257
Income (loss) before income taxes	1,964	(30,172)	(3,241)
Income tax provision (benefit)	<u>1,753</u>	<u>(10,856)</u>	<u>1,026</u>
Net income (loss)	<u>\$ 211</u>	<u>\$ (19,316)</u>	<u>\$ (4,267)</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Successor	Predecessor	
	Three months ended June 30, 2004	Three months ended March 31, 2004	Six months ended June 30, 2003
Cash flows from operating activities:			
Net income (loss)	\$ 211	\$ (19,316)	\$ (4,267)
Adjustments to reconcile net income (loss) to net cash (used for) operating activities:			
Depreciation and amortization	6,583	4,120	7,706
Deferred income tax	1,184	(10,287)	784
PIK interest on unsecured subordinated notes	44	506	958
Write-down of note receivable	—	—	6,257
Changes in operating items, net of effects of acquisitions:			
Increase in accounts receivable, net	(5,845)	(5,457)	(14,035)
Increase in inventories, net	(2,535)	(724)	(3,495)
Decrease (increase) in other assets	(62)	1,464	(213)
Increase in accounts payable	24	5,832	1,333
(Decrease) increase in other accrued liabilities	(30,607)	23,157	(4,902)
Other items, net	2,578	6	1,040
Net cash used for operating activities	<u>(28,425)</u>	<u>(699)</u>	<u>(8,834)</u>
Cash flows from investing activities:			
Capital expenditures	(2,781)	(2,586)	(5,890)
Other, net	6	(23)	281
Net cash used for investing activities	<u>(2,775)</u>	<u>(2,609)</u>	<u>(5,609)</u>
Cash flows from financing activities:			
Borrowings of senior term loans	217,500	—	—
Repayments of senior term loans	(61,102)	—	(4,635)
Borrowings of revolving credit loans	2,198	4,709	18,742
Repayments of revolving credit loans	(50,402)	—	—
Borrowings of unsecured subordinated notes	47,500	—	—
Repayments of unsecured subordinated notes	(44,569)	—	—
Principal payments under capitalized lease obligations	(18)	(14)	(26)
Financing fees, net	(7,592)	—	(1,437)
Purchase of predecessor common stock	(214,724)	—	—
Receipt of successor equity proceeds	147,980	—	—
Merger transaction expenses	(2,171)	—	—
Prepayment penalty	(1,097)	—	—
Net cash provided by financing activities	<u>33,503</u>	<u>4,695</u>	<u>12,644</u>
Net increase (decrease) in cash and cash equivalents	2,303	1,387	(1,799)
Cash and cash equivalents at beginning of period	2,915	1,528	2,768
Cash and cash equivalents at end of period	<u>\$ 5,218</u>	<u>\$ 2,915</u>	<u>\$ 969</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004

	Predecessor Common Stock	Successor Common Stock		Additional Paid-in Capital	Class A Preferred Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
		Class A	Class C					
Beginning Balance at December 31, 2003- Predecessor	\$ 71	\$ —	\$ —	\$ 52,310	\$ —	\$ (4,647)	\$ (130)	\$ 47,604
Net Loss						(19,316)		(19,316)
Change in cumulative foreign translation adjustment (1)							10	10
Ending Balance at March 31, 2004 - Predecessor	71	—	—	52,310	—	(23,963)	(120)	28,298
Close Predecessor's stockholder's equity at merger date	(71)	—	—	(52,310)	—	23,963	120	(28,298)
Issuance of 5,805.3 shares of Class A Common Stock		—		5,443				5,443
Issuance of 2,787.1 shares of Class C Common Stock			—	2,787				2,787
Issuance of 82,104.8 shares of The Hillman Companies, Inc. Class A Preferred Stock				78,642	1			78,643
Ending Balance at March 31, 2004 - Successor	—	—	—	86,872	1	—	—	86,873
Net Income						211		211
Dividends to shareholders				(2,143)		(211)		(2,354)
Change in cumulative foreign translation adjustment (1)							7	7
Change in derivative security value (1)							95	95
Ending Balance at June 30, 2004 - Successor	\$ —	\$ —	\$ —	\$ 84,729	\$ 1	\$ —	\$ 102	\$ 84,832

(1) The cumulative foreign translation adjustment and change in derivative value represent the only items of other comprehensive income.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, 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" or "Hillman") and its indirect, wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

On March 31, 2004, The Hillman Companies, Inc. was acquired by an affiliate of Code Hennessy & Simmons LLC ("CHS"). Pursuant to the terms and conditions of an Agreement and Plan of Merger ("Merger Agreement") dated as of February 14, 2004, the Company was merged with an affiliate of CHS with the Company surviving the merger ("Merger Transaction"). The total consideration paid in the Merger Transaction was \$511.6 million including repayment of outstanding debt and including the value of the Company's outstanding Trust Preferred Securities (\$102.3 million at merger).

Prior to the merger, Allied Capital Corporation ("Allied Capital") owned 96.8 % of the Company's common stock. As a result of the change of control, an affiliate of CHS owns 49.1% of the Company's common stock and 54.5% of the Company's voting common stock, Ontario Teacher's Pension Plan ("OTPP") owns 27.9% of the Company's common stock and 31.0% of the Company's voting common stock and HarborVest Partners VI owns 8.7% of the Company's common stock and 9.7% of the Company's voting common stock. Certain members of management own 14.1% of the Company's common stock and 4.5% of the Company's voting common stock.

CHS is a private equity firm that manages approximately \$1.56 billion in capital in four funds. The acquisition of the Company by CHS adds to their existing portfolio of middle market manufacturing and distribution businesses.

The Company's Consolidated Balance Sheet and its related Statements of Operations, Cash Flows and Changes in Stockholders' Equity for the periods presented prior to the March 31, 2004 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, 2004 and its related Statements of Operations, Cash Flows and Changes in Stockholders' Equity for three month period ended June 30, 2004 are referenced herein as the successor financial statements (the "Successor" or "Successor Financial Statements"). The accompanying Successor Financial Statements reflect the allocation of the aggregate purchase price of \$511.6, including the value of the Company's Trust Preferred Securities, to the assets and liabilities of Hillman based on fair values at the date of the merger in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations." The Company is in the process of obtaining third-party valuations of certain assets acquired in connection with the Merger Transaction. Thus, the allocation of the purchase price is subject to change. Any amounts attributable to such assets are expected to be finalized during 2004. The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price:

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

1. Basis of Presentation (continued):

Accounts receivable	\$ 40,840
Inventory	65,496
Property and equipment	63,417
Goodwill	229,655
Intangible assets	158,985
Other assets	<u>11,551</u>
Total assets acquired	<u>569,944</u>
Less:	
Liabilities assumed	45,968
Junior subordinated debentures	<u>114,725</u>
Total assumed liabilities	<u>160,693</u>
Total purchase price	<u>\$409,251</u>

The purchase price includes transaction related costs aggregating \$2,171 which were associated with CHS's purchase of the Company.

The following table indicates the pro forma financial statements of the Company for the three months ended March 31, 2004 and the six and three months ended June 30, 2003 (including non-recurring charges of \$30,707 as discussed in Note 9). The pro forma financial statements give effect to the Merger Transaction as if it had occurred on January 1, 2004 and January 1, 2003, respectively.

	<u>Three Months Ended March 31, 2004</u>	<u>Three Months Ended June 30, 2003</u>	<u>Six Months Ended June 30, 2003</u>
Net sales	\$ 78,997	\$ 84,263	\$ 154,252
Net loss	(21,031)	(117)	(7,685)

The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of the operating results that would have occurred if the acquisition had been effective January 1, 2004 and 2003, nor are they intended to be indicative of results that may occur in the future. The underlying pro forma information includes the historical financial results of the Company, the Company's financing arrangements, and certain purchase accounting adjustments.

The accompanying unaudited consolidated 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 six months ended June 30, 2004 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 filed on Form 10-K for the year ended December 31, 2003.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

2. Summary of Significant Accounting Policies:

Shipping and Handling:

The costs incurred to ship product to customers, including freight and handling expenses, are included in selling, general and administrative ("SG&A") expenses on the Company's Statements of Operations. For the three months ended June 30, 2004 and 2003, shipping and handling costs included in SG&A were \$4,245 for the Successor Company and \$4,292 for the Predecessor Company, respectively. For the three months ended March 31, 2004, shipping and handling costs included in SG&A were \$3,628 for the Predecessor Company and for the six months ended June 30, 2003, shipping and handling costs included in SG&A were \$7,861 for the Predecessor Company.

Comprehensive Income (Loss):

The components of comprehensive income (loss) were as follows:

	<u>Successor</u>	<u>Predecessor</u>	<u>Predecessor</u>	<u>Predecessor</u>
	<u>Three months ended June 30, 2004</u>	<u>Three months ended June 30, 2003</u>	<u>Three months ended March 31, 2004</u>	<u>Six months ended June 30, 2003</u>
Net income (loss)	\$ 211	\$ 1,578	\$ (19,316)	\$ (4,267)
Change in derivative security value	95	—	—	—
Foreign currency translation adjustment	7	(64)	10	(100)
Comprehensive income (loss)	<u>\$ 313</u>	<u>\$ 1,514</u>	<u>\$ (19,306)</u>	<u>\$ (4,367)</u>

Reclassifications:

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

3. Goodwill and Other Intangible Assets:

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 142 provides for the non-amortization of goodwill. Goodwill is now subject to at least an annual assessment for impairment by applying a fair value-based test. Goodwill totaling \$229,655 was recorded in connection with the Merger Transaction. Other intangible assets are amortized over their useful lives and are subject to a lower of cost or market impairment testing.

The values assigned to intangible assets in connection with the March 31, 2004 Merger Transaction were determined by a preliminary independent appraisal. The intangible asset values may be adjusted for any changes determined upon completion of work on the independent appraisal. Intangible assets as of June 30, 2004 and December 31, 2003 consist of the following:

	Successor	Predecessor
	June 30, 2004	December 31, 2003
Customer Relationships	\$101,995	\$ —
Trademarks	43,658	6,500
Patents	7,432	6,700
Proprietary Software	—	1,000
Non Compete Agreements	5,900	1,250
Intangible assets, gross	158,985	15,450
Less: Accumulated amortization	2,678	5,819
Intangible assets, net	<u>\$156,307</u>	<u>\$ 9,631</u>

The Predecessor Company’s amortization expense for amortizable assets for the three months ended March 31, 2004 was \$321. The Successor Company’s amortization expense for amortizable assets for the nine months ended December 31, 2004 is estimated to be \$8,034 and for the years ending December 31, 2005, 2006, 2007 and 2008 are estimated to be \$10,710, \$10,710, \$9,985 and \$8,350, respectively.

4. Contingencies:

Under the Company’s insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of normal claims. Beginning in 1991, the Company has retained risk on certain expected losses from both asserted and unasserted claims related to worker’s compensation, general liability and automobile as well as the health benefits of certain employees. Provisions for losses expected under these programs are recorded based on an analysis of historical insurance claim data and certain actuarial assumptions. As of June 30, 2004, the Company has provided insurers letters of credit aggregating \$4,865 related to certain insurance programs.

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 should not have a material adverse effect on the consolidated financial position, operations or cash flows of the Company.

5. Related Party Transactions:

On September 26, 2001, the Company was acquired by Allied Capital pursuant to the terms and conditions of an Agreement and Plan of Merger dated as of June 18, 2001. In connection with the Allied acquisition, the Company was obligated to pay management

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

5. Related Party Transactions (continued):

fees to a subsidiary of Allied Capital for management services rendered in the amount of \$1,800 per year, plus out of pocket expenses, for calendar years subsequent to 2001.

The Predecessor Company has recorded a management fee charge of \$524 and \$450 for the three months ended March 31, 2004 and 2003, respectively and a management fee of \$900 for the six months ended June 30, 2003. Payment of management fees was due annually after delivery of the Company's annual audited financial statements to the Board of Directors of the Company. The obligation to pay management fees to Allied Capital was terminated upon the payment of outstanding fees in the amount of \$2,324 on March 31, 2004 in connection with the close of the Merger Transaction.

On March 31, 2004, the Company was acquired by an affiliate of Code Hennessy & Simmons LLC. In connection with the CHS acquisition, the Company is obligated to pay management fees to a subsidiary of CHS in the amount of \$58 per month and to pay management fees to a subsidiary of OTPP in the amount of \$26 per month, plus out of pocket expenses, for each month commencing with the closing date of the Merger Transaction. Management fees to CHS and OTPP of \$256 have been recorded in the three months ended June 30, 2004.

The Predecessor Company incurred interest expense to Allied Capital on the subordinated debt at a fixed rate of 18.0% per annum. Cash interest payments were required on a quarterly basis at a fixed rate of 13.5% with the remaining 4.5% fixed rate (the "PIK Amount") being added to the principal balance. The subordinated debt and accrued interest thereon of \$45,571 were paid in full at March 31, 2004 in connection with the Merger Transaction.

6. Long Term Debt:

On March 31, 2004 the Company, through its Hillman Group, Inc. subsidiary, refinanced its revolving credit and senior term loans with a Senior Credit Agreement consisting of a \$40,000 revolving credit (the "Revolver") and a \$217,500 term loan (the "Term Loan"). The Senior Credit Agreement has a seven-year term and provides borrowings at interest rates based on the London Inter-bank Offered Rates (the "LIBOR") plus a margin of between 2.25% and 3.00% (the "LIBOR Margin"), or prime (the "Base Rate") plus a margin of between 1.25% and 2.0% (the "Base Rate Margin"). The applicable LIBOR Margin and Base Rate Margin is based on the Company's leverage at the date of the preceding fiscal quarter. In accordance with the Senior Credit Agreement, letter of credit commitment fees are based on the average daily face amount of each outstanding letter of credit multiplied by a Letter of Credit Margin of between 2.25% and 3.00% per annum. The Letter of Credit Margin is also based on the Company's leverage at the date of the preceding fiscal quarter. The Company also pays a Commitment fee of 0.50% per annum on the average daily unused Revolver balance.

The Senior Credit Agreement, among other provisions, contains financial covenants requiring the maintenance of specific leverage and interest coverage ratios and levels of financial position, restricts the incurrence of additional debt and the sale of assets, and permits acquisitions with the consent of the lenders.

On March 31, 2004 the Company, through its Hillman Group, Inc. subsidiary, issued \$47,500 of unsecured subordinated notes to Allied Capital Corporation maturing on September 30, 2011 ("Subordinated Debt Issuance"). Interest on the Subordinated Debt Issuance is at a fixed rate of 13.5% per annum, with cash interest payments required on a quarterly basis at a fixed rate of 11.25% commencing April 15, 2004. The outstanding principal balance of the Subordinated Debt Issuance shall be increased on a quarterly basis at the remaining 2.25% fixed rate (the "PIK Amount"). All of the PIK Amounts are due on the maturity date of the Subordinated Debt Issuance.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

6. Long Term Debt (continued):

The Company is subject to a prepayment charge on the Subordinated Debt equal to 6% of the outstanding principal if paid prior to March 31, 2006, 3% of the outstanding principal if paid after March 31, 2006 but prior to March 31, 2007 and 1% of the outstanding principal if paid after March 31, 2007 but before March 31, 2008.

The Company incurred financing fees of \$6,539 and \$1,053 in connection with the Senior Credit Agreement and the Subordinated Debt issuance, respectively. These fees were capitalized as deferred financing fees as of March 31, 2004 and will be amortized over the lives of the respective credit agreements.

7. Common and Preferred Stock:

Common Stock issued in connection with the Merger Transaction:

There are 23,141 authorized shares of Class A Common Stock, 6,212.9 of which are issued and outstanding. Each share of Class A Common Stock entitles its holder to one vote. Each holder of Class A Common Stock is entitled at any time to convert any or all of the shares into an equal number of shares of Class C Common Stock.

There are 2,500 authorized shares of Class B Common Stock, 1,000 of which are issued and outstanding. Holders of Class B Common Stock have no voting rights. The Class B Common was issued to certain members of the Company's management and is subject to vesting over five years with 20% vesting on each anniversary of the Merger Transaction.

In connection with the Merger Transaction, certain members of management entered into an Executive Securities Agreement ("ESA"). The ESA provides for the method and terms under which management proceeds were invested in the Company. Under the terms of the ESA, management shareholders have the right to put their Class A Common Stock and Class B Common Stock back to the Company at fair market value if employment is terminated for other than cause. If terminated for cause, the management shareholders can generally put the Class A Common Stock and Class B Common Stock back to the Company for the lower of the fair market value or cost. Accounting Series Release No. 268 requires certain securities whose redemption is not in the control of the issuer to be classified outside of permanent equity. The put feature embedded in management's Class A Common Stock and Class B Common Stock allow redemption at the holder's option under certain circumstances. Accordingly, management's 407.6 Class A Common Stock shares and 1,000 Class B Common Stock shares have been classified between liabilities and stockholder's equity in the accompanying Consolidated Balance Sheet.

There are 30,109 authorized shares of Class C Common Stock, 2,787.1 of which are issued and outstanding. Each share of Class C Common Stock entitles its holder to one vote, provided that the aggregate voting power of Class C Common Stock (with respect to the election of directors) never exceeds 30%. Each holder of Class C Common Stock is entitled at any time to convert any or all of the shares into an equal number of shares of Class A Common Stock.

Preferred Stock issued in connection with the Merger Transaction:

The Company has 238,889 authorized shares of Class A Preferred Stock, 82,104.8 of which are issued and outstanding and 13,450.7 of which are reserved for issuance upon the exercise of options to purchase shares of Class A Preferred Stock. Holders of Class A Preferred Stock are not entitled to any voting rights. Holders of Class A Preferred Stock are entitled to preferential dividends that shall accrue on a daily basis at the rate of 11.5% per annum of the sum of the Liquidation Value (as defined in the Certificate of Incorporation) thereof plus all accumulated and unpaid dividends thereon.

Hillman Investment Company, a subsidiary of the Company, has 166,667 authorized shares of Class A Preferred Stock, 57,282.4 of which are issued and outstanding and 9,384.2 of which are reserved for issuance upon the exercise of options to purchase shares of

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7. Common and Preferred Stock (continued):

Class A Preferred Stock. Holders of Class A Preferred Stock are not entitled to any voting rights. Holders of Class A Preferred Stock are entitled to preferential dividends that shall accrue on a daily basis at the rate of 11.0% per annum of the sum of the Liquidation Value (as defined in the Certificate of Incorporation) thereof plus all accumulated and unpaid dividends thereon.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 requires certain financial instruments with both debt and equity characteristics to be classified as debt. The statement requires initial and subsequent valuation of this debt at a present or fair market value and was effective July 1, 2003. The Hillman Investment Company Class A Preferred Stock is mandatorily redeemable on March 31, 2028 and in accordance with SFAS 150 has been classified as debt in the accompanying June 30, 2004 Balance Sheet.

Dividends on the mandatorily redeemable Class A Preferred Stock for the three months ended June 30, 2004 are included in interest expense on the accompanying consolidated statements of operations.

Stock Options:

On March 30, 2004, the Company granted 1,085,116 common stock options under the SunSource Inc. 2001 Stock Incentive Plan (the "2001 Incentive Plan"). The options were issued with an exercise price below the fair market value of the common stock on the grant date. The fair value of the stock on March 30, 2004 was \$29.20 per share and the weighted average exercise price was \$6.76 per share. Compensation expense of \$24,353 was recorded in the first quarter of 2004 for the excess of the fair market value over the exercise price.

Prior to the Merger Transaction the Company had 349,641 options issued in connection with the 1998 SunSource Equity Compensation Plan ("1998 Incentive Plan"). The options were 100% vested and had a weighted average strike price of \$4.19 per share. In connection with the Merger Agreement, 154,641 of the 1998 Incentive Plan options and 75,714 of the 2001 Incentive Plan options were cancelled and converted into rights to receive options to purchase 3,895.16 shares of Hillman Companies, Inc. Class A Preferred Stock and 2,717.55 shares of Hillman Investment Company Class A Preferred Stock (collectively the "Purchased Options"). The Purchased Options have a weighted average strike price of \$170.69. The fair value of the Hillman Investment Company Class A Preferred Stock options have been included with the underlying security in the accompanying Consolidated Balance Sheets. SFAS 150 requires security instruments with a redemption date that is certain to occur to be classified as liabilities. Thus, The Hillman Companies, Inc. Class A Preferred Stock options, which have a March 31, 2028 expiration date, have been classified at their fair market value in the liability section of the accompanying Consolidated Balance Sheets. To the extent the Company pays a dividend to holders of the Class A Preferred Stock and the Hillman Investment Company Class A Preferred Stock, the Purchased Option Holder will be entitled to receive an amount equal to the dividend which would have been paid if the Purchased Options had been exercised on the date immediately prior to the record date for the dividend. Additionally, under the terms of the ESA, the Purchased Options can be put back to the Company at fair market value if employment is terminated.

The remaining 1998 Incentive Plan Options and 2001 Incentive Plan Options were cancelled and converted into rights to receive a pro rata share of the merger consideration. The 1998 Incentive Plan and the 2001 Incentive Plan were then terminated.

On March 31, 2004, the Company's adopted The Hillman Companies, Inc. 2004 Stock Option Plan ("Common Option Plan") following Board and shareholder approval. Grants under the

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7. Common and Preferred Stock (continued):

Common Option Plan will consist of non-qualified stock options for the purchase of Class B Common Shares. The number of Class B Common Shares authorized for issuance under the Common Option Plan is not to exceed 256.41 shares. Unless otherwise consented to by the Board, the aggregate number of Class B Common Shares for which options may be granted under the Common Option Plan cannot exceed 51.28 in any one calendar year.

The Common Option Plan is administered by a Committee of the Board. The Committee determines the term of each option, provided, however, that the exercise period may not exceed ten years from date of grant. No options have been awarded under the Common Option Plan as of June 30, 2004.

On March 31, 2004, certain members of the Company's management were granted options to purchase 9,555.5 shares of Class A Preferred Stock and 6,666.7 shares of Hillman Investment Company Class A Preferred Stock (collectively the "Preferred Options"). The Preferred Options vest over five years with 20% vesting on each anniversary of the Merger Transaction.

8. Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures:

In September 1997, The Hillman Group Capital Trust ("Trust"), a Grantor trust, completed a \$105.4 million underwritten public offering of 4,217,724 11.6% Trust Preferred Securities ("TOPrS"). The Trust invested the proceeds from the sale of the preferred securities and the related common securities in an equal principal amount of 11.6% Junior Subordinated Debentures of Hillman due September 2027. The Trust distributes monthly cash payments it receives from the Company as interest on the debentures to preferred security holders at an annual rate of 11.6% on the liquidation amount of \$25 per preferred security. The Company may defer interest payments on the debentures at any time, for up to 60 consecutive months. If this occurs, the Trust will also defer distribution payments on the preferred securities. The deferred distributions, however, will accumulate distributions at a rate of 11.6% per annum. The Trust will redeem the preferred securities when the debentures are repaid, or at maturity on September 30, 2027. The Company may redeem the debentures before their maturity at a price equal to 100% of the principal amount of the debentures redeemed, plus accrued interest. When the Company redeems any debentures before their maturity, the Trust will use the cash it receives to redeem preferred securities and common securities as provided in the trust agreement. The Company guarantees the obligations of the Trust on the Trust Preferred Securities.

The Company has determined that the Trust is a variable interest entity and (ii) the Company is not the primary beneficiary of the Trust pursuant to the provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"). Accordingly, pursuant to the requirements of FIN 46R, the Company has de-consolidated the Trust at March 31, 2004. Summarized below is the condensed financial information of the Trust as of June 30, 2004.

Non-current assets- junior subordinated debentures	\$114,626
Non-current liabilities - Trust Preferred Securities	\$114,626

The non-current assets for the Trust relate to its investment in the 11.6% junior subordinated deferrable interest debentures of Hillman due September 30, 2027.

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8. Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures (continued):

In accordance with SFAS 150, the TOPrS constitute mandatorily redeemable financial instruments. The Company guarantees the obligations of the Trust on the Trust Preferred Securities. Upon adoption of SFAS 150 on January 1, 2004, the guaranteed preferred beneficial interest in the Company's Junior Subordinated Debentures have been reclassified prospectively from the mezzanine section to the long-term liabilities section of the Consolidated Balance Sheet. Items previously shown separately on the Consolidated Statement of Operations as preferred security distributions of guaranteed preferred beneficial interests are classified as interest expense in the current period in accordance with the requirements of SFAS 150.

On March 31, 2004, the Junior Subordinated Debentures were recorded at the fair value of \$114,725 based on the price underlying the Trust Preferred Securities of \$27.20 per share upon close of trading on the American Stock Exchange on that date. The Company is amortizing the premium on the Junior Subordinated Debentures of \$9,279 over their remaining life in the amount of \$99 per quarter. At June 30, 2004, the value of the Junior Subordinated Debentures, net of premium amortization, was \$114,626.

9. Non-Recurring Expense:

In the quarter ended March 31, 2004, the Company incurred \$30,707 of non-recurring, one-time charges. The charges included a \$24,353 expense for stock options granted in connection with the Merger Transaction at an exercise price below fair market value. See Note 7, Common and Preferred Stock for additional details. Payroll taxes on the stock option grant of \$397 were also recorded in the first quarter of 2004. In addition, the Company recorded Merger Transaction costs incurred by the selling shareholders which consisted primarily of investment banking and legal fees of \$4,035. Finally, in connection with the Merger Transaction the Company awarded bonuses to certain members of management totaling \$1,922.

10. Note Receivable:

On April 13, 2002, the Company entered into a Unit Repurchase Agreement with GC-Sun Holdings, L.P. ("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 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 was 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 was subject to certain restrictions under the terms of the subordinated note agreement. If such restrictions did not permit the current payment of interest in cash when due, accrued interest was added to the principal.

In February 2003, G-C sold the assets of its largest operating division, Kar Products. The proceeds of the sale were primarily used to pay down G-C's senior creditors. Following the sale of Kar Products, the Company estimated the enterprise value of G-C based on the cash flows and book value of the remaining operating division under a held for sale methodology. The excess of the estimated enterprise value less debt obligations senior to the G-C note were determined to be insufficient to support the value of the G-C note and accrued interest. Accordingly, the Company recorded a \$5,657 charge to income in the first quarter of 2003 and a \$600 charge to income in the second quarter of 2003 to write-down the face value of the note and accrued interest thereon to its estimated future cash flows. The Company recorded additional charges to income of \$5,000 in the remainder of 2003 for changes in the assessments of the estimated amounts recoverable under the note. On March 30, 2004, the G-C note was distributed to the Predecessor common shareholders of the Company.

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11. Derivatives and Hedging:

The Company uses derivative financial instruments to manage its exposures to interest rate fluctuations on its floating rate senior debt. The derivative instruments are accounted for pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize changes in the fair value of derivatives in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures.

On April 28, 2004, the Company entered into an Interest Rate Swap Agreement ("Swap") with a two-year term for a notional amount of \$50 million. The Swap fixes the interest rate on \$50 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter.

The Swap has been designated as a cash flow hedge and the fair value at June 30, 2004 was \$95, net of \$63 in taxes. The Swap is reported on the consolidated balance sheet in other assets. The related deferred gain on our swap agreements of \$95 has been deferred in shareholders' equity as a component of other comprehensive income. This deferred gain is then recognized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recorded in interest expense. Gains and losses associated with the ineffective portion of the Swap are immediately recognized in earnings. For the period from the inception of the Swap to June 30, 2004 the gains and losses on the ineffective portion of the Swap were not material to the consolidated financial statements.

12. Stock Based Compensation:

The Company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock based employee compensation plans. On March 31, 2004 the Company recognized compensation expense for certain options granted under the stock option plan of the Predecessor with an exercise price less than the market value of the underlying common stock on the date of grant (See Note 7, Common and Preferred Stock).

In connection with the Merger Transaction, the Company granted options to purchase shares of Preferred Stock to certain members of management. The exercise price of the options was equal to the market price of the underlying stock on the date of grant and accordingly no compensation expense was recorded. The Company is subject to the disclosure rules of SFAS 123, Accounting for Stock Based Compensation. Management has determined that the impact of SFAS 123 on net income and stockholders' equity was not material as of and for the quarter ended June 30, 2004.

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"), is one of the largest providers of value-added merchandising services and hardware-related products to retail markets in North America. 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.

On March 31, 2004, The Hillman Companies, Inc. was acquired by an affiliate of Code Hennessy & Simmons LLC ("CHS"). Pursuant to the terms and conditions of an Agreement and Plan of Merger ("Merger Agreement") dated as of February 14, 2004, the Company was merged with an affiliate of CHS with the Company surviving the merger ("Merger Transaction"). The total consideration paid in the Merger Transaction was \$511.6 million including repayment of outstanding debt and including the value of the Company's outstanding Trust Preferred Securities (\$102.3 million at merger).

Prior to the Merger Transaction, Allied Capital Corporation ("Allied Capital") owned 96.8 % of the Company's common stock. As a result of the change of control, an affiliate of CHS owns 49.1% of the Company's common stock and 54.5% of the Company's voting common stock, Ontario Teacher's Pension Plan ("OTPP") owns 27.9% of the Company's common stock and 31.0% of the Company's voting common stock and HarborVest Partners VI owns 8.7% of the Company's common stock and 9.7% of the Company's voting common stock. Certain members of management own 14.1% of the Company's common stock and 4.5% of the Company's voting common stock.

Financing Arrangements

On March 31, 2004, the Company, through its Hillman Group subsidiary, refinanced its revolving credit and senior term loans with a Senior Credit Agreement consisting of a \$40.0 million revolving credit (the "Revolver") and a \$217.5 million term loan (the "Term Loan"). The Senior Credit Agreement has a seven-year term and provides borrowings at interest rates based on the London Interbank Offered Rates (the "LIBOR") plus a margin of between 2.25% and 3.00% (the "LIBOR Margin"), or prime (the "Base Rate") plus a margin of between 1.25% and 2.0% (the "Base Rate Margin"). The applicable LIBOR Margin and Base Rate Margin is based on the Company's leverage at the date of the preceding fiscal quarter. In accordance with the Senior Credit Agreement, letter of credit commitment fees are based on the average daily face amount of each outstanding letter of credit multiplied by a Letter of Credit Margin of between 2.25% and 3.00% per annum. The Letter of Credit Margin is also based on the Company's leverage at the date of the preceding fiscal quarter. The Company also pays a Commitment fee of 0.50% per annum on the average daily unused Revolver balance.

On March 31, 2004, the Company, through its Hillman Group subsidiary, issued \$47.5 million of unsecured subordinated notes to Allied Capital maturing on September 30, 2011 ("Subordinated Debt Issuance"). Interest on the Subordinated Debt Issuance is at a fixed rate of 13.5% per annum, with cash interest payments required on a quarterly basis at a fixed rate of 11.25% commencing April 15, 2004. The outstanding principal

balance of the Subordinated Debt Issuance shall be increased on a quarterly basis at the remaining 2.25% fixed rate (the "PIK Amount"). All of the PIK Amounts are due on the maturity date of the Subordinated Debt Issuance.

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.

On April 28, 2004, the Company entered into an Interest Rate Swap Agreement ("Swap") with a two-year term for a notional amount of \$50.0 million. The Swap fixes the interest rate on \$50.0 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter.

Results of Operations

Three Months Ended June 30, 2004 and 2003

Net sales increased \$8.4 million or 10.0% in the second quarter of 2004 to \$92.6 million from \$84.3 million in 2003. Franchise and independent ("F&I") accounts increased \$3.5 million from the comparable period in 2003. The increased F&I sales were the result of improved economic activity at the retail level and increased sales of galvanized fasteners used in the newly formulated treated lumber. The F&I accounts are typically individual hardware dealers who are members of larger cooperatives, such as TruServ, Ace, and Do-It-Best. Sales to national accounts represented \$3.0 million of the \$8.4 million total sales increase in the second quarter primarily as a result of increased fastener sales to Lowe's and Tractor Supply and increased keys and letters, numbers, and signs ("LNS") sales to Home Depot. Other sales, including regional accounts and engraving products were up \$1.9 million compared to the second quarter of 2003.

The Company's gross profit was 55.1% in the second quarter of 2004 compared to 54.6% in the second quarter of 2003. The margin rate increase from the prior year was the result of production efficiencies following the December 2003 consolidation of the Rockford packaging and distribution facility into the Company's Cincinnati facility.

The Company's consolidated selling, general and administrative expenses ("S,G&A") increased \$1.7 million or 5.5% from \$31.0 million in the second quarter of 2003 to \$32.7 million in the second quarter of 2004. Selling expenses increased \$2.9 million or 20.7% primarily as a result of an increase in service labor and outside service cost for newly opened national account locations and an increase in the use of pricing labels for the conversion of merchant displays to reflect the recent fastener price increase. Warehouse and delivery expenses increased \$1.0 million or 9.5% primarily as a result of increased freight and labor on the increased sales volume. General and administrative expenses decreased by \$2.1 million in the second quarter of 2004 compared to the second quarter of 2003. This decrease was primarily the result of the payment of a \$1.2 million medical claim in the second quarter of 2003 together with reduced medical claims experience in the same period of 2004.

Total S,G&A expenses in the second quarter of 2004 expressed as a percentage of sales compared with the second quarter of 2003 are as follows:

As a % of Sales	Three Months ended June 30,	
	2004	2003
Selling Expenses	18.2%	16.7%
Warehouse and Delivery Expenses	12.4%	12.5%
General and Administrative Expenses	4.7%	7.6%
Total S,G&A Expenses	35.3%	36.8%

Income from operations for the second quarter of 2004 was \$11.4 million compared with income of \$10.8 million for the same prior-year period, representing an increase of \$0.6 million. The increase in income from operations in the second quarter of 2004 was the result of the 10.0% higher sales and the resulting 10.9% increase in gross profit.

The Company's consolidated operating profit margin (income from operations as a percentage of sales) decreased from 12.8% in the second quarter of 2003 to 12.3% in 2004. The operating profit margin decrease was the result of an increase in amortization expense related to intangible assets recorded in connection with the March 31, 2004 Merger Transaction.

Depreciation expense increased \$0.4 million to \$3.9 million in the second quarter of 2004 from \$3.5 million in the same quarter of 2003.

Amortization expense of \$2.7 million in the second quarter of 2004 increased from \$0.4 million in the same quarter of 2003 as a result of the increase in amortizable intangible assets related to the Merger Transaction.

The Company has recorded a management fee charge of \$0.26 million for the second quarter of 2004 and \$0.45 million for the second quarter of 2003. The Company is obligated to pay management fees to a subsidiary of CHS for management services rendered in the amount of fifty-eight thousand dollars per month, plus out of pocket expenses, and to pay management fees to a subsidiary of Ontario Teacher's Pension Plan for management services rendered in the amount of twenty-six thousand dollars per month, plus out of pocket expenses, for each month commencing with the closing date of the Merger Transaction. The Company was obligated to pay management fees to a subsidiary of Allied Capital for management services rendered in the amount of \$1.8 million, plus out of pocket expenses, for calendar years subsequent to 2001. The payment of management fees was due annually after delivery of the Company's annual audited financial statements to the Board of Directors of the Company. The obligation to pay management fees to Allied Capital was terminated upon the payment of outstanding fees in the amount of \$2.3 million on March 31, 2004 in connection with the close of the Merger Transaction.

In February 2003, G-C Sun Holdings, L.P. ("G-C") sold the assets of its largest operating division, Kar Products. The proceeds of the sale were primarily used to pay down G-C's senior creditors. Following the sale of Kar Products, the Company estimated the enterprise value of G-C based on the cash flows and book value of the remaining operating division. The excess of the estimated enterprise value less debt obligations senior to the G-C note were determined to be insufficient to support the value of the G-C note. Accordingly, the Company recorded a \$5.7 million charge to income in the first quarter of 2003 and a \$0.6 million charge to income in the second quarter of 2003 to write-down the face value of the note and accrued interest thereon to its estimated future cash flows. The Company recorded additional charges to income of \$5.0 million in the remainder of 2003 for changes in the assessments of the estimated amounts recoverable under the note.

Interest expense from credit facilities, net of interest income, increased \$0.7 million to \$4.6 million in the second quarter of 2004 from \$3.9 million in the same period of 2003. The interest expense increase was the result of increased Company debt related to the Merger Transaction.

Interest expense on mandatorily redeemable preferred stock was \$1.8 million in the second quarter of 2004. Because this interest expense related to the Merger Transaction, there was no such expense incurred in the same period of 2003.

For the three months ended June 30, 2004 the Company paid \$3.1 million in interest on the Junior Subordinated Debentures and for the three months ended June 30, 2003 the Company paid \$3.1 million in interest distributions on the guaranteed preferred beneficial interests. These interest payments were 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 international operations 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 \$1.8 million on pre-tax income of \$2.0 million in the second quarter of 2004. The effective tax rate in the second quarter of 2004 was 89.3% compared to 51.0% in the second quarter of 2003. The increase in the effective tax rate is primarily the result of the \$1.8 million of interest expense on the mandatorily redeemable preferred stock recorded in the second quarter of 2004 which is not deductible for tax purposes.

Six Months Ended June 30, 2004 and 2003

Net sales increased \$17.3 million or 11.2% in the first six months of 2004 to \$171.6 million from \$154.3 million in the same period of 2003. Sales to national accounts represented \$8.6 million of the \$17.3 million total sales increase in the first half primarily as a result of increased fastener, keys, and LNS sales to Lowe's, increased keys and LNS sales to Home Depot, and increased keys sales to Wal-Mart. Franchise and independent accounts increased \$6.1 million from the comparable period in 2003. The increased F&I sales were the result of improved economic activity at the retail level and increased sales of galvanized fasteners used in the newly formulated treated lumber. The F&I accounts are typically individual hardware dealers who are members of larger cooperatives, such as TruServ, Ace, and Do-It-Best. Other sales, including regional accounts and engraving products were up \$2.6 million compared to the first half of 2003.

The Company's gross profit was 54.9% in the first half of 2004 compared to 54.6% in the first half of 2003. The margin rate increase from the prior year was the result of production efficiencies following the December 2003 consolidation of the Rockford packaging and distribution facility into the Company's Cincinnati facility.

The Company's consolidated selling, general and administrative expenses ("S,G&A") increased \$4.5 million or 7.6% from \$59.2 million in the first half of 2003 to \$63.7 million in the first half of 2004. Selling expenses increased \$4.8 million or 17.1% primarily as a result of an increase in service labor and outside service cost for newly opened national account locations and conversion of merchant displays in existing locations. Warehouse and delivery expenses increased \$1.8 million or 9.1% primarily as a result of increased freight and labor of \$1.3 million on increased sales volume. General and administrative expenses decreased by \$2.1 million in the first half of 2004 compared to the first half of 2003 as a result in a substantial decrease in medical expense and the elimination of several positions from our Corporate Group and the Tempe and Rockford facilities.

Total S,G&A expenses in the first half of 2004 expressed as a percentage of sales compared with the first half of 2003 are as follows:

As a % of Sales	Six Months ended June 30,	
	2004	2003
Selling Expenses	19.1%	18.2%
Warehouse and Delivery Expenses	12.6%	12.8%
General and Administrative Expenses	5.4%	7.4%
Total S,G&A Expenses	37.1%	38.4%

Loss from operations for the first half of 2004 was \$11.9 million compared with income of \$16.7 million for the same prior-year period, representing a decrease of \$28.6 million. The decrease in income from operations was the result of \$30.7 million in stock option compensation expense, management incentive fees, investment banking and legal fees incurred in connection with the Merger Transaction.

The Company's consolidated operating profit margin (income from operations as a percentage of sales) decreased from 10.8% in the first half of 2003 to (6.9%) in 2004. The operating profit margin decrease was principally the result of non-recurring expenses related to the Merger Transaction of \$4.0 for investment banking and legal fees, \$1.9 million in management incentives, and \$24.8 million in stock option compensation and related payroll taxes. The consolidated operating profit margin, net of non-recurring Merger Transaction costs of \$30.7 million, was \$18.8 million or 11.0% expressed as a percentage of sales.

Depreciation expense increased \$0.7 million to \$7.7 million in the first half of 2004 from \$7.0 million in the same period of 2003.

Amortization expense of \$3.0 million in the first half of 2004 increased from \$0.7 million in the same period of 2003 as a result of the increase in amortizable intangible assets related to the Merger Transaction.

The Company has recorded a management fee charge of \$0.78 million for the first half of 2004 and \$0.9 million for the first half of 2003. The Company is obligated to pay management fees to a subsidiary of CHS for management services rendered in the amount of fifty-eight thousand dollars per month, plus out of pocket expenses, and to pay management fees to a subsidiary of Ontario Teacher's Pension Plan for management services rendered in the amount of twenty-six thousand dollars per month, plus out of pocket expenses, for each month commencing with the closing date of the Merger Transaction. The Company was obligated to pay management fees to a subsidiary of Allied Capital for management services rendered in the amount of \$1.8 million, plus out of pocket expenses, for calendar years subsequent to 2001. The payment of management fees was due annually after delivery of the Company's annual audited financial statements to the Board of Directors of the Company. The obligation to pay management fees to Allied Capital was terminated upon the payment of outstanding fees in the amount of \$2.3 million on March 31, 2004 in connection with the close of the Merger Transaction.

In February 2003, G-C Sun Holdings, L.P. ("G-C") sold the assets of its largest operating division, Kar Products. The proceeds of the sale were primarily used to pay down G-C's senior creditors. Following the sale of Kar Products, the Company estimated the enterprise value of G-C based on the cash flows and book value of the remaining operating division. The excess of the estimated enterprise value less debt obligations senior to the G-C note were determined to be insufficient to support the value of the G-C note. Accordingly, the Company recorded a \$5.7 million charge to income in the first quarter of 2003 and a \$0.6 million charge to income in the second quarter of 2003 to write-down the face value of the note and accrued interest thereon to its estimated future cash flows. The Company recorded additional charges to income of \$5.0 million in the remainder of 2003 for changes in the assessments of the estimated amounts recoverable under the note.

Interest expense from credit facilities, net of interest income, increased \$0.8 million to \$8.4 million in the first half of 2004 from \$7.6 million in the same period of 2003. The interest expense increase was primarily the result of increased Company debt related to the Merger Transaction and the amortization of additional deferred financing costs.

Interest expense on mandatorily redeemable preferred stock was \$1.8 million in the first half of 2004. Because this interest expense related to the Merger Transaction, there was no such expense incurred in the same period of 2003.

For the six months ended June 30, 2004 the Company paid \$6.1 million in interest on the Junior Subordinated Debentures and for the six months ended June 30, 2003 the Company paid \$6.1 million in interest distributions on the guaranteed preferred beneficial interests. These interest payments were 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 international operations 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 benefit for income taxes of \$9.1 million on pre-tax losses of \$28.2 million in the first half of 2004. The effective tax rate in the first half of 2004 was 32.30% compared to (31.7%) in the first half of 2003. The change in the effective tax rate is due to the increase in the pre-tax loss because of the non-recurring expense incurred in the first half of 2004 along with a decrease in the permanent tax items in 2004 when compared to 2003 which include certain costs associated with the Merger Transaction and the write-down of the face value of the G-C Note in 2003.

Cash Flows

The statements of cash flows reflect the changes in cash and cash equivalents for the three months ended June 30, 2004 (Successor), the Merger Transaction on March 31, 2004 (Successor), the three months ended March 31, 2004 (Predecessor), and the six months ended June 30, 2003 (Predecessor) by classifying transactions into three major categories: operating, investing and financing activities. The cash flows from the March 31, 2004 Merger Transaction are separately discussed below.

Merger Transaction

In connection with Merger Transaction the Company issued Common Stock and Preferred Stock for \$148.0 million in cash. Proceeds from the refinancing of the Senior Credit Agreement and the Subordinated Debt Issuance net of financing fees of \$7.6 million provided an additional \$259.8 million. The debt and equity proceeds were used to repay existing senior and subordinated debt and accrued interest thereon of \$154.9 and to repurchase existing shareholder's common equity of \$214.7 million and \$24.8 million in compensation for stock options and related payroll taxes. The remainder of the proceeds was used to pay transaction expenses of \$2.2 million and a senior credit prepayment penalty of \$1.1 million.

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.

Excluding \$26.1 million in cash used for the Merger Transaction discussed above, cash used by operating activities for the first six months of 2004 was \$3.0 million compared to \$8.8 million in the same prior year period. Operating cash outflows have historically been the highest in the first and second fiscal quarters as sales volume and inventory levels generally increase as the Company approaches the stronger spring and summer selling seasons. The seasonal working capital impact was less pronounced in the first six months of 2004 as the net operating assets including inventory, receivables and payables increased only \$8.7 million compared to \$16.2 million in 2003.

Investing Activities

The principal recurring investing activities are property additions primarily for key duplicating machines. Net property additions for the first six months of 2004 were \$5.4 million compared to \$5.9 million in the comparable prior year period. The decrease in capital expenditures in the first six months of 2004 compared to the prior year period results from a decrease in the amount of expenditures for key duplicating machines of \$.3 million and a reduction in plant and equipment expenditures \$0.2 million.

Financing Activities

Excluding \$36.3 million in cash provided by borrowings related to the Merger Transaction, net cash provided by financing activities for the six months ended June 30, 2004 was \$1.9 million compared to \$12.6 million for the comparable period in 2003. The reduction in cash provided by financing activities is primarily a function of reduced borrowings under the revolving credit facility. As discussed above, revolver borrowings to fund the seasonal increase in working capital requirements were less significant in the first six months of 2004.

Liquidity and Capital Resources

The Company's working capital position (defined as current assets less current liabilities) of \$83.6 million at June 30, 2004 represents an increase of \$25.1 million from the December 31, 2003 level of \$58.5 million primarily as a result of the seasonal increase in accounts receivable of \$11.3 million and inventory of \$3.3 million and the reduction in the current portion of long-term debt of \$7.1 million together with an increase in cash of \$3.7 million. The Company's current ratio (defined as current

assets divided by current liabilities) increased to 2.73x at June 30, 2004 from 2.06x at December 31, 2003.

The Company's contractual obligations in thousands of dollars as of June 30, 2004 are summarized below:

Contractual Obligations	Total	Payments Due			
		Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Junior Subordinated Debentures	\$ 114,626	\$ —	\$ —	\$ —	\$ 114,626
Long Term Senior Term Loans	214,781	2,175	4,350	4,350	203,906
Long Term Unsecured Subordinated Notes	47,544	—	—	—	47,544
Operating Leases	29,084	6,611	8,940	4,012	9,521
Deferred Compensation Obligations	3,939	22	44	44	3,829
Management Purchased Preferred Options	3,230	—	—	—	3,230
Capital Lease Obligations	162	41	85	36	—
Other Long Term Obligations	8,162	976	1,780	780	4,626
Total Contractual Cash Obligations	\$ 421,528	\$ 9,825	\$ 15,199	\$ 9,222	\$ 387,282

All of the obligations noted above are reflected on the Company's Consolidated Balance Sheet as of June 30, 2004 except for the Operating Leases.

As of June 30, 2004, the Company had \$35.1 million available under its secured credit facilities. The Company had approximately \$217.1 million of outstanding debt under its secured credit facilities at June 30, 2004, consisting of \$216.9 million in a term loan and \$0.2 million in capitalized lease obligations. The term loan consisted of a \$216.4 million Term B Loan (the "Term Loan B") currently at a six (6) month LIBOR rate of 4.625% and \$0.5 million at a rate of 6.25%. The capitalized lease obligations were at various interest rates.

As of June 30, 2004 the Company had no material purchase commitments for capital expenditures.

Interest on the Subordinated Debt Issuance of \$47.5 million which matures September 30, 2011 is at a fixed rate of 13.5% per annum, with cash interest payments being required on a quarterly basis at a fixed rate of 11.25% commencing April 15, 2004. The outstanding principal balance of the Subordinated Debt Issuance shall be increased on a quarterly basis at the remaining 2.25% fixed rate (the "PIK Amount"). All of the PIK Amounts are due on the maturity date of the Subordinated Debt Issuance. As of June 30, 2004, the outstanding Subordinated Debt Issuance including the PIK Amounts was \$47.5 million.

The Senior Credit Agreement, among other provisions, contains financial covenants requiring the maintenance of specific leverage and interest coverage ratios and levels of financial position, restricts the incurrence of additional debt and the sale of assets, and permits acquisitions with the consent of the lenders. The Company was in full compliance with all provisions of the Senior Credit Agreement as of June 30, 2004.

The Company has net deferred tax assets aggregating \$2.6 million as of June 30, 2004, 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 basis, as well as through future taxable income.

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, 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 may 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, and taxation. In addition, significant estimates form the basis for the Company's reserves with respect to sales and returns allowances, collectibility of accounts receivable, inventory valuations, deferred tax assets, 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 and product mix. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Specific factors are as follows: recoverability of goodwill and intangible assets are subject to annual impairment testing; litigation is based on projections provided by legal counsel; realization of certain deferred tax assets 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 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.

Revenue Recognition:

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

The Company offers a variety of sales incentives to its customers primarily in the form of discounts, rebates and slotting fees. Discounts are recognized in the financial statements at the date of the related sale. Rebates are estimated based on the anticipated rebate to be paid and a portion of the estimated cost of the rebate is allocated to each underlying sales transaction. Slotting fees are used on an infrequent basis and are not considered to be significant. Discounts, rebates and slotting fees are included in the determination of net sales.

The Company also establishes reserves for customer returns and allowances. The reserve is established based on historical rates of returns and allowances. The reserve is adjusted quarterly based on actual experience.

Inventory Realization:

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. Excess and obsolete inventories are carried at net realizable value. The historical usage rate is the primary factor used by the Company in assessing the net realizable value of excess and obsolete inventory. A reduction in the carrying value of an inventory item from cost to market is recorded for inventory with no usage in the preceding twenty-four month period or with on hand quantities in excess of twenty-four months average usage.

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:

Prior to January 1, 2002, the Company recorded goodwill related to the excess of acquisition cost over the fair value of net assets acquired and amortized the goodwill on a straight-line basis over twenty-five to forty years. The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and accordingly, goodwill is no longer amortized, but is reviewed periodically for impairment. Other intangible assets arising principally from acquisitions and the Merger Transaction are amortized on a straight-line basis over periods ranging from four to fifteen 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 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 basis 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. Valuation allowances are provided for tax benefits where it is more likely than not that certain future tax benefits will not be realized. Adjustments to valuation allowances are recorded from changes in utilization of the tax related item.

Self-insurance Reserves:

The Company self insures its product liability, worker's compensation and general liability losses up to \$250 thousand per occurrence. Catastrophic coverage is maintained for occurrences in excess of \$0.25 million up to \$25.0 million.

The Company self insures its group health claims up to an annual stop loss limit of \$125 thousand per participant. Aggregate coverage is maintained for annual group health insurance claims in excess of 125% of expected claims.

Provisions for losses expected under these programs are recorded based on an analysis of historical insurance claim data and certain actuarial assumptions.

Shipping and Handling:

The costs incurred to ship product to customers, including freight and handling expenses, are included in selling, general and administrative ("SG&A") expenses on the Company's Statements of Operations. For the three months ended June 30, 2004 and 2003, shipping and handling costs included in SG&A were \$4,245 for the Successor Company and \$4,292 for the Predecessor Company, respectively. For the three months ended March 31, 2004, shipping and handling costs included in SG&A were \$3,628 for the Predecessor Company and for the six months ended June 30, 2003, shipping and handling costs included in SG&A were \$7,861 for the Predecessor Company.

Comprehensive Income (Loss):

The components of comprehensive income (loss) were as follows:

	<u>Successor</u>	<u>Predecessor</u>	<u>Predecessor</u>	<u>Predecessor</u>
	<u>Three months ended June 30, 2004</u>	<u>Three months ended June 30, 2003</u>	<u>Three months ended March 31, 2004</u>	<u>Six months ended June 30, 2003</u>
Net income (loss)	\$ 211	\$ 1,578	\$ (19,316)	\$ (4,267)
Change in derivative security value	95	—	—	—
Foreign currency translation adjustment	7	(64)	10	(100)
Comprehensive income (loss)	<u>\$ 313</u>	<u>\$ 1,514</u>	<u>\$ (19,306)</u>	<u>\$ (4,367)</u>

Reclassifications:

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

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 2, Summary of Significant Accounting Policies, of Notes To Consolidated Financial Statements for additional related information.

Inflation

The Company is sensitive to inflation present in the economies of the United States and our foreign suppliers located primarily in Taiwan and China. Inflation in recent years has produced only a modest impact on the Company's operations, however the recent growth in China's economic activity has increased overall demand for materials used in the manufacture of our products. This increased demand has produced cost increases for certain of our fastener products which exceed the prevailing rate of inflation. Continued inflation and resulting cost increases over a period of years 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, refinancing, capital expenditures, 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, 2003. 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

The Company is exposed to the impact of interest rate changes as borrowings under the senior credit facility bear interest at variable interest rates. It is the Company's policy to enter into interest rate transactions only to the extent considered necessary to meet objectives. On April 28, 2004, the Company entered into an Interest Rate Swap Agreement ("Swap") with a two-year term for a notional amount of \$50 million. The Swap fixes the interest rate on \$50 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter. Based on Hillman's exposure to variable rate borrowings at June 30, 2004, a one percent (1%) change in the weighted average interest rate would change the annual interest expense by approximately \$1.7 million.

The Company is exposed to foreign exchange rate changes of the Canadian currency as it impacts the \$1.2 million net asset value of its Canadian subsidiary, The Hillman Group Canada, Ltd., as of June 30, 2004. Management considers the Company's exposure to foreign currency translation gains or losses to be minimal.

Item 4.

Controls and Procedures

(a) As of the end of the period covered by this quarterly report on Form 10-Q, the Company's chief executive officer and chief financial officer conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934). Based upon this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them of any material information relating to the Company that is required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934.

(b) There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II
OTHER INFORMATION**

Items 1, 2, 3, 4 & 5 — None

Item 6 — Exhibits and Reports on Form 8-K

a) Exhibits, Including Those Incorporated by Reference.

3.1 * Restated Certificate of Incorporation of The Hillman Companies, Inc. (effective March 30, 2004).

3.2 * By-Laws of The Hillman Companies, Inc. (adopted on March 30, 2004).

31.1 * Certification of chief executive officer pursuant to rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.

31.2 * Certification of chief financial officer pursuant to rule 13a-14(a) or 15d-14(a) under Securities Exchange Act of 1934.

32.1 + Certification of chief executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 + Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

+ Submitted 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)

DATE: August 13, 2004

/s/ Harold J. Wilder

Harold J. Wilder
Controller
(Chief Accounting Officer)

**RESTATED CERTIFICATE OF INCORPORATION
OF
THE HILLMAN COMPANIES, INC.**

ARTICLE ONE

The name of the Corporation is The Hillman Companies, Inc.

ARTICLE TWO

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE THREE

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which Corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

Part A. Authorized Shares

The total number of shares of capital stock which the Corporation has authority to issue is 287,671 shares, consisting of:

- (i) 23,141 shares of Class A Common Stock, par value \$.01 per share ("Class A Common Stock");
- (ii) 2,500 shares of Class B Common Stock, par value \$.01 per share ("Class B Common Stock");
- (iii) 23,141 shares of Class C Common Stock, par value \$.01 per share ("Class C Common Stock"); and
- (iii) 238,889 shares of Class A Preferred Stock, par value \$.01 per share ("Preferred Stock").

The Preferred Stock shall have the rights, preferences and limitations set forth in Part B. The Class A Common Stock, Class B Common Stock and Class C Common Stock are hereafter collectively referred to as the "Common Stock" and shall have the rights, preferences and limitations set forth in Part C. Capitalized terms used but not otherwise defined in Part A, Part B or Part C of this Article Four are defined in Part D.

In accordance with the provisions of § 242(b)(2) of the General Corporation Law of the State of Delaware, the number of authorized shares of any class or classes of stock may be

increased or decreased by the affirmative vote of the holders of a majority of the issued and outstanding shares of Common Stock of the Corporation entitled to vote thereon irrespective of the class vote requirements set forth in § 242(b)(2) of the General Corporation Law of the State of Delaware (but, in the case of any decrease, not below the number of outstanding shares of any such class or classes).

Part B. Powers, Preferences and Special Rights of the Preferred Stock

Section 1. Dividends.

1A. General Obligation. When and as declared by the Corporation's Board of Directors and to the extent permitted under the General Corporation Law of Delaware, the Corporation shall pay preferential dividends to the holders of the Preferred Stock as provided in this Section 1. Dividends on each share (a "Share") of the Preferred Stock shall accrue on a daily basis at the rate of 11.5% per annum of the sum of the Liquidation Value thereof plus all accumulated and unpaid dividends thereon from and including the date of issuance of such Share to and including the first to occur of (i) the date on which the Liquidation Value of such Share (plus all accrued and unpaid dividends thereon) is paid to the holder thereof in connection with the liquidation of the Corporation or (ii) the date on which such Share is otherwise acquired by the Corporation. Such dividends shall accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends. The date on which the Corporation initially issues any Share shall be deemed to be its "date of issuance" regardless of the number of times transfer of such Share is made on the stock records maintained by or for the Corporation and regardless of the number of certificates which may be issued to evidence such Share. In addition, the date on which the Corporation initially grants any option or any other security or right exercisable or convertible into shares of Preferred Stock shall be deemed to be the "date of issuance" of the underlying Shares regardless of when such right or security is exercised or converted and the Shares are issued.

1B. Dividend Reference Dates. To the extent not paid on March 31, June 30, September 30 and December 31 of each year, beginning June 30, 2004 (the "Dividend Reference Dates"), all dividends which have accrued on each Share outstanding or deemed outstanding for purposes of dividends in accordance with the last sentence of Section 1A of this Part B during the three-month period (or other period in the case of the initial Dividend Reference Date) ending upon each such Dividend Reference Date shall be accumulated and shall remain accumulated dividends with respect to such Share until paid to the holder thereof.

1C. Distribution of Partial Dividend Payments. Except as otherwise provided herein, if at any time the Corporation pays less than the total amount of dividends then accrued with respect to the Shares, such payment shall be distributed pro rata among the holders thereof based upon the aggregate accrued but unpaid dividends on the Shares held by each such holder.

Section 2. Conversion of Preferred Stock.

2A. Optional Right to Convert. Subject to the automatic conversion of the Shares pursuant to Section 2B of this Part B, for a period of five (5) business days following the

execution date of the first firm commitment underwriting agreement in connection with a Public Offering, each Share shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof, into a number of fully paid and nonassessable Conversion Shares computed by dividing the Liquidation Value of such Share (plus all accrued and unpaid dividends thereon) by the price at which the Common Stock is to be offered to the public by the Corporation or its underwriter(s), as applicable, pursuant to the initial Public Offering (the “IPO Price”). Any exercise of the conversion right set forth in this Section 2A shall be elected by the holder of one or more Shares by delivery of written notice to the Corporation (an “Optional Conversion Notice”), which Optional Conversion Notice shall state that such holder elects to convert all or a specified number of such Shares and shall include such holder’s name or the names of such holder’s nominees in which the certificate(s) for the Conversion Shares are to be issued.

2B. Automatic Conversion. Each Share which is not subject to an Optional Conversion Notice pursuant to Section 2A of this Part B shall be converted automatically, upon consummation of the Corporation’s initial Public Offering, into a number of fully paid and nonassessable Conversion Shares computed by dividing the Liquidation Value of such Share (plus all accrued and unpaid dividends thereon) by the IPO Price.

2C. Effectiveness. Any conversion of Preferred Stock (i) pursuant to Section 2A of this Part B shall be deemed to have been effected at the time of delivery of the Optional Conversion Notice to the Corporation and (ii) pursuant to Section 2B of this Part B shall be deemed to have been effected as of the consummation of the Corporation’s initial Public Offering, in each case, whether or not the certificate or certificates representing the Shares to be converted have been surrendered for conversion at the principal office of the Corporation. To the extent the certificate or certificates representing the Shares to be converted have not been surrendered for conversion prior to the effective date of conversion, the holder of such Share shall surrender for conversion such certificate or certificates at the principal office of the Corporation promptly after the effective date of the conversion. At the time any such conversion has been effected, the rights of the holder of such Share in respect thereof shall cease and the Person or Persons in whose name or names the Conversion Shares are to be issued upon such conversion shall be deemed to have become the holder or holders of record of such Conversion Shares.

2D. Termination of Conversion Right. The conversion rights of any Preferred Stock shall terminate on the earlier of (i) the day on which the Liquidation Value (plus all accrued and unpaid dividends thereon) with respect to such Preferred Stock has been distributed or (ii) the consummation of an initial Public Offering.

2E. Record Books; Filings. The Corporation shall not close its books against the transfer of Preferred Stock or of Conversion Shares issued or issuable upon conversion of Preferred Stock in any manner which interferes with the timely conversion of Preferred Stock. The Corporation shall assist and cooperate with any holder of Shares required to make any governmental filings or obtain any governmental approval prior to or in connection with any conversion of Shares hereunder (including, without limitation, making any filings required to be made by the Corporation).

2F. Fractional Shares. If any fractional interest in Conversion Shares would, except for the provisions of this Section 2F of Part B, be deliverable upon any conversion of the Preferred Stock, the Corporation, in lieu of delivering the fractional Share therefor, shall pay an amount to the holder thereof equal to the IPO Price multiplied by the fractional amount of such Share as of the date of conversion.

2G. Certificates. After the consummation of the initial Public Offering, any holder of certificates representing converted Shares shall surrender to the Corporation at the office of the Corporation or of any transfer agent for the Preferred Stock, the certificate or certificates representing such Shares. The Corporation shall, as soon as practicable thereafter (but in no event more than three (3) business days thereafter), issue and deliver at such office to such holder, or to the holder's nominee or nominees, a certificate or certificates representing the number of Conversion Shares to which the holder shall be entitled as set forth above in Sections 2A or 2B of this Part B, together with cash in lieu of any fraction of a share. The issuance of certificates for Conversion Shares upon conversion of Preferred Stock shall be made without charge to the holders of such Preferred Stock for any issuance tax in respect thereof or other cost incurred by the Corporation in connection with such conversion and the related issuance of shares of Conversion Shares. Upon conversion of each Preferred Stock, the Corporation shall take all such actions as are necessary in order to insure that the Conversion Shares issuable with respect to such conversion shall be validly issued, fully paid and nonassessable. All Conversion Shares which are issuable upon conversion of the Preferred Stock shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all liens and charges.

Section 3. Redemption of Shares of Preferred Stock.

3A. Redemption Right.

(i) Subject to Section 4(b)(ii) of the Securities Purchase Agreement, the Corporation may at any time and from time to time redeem all or any portion of the Shares then outstanding. Upon any such redemption, the Corporation shall pay a price per Share equal to the Liquidation Value thereof (plus all accrued and unpaid dividends thereon).

(ii) If a Change in Ownership has occurred or the Corporation obtains knowledge that a Change in Ownership is proposed to occur, the Corporation shall give prompt written notice of such Change in Ownership describing in reasonable detail the material terms and date of consummation thereof to each holder of Shares, but in any event such notice shall not be given later than five days after the occurrence of such Change in Ownership, and the Corporation shall give each holder of Shares prompt written notice of any material change in the terms or timing of such transaction. The holders of a majority of the Shares then outstanding may require the Corporation to redeem all or any portion (on a pro rata basis) of the Shares then outstanding at a price per Share equal to the Liquidation Value thereof (plus all accrued and unpaid dividends thereon) by giving written notice to the Corporation of such election prior to the later of (a) 21 days after receipt of the Corporation's notice and (b) five days prior to the consummation of the Change in Ownership (the "Expiration Date").

The term "Change in Ownership" means any sale, transfer or issuance or series of sales, transfers and/or issuances of Common Stock by the Corporation or any holders thereof

which results in any Person or group of Persons (as the term “group” is used under the Securities Exchange Act), other than Code Hennessy & Simmons IV LP or its affiliates, owning 50.01% or more of the Common Stock outstanding at the time of such sale, transfer or issuance or series of sales, transfers and/or issuances.

Upon receipt of such election(s), the Corporation shall be obligated to redeem such Shares on the later of (a) the occurrence of the Change in Ownership or (b) five days after the Corporation’s receipt of such election(s). If any proposed Change in Ownership does not occur, the request for redemption in connection therewith shall be automatically rescinded, or if there has been a material change in the terms or the timing of the transaction, the holders of a majority of the Shares then outstanding may rescind the request for redemption by delivering written notice thereof to the Corporation prior to the consummation of the transaction.

(iii) If a Fundamental Change is proposed to occur, the Corporation shall give written notice of such Fundamental Change describing in reasonable detail the material terms and date of consummation thereof to each holder of Shares not more than 45 days nor less than 20 days prior to the consummation of such Fundamental Change, and the Corporation shall give each holder of Shares prompt written notice of any material change in the terms or timing of such transaction. The holders of a majority of the Shares then outstanding may require the Corporation to redeem all or any portion (on a pro rata basis) of the Shares at a price per Share equal to the Liquidation Value thereof (plus all accrued and unpaid dividends thereon) by giving written notice to the Corporation of such election prior to the later of (a) ten days prior to the consummation of the Fundamental Change or (b) ten days after receipt of notice from the Corporation.

The term “Fundamental Change” means (a) any sale or transfer of all or substantially all of the assets of the Corporation and its Subsidiaries on a consolidated basis in any transaction or series of transactions and (b) any merger or consolidation to which the Corporation is a party, except for a merger in which the Corporation is the surviving entity, the terms of the Shares are not changed and the Shares are not exchanged for cash, securities or other property, and after giving effect to such merger, the holders of the Corporation’s outstanding capital stock possessing a majority of the voting power (under ordinary circumstances) to elect a majority of the Corporation’s Board of Directors immediately prior to the merger shall continue to own the Corporation’s outstanding capital stock possessing the voting power (under ordinary circumstances) to elect a majority of the Corporation’s Board of Directors.

Upon receipt of such election(s) the Corporation shall be obligated to redeem such Shares upon the consummation of such Fundamental Change. If any proposed Fundamental Change does not occur, all requests for redemption in connection therewith shall be automatically rescinded, or if there has been a material change in the terms or the timing of the transaction, the holders of a majority of the Shares then outstanding may rescind the request for redemption by delivering written notice thereof to the Corporation prior to the consummation of the transaction.

3B. Provisions Relating to Redemption Generally.

(i) For each Share which is required to be redeemed hereunder, the Corporation shall be obligated on the Redemption Date to pay to the holder thereof (upon surrender by such holder at the Corporation's principal office of the certificate representing such Share) an amount in immediately available funds equal to the amounts required to effect such redemption as specified herein. If the funds of the Corporation legally available for redemption of Shares on any Redemption Date are insufficient to redeem the total number of Shares to be redeemed on such date, those funds which are legally available shall be used to redeem the maximum possible number of Shares pro rata among the holders of the Shares to be redeemed based upon the aggregate Liquidation Value of such Shares (plus all accrued and unpaid dividends thereon). Unless otherwise elected in writing by the holders of a majority of the Shares, at any time thereafter when additional funds of the Corporation are legally available for the redemption of Shares, such funds shall immediately be used to redeem the balance of the Shares which the Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed.

(ii) Except as otherwise provided herein, the Corporation shall mail written notice of each redemption of Shares to each record holder of such class not more than 60 nor less than 15 days prior to the date on which such redemption is to be made. In case fewer than the total number of Shares represented by any certificate are redeemed, a new certificate representing the number of unredeemed Shares, as applicable, shall be issued to the holder thereof without cost to such holder within five business days after surrender of the certificate representing the redeemed Shares.

(iii) The number of Shares to be redeemed from each holder thereof in redemptions hereunder shall be the number of Shares determined by multiplying the total number of such Shares to be redeemed times a fraction, the numerator of which shall be the total number of such Shares then held by such holder and the denominator of which shall be the total number of such Shares then outstanding.

(iv) Dividends shall no longer accrue with respect to any Share after the date on which the Liquidation Value thereof plus all of the accrued and unpaid dividends, as applicable, thereon, is paid to the holder of such Share.

(v) Any Shares which are redeemed or otherwise acquired by the Corporation shall be canceled and retired to authorized but unissued Shares and shall not be reissued, sold or transferred.

Section 4. Liquidation. Upon any liquidation, dissolution or winding up of the Corporation (whether voluntary or involuntary), each holder of Shares shall be entitled to be paid, before any distribution or payment is made upon any Junior Securities, an amount in cash equal to the aggregate Liquidation Value of all Shares held by such holder (plus all accrued and unpaid dividends thereon), and the holders of Shares shall not be entitled to any further payment. If upon any such liquidation, dissolution or winding up of the Corporation the Corporation's assets to be distributed among the holders of the Shares are insufficient to permit payment to such holders of the aggregate amount which they are entitled to be paid under this Section 4, then the entire assets available to be distributed to the Corporation's stockholders shall be distributed pro rata among such holders based upon the aggregate Liquidation Value (plus all accrued and

unpaid dividends) of the Shares held by each such holder. Not less than 60 days prior to the payment date stated therein, the Corporation shall mail written notice of any such liquidation, dissolution or winding up to each record holder of Shares, setting forth in reasonable detail the amount of proceeds to be paid with respect to each Share and each share of Common Stock in connection with such liquidation, dissolution or winding up.

Section 5. Priority of Shares on Dividends and Redemptions. So long as any Share remains outstanding, without the prior written consent of the holders of a majority of the outstanding Shares the Corporation shall not, nor shall it permit any Subsidiary to, redeem, purchase or otherwise acquire directly or indirectly any Junior Securities, nor shall the Corporation directly or indirectly pay or declare any dividend or make any distribution upon any Junior Securities; provided that the Corporation may repurchase shares of Common Stock and Preferred Stock from present or former employees of the Corporation or its Subsidiaries in accordance with the provisions of the Repurchase Agreements.

Section 6. Voting Rights. Except as otherwise provided herein and as otherwise required by applicable law, the Shares shall have no voting rights; provided that each holder of Shares shall be entitled to notice of all stockholders meetings at the same time and in the same manner as notice is given to all stockholders entitled to vote at such meetings.

Section 7. Registration of Transfer. The Corporation shall keep at its principal office a register for the registration of the Shares. Upon the surrender of any certificate representing Shares at such place, the Corporation shall, at the request of the record holder of such certificate, execute and deliver (at the Corporation's expense) a new certificate or certificates in exchange therefor representing in the aggregate the number of Shares represented by the surrendered certificate. Each such new certificate shall be registered in such name and shall represent such number of Shares as is requested by the holder of the surrendered certificate and shall be substantially identical in form to the surrendered certificate, and dividends shall accrue on the Shares represented by such new certificate from the date to which dividends have been fully paid on such Shares represented by the surrendered certificate.

Section 8. Replacement. Upon receipt of evidence reasonably satisfactory to the Corporation (an affidavit of the registered holder shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing Shares, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Corporation (provided that if the holder is a financial institution or other institutional investor its own agreement shall be satisfactory), or, in the case of any such mutilation upon surrender of such certificate, the Corporation shall (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the number of Shares of such class represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate, and dividends shall accrue on the Shares represented by such new certificate from the date to which dividends have been fully paid on such lost, stolen, destroyed or mutilated certificate.

Section 9. Amendment and Waiver. No amendment, modification or waiver shall be binding or effective with respect to any provision of this Part B without the prior written consent of the holders of a majority of the Shares outstanding at the time such action is taken.

No amendment to any provision in Part D (Definitions) that adversely affects the Shares shall be effective without the prior written consent of the holders of a majority of the Shares outstanding at the time such action is taken.

Section 10. Notices. Except as otherwise expressly provided hereunder, all notices referred to herein shall be in writing and shall be delivered by registered or certified mail, return receipt requested and postage prepaid, or by reputable overnight courier service, charges prepaid, and shall be deemed to have been given when so mailed or sent (i) to the Corporation, at its principal executive offices and (ii) to any stockholder, at such holder's address as it appears in the stock records of the Corporation (unless otherwise indicated by any such holder).

Part C. Powers, Preferences and Special Rights of the Common Stock.

Except as otherwise provided in this Part C or as otherwise required by applicable law, all shares of Class A Common Stock, Class B Common Stock and Class C Common Stock shall be identical in all respects and shall entitle the holders thereof to the same rights, preferences and privileges, subject to the same qualifications, limitations and restrictions, as set forth herein.

Section 1. Voting Rights.

1A. Except as otherwise provided in this Part C or as otherwise required by applicable law, the holders of Class A Common Stock and Class C Common Stock shall be entitled to one vote per share on all matters to be voted on by the stockholders of the Corporation, and the holders of Class B Common Stock shall have no right to vote on any matters to be voted on by the stockholders of the Corporation.

1B. Notwithstanding Section 1A above, solely with respect to the election of directors to the Board of Directors: (i) the holders of shares of Class C Common Stock then outstanding shall have, in the aggregate, that number of votes equal to the lesser of (x) the aggregate of such holders' voting rights solely with respect to the election of directors to the Board of Directors ("Board Voting Rights") as determined in accordance with Section 1A above, or (y) thirty percent (30.00%) of the voting power of the Corporation, less the aggregate voting power with respect to the election of directors held by the holders of Class C Common Stock other than pursuant to Section 1A above, including indirect voting power, as identified by such holders in writing to the Corporation from time to time, and (ii) the aggregate Board Voting Rights of a "person" or "group" (as defined in Section 13(d) and 14(d) of the Securities Exchange Act) other than holders of shares of Class C Common Stock (the "Remaining Common Holders") shall have that number of votes equal to the greater of (x) the Remaining Common Holders' actual aggregate Board Voting Rights as determined in accordance with Section 1A above, or (y) seventy percent (70.00%) of the voting power of the Corporation.

Section 2. Dividends. As and when dividends are declared or paid with respect to shares of Common Stock, whether in cash, property or securities of the Corporation, the holders of Class A Common Stock, Class B Common Stock and Class C Common Stock shall be entitled to receive such dividends pro rata at the same rate per share of each class of Common Stock; provided that (i) if dividends are declared or paid in shares of Common Stock,

the dividends payable to holders of Class A Common Stock shall be payable in shares of Class A Common Stock, the dividends payable to the holders of Class B Common Stock shall be payable in shares of Class B Common Stock and the dividends payable to the holders of Class C Common Stock shall be payable in shares of Class C Common Stock and (ii) if the dividends consist of other voting securities of the Corporation, the Corporation shall (A) make available to each holder of Class B Common Stock dividends consisting of non-voting securities (except as otherwise required by law) of the Corporation which are otherwise identical to the voting securities and (B) make available to each holder of Class C Common Stock, at such holder's request, dividends consisting of voting securities (except as otherwise required by law) of the Corporation which have voting provisions identical to the voting provisions of the Class C Common Stock. The right of the holders of Common Stock to receive dividends is subject to the provisions of the Shares.

Section 3. Liquidation. Subject to the provisions of the Shares, the holders of the Common Stock shall be entitled to participate pro rata at the same rate per share in all distributions to the holders of Common Stock in any liquidation, dissolution or winding up of the Corporation.

Section 4 Conversion of Common Stock.

4A. Conversion of Class C Common Stock.

(i) Conversion of Class C Common Stock. Each holder of Class C Common Stock shall be entitled at any time and from time to time to convert any or all of the shares of such holder's Class C Common Stock into an equal number of shares of Class A Common Stock.

(ii) Conversion Procedure.

(a) Each conversion of shares of Class C Common Stock into shares of Class A Common Stock shall be effected by the surrender of the certificate or certificates representing the shares to be converted at the principal office of the Corporation at any time during normal business hours, together with a written notice by the holder of such Class C Common Stock stating that such holder desires to convert the shares, or a stated number of the shares, of Class C Common Stock represented by such certificate or certificates into Class A Common Stock. Each conversion shall be deemed to have been effected as of the close of business on the date on which such certificate or certificates have been surrendered and such notice has been received, and at such time the rights of the holder of the converted Class C Common Stock as such holder shall cease and the person or persons in whose name or names the certificate or certificates for shares of Class A Common Stock are to be issued upon such conversion shall be deemed to have become the holder or holders of record of the shares of Class A Common Stock represented thereby.

(b) Promptly after the surrender of certificates and the receipt of such written notice, the Corporation shall issue and deliver in accordance with the surrendering holder's instructions (1) the certificate or certificates for the Class A Common Stock issuable upon such conversion and (2) a certificate representing any Class C Common Stock which was

represented by the certificate or certificates delivered to the Corporation in connection with such conversion but which was not converted.

(c) The issuance of certificates for Class A Common Stock upon conversion of Class C Common Stock shall be made without charge to the holders of such shares for any issuance tax in respect thereof or other cost incurred by the Corporation in connection with such conversion and the related issuance of Class A Common Stock.

(d) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of issuance upon the conversion of the Class C Common Stock, such number of shares of Class A Common Stock issuable upon the conversion of all outstanding Class C Common Stock. All shares of Class A Common Stock which are so issuable shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges. The Corporation shall take all such actions as may be necessary to assure that all such shares of Class A Common Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Class A Common Stock may be listed (except for official notice of issuance which shall be immediately transmitted by the Corporation upon issuance).

(e) The Corporation shall not close its books against the transfer of Class C Common Stock or of Class A Common Stock issued or issuable upon conversion of Class C Common Stock in any manner which would interfere with the timely conversion of Class C Common Stock.

4B. Conversion of Class A Common Stock.

(i) Conversion of Class A Common Stock. Each holder of Class A Common Stock shall be entitled at any time and from time to time to convert any or all of the shares of such holder's Class A Common Stock into an equal number of shares of Class C Common Stock.

(ii) Conversion Procedure.

(a) Each conversion of shares of Class A Common Stock into shares of Class C Common Stock shall be effected by the surrender of the certificate or certificates representing the shares to be converted at the principal office of the Corporation at any time during normal business hours, together with a written notice by the holder of such Class A Common Stock stating that such holder desires to convert the shares, or a stated number of the shares, of Class A Common Stock represented by such certificate or certificates into Class C Common Stock. Each conversion shall be deemed to have been effected as of the close of business on the date on which such certificate or certificates have been surrendered and such notice has been received, and at such time the rights of the holder of the converted Class A Common Stock as such holder shall cease and the person or persons in whose name or names the certificate or certificates for shares of Class C Common Stock are to be issued upon such conversion shall be deemed to have become the holder or holders of record of the shares of Class C Common Stock represented thereby.

(b) Promptly after the surrender of certificates and the receipt of such written notice, the Corporation shall issue and deliver in accordance with the surrendering holder's instructions (1) the certificate or certificates for the Class C Common Stock issuable upon such conversion and (2) a certificate representing any Class A Common Stock which was represented by the certificate or certificates delivered to the Corporation in connection with such conversion but which was not converted.

(c) The issuance of certificates for Class C Common Stock upon conversion of Class A Common Stock shall be made without charge to the holders of such shares for any issuance tax in respect thereof or other cost incurred by the Corporation in connection with such conversion and the related issuance of Class C Common Stock.

(d) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class C Common Stock, solely for the purpose of issuance upon the conversion of the Class A Common Stock, such number of shares of Class C Common Stock issuable upon the conversion of all outstanding Class A Common Stock. All shares of Class C Common Stock which are so issuable shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges. The Corporation shall take all such actions as may be necessary to assure that all such shares of Class C Common Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Class C Common Stock may be listed (except for official notice of issuance which shall be immediately transmitted by the Corporation upon issuance).

(e) The Corporation shall not close its books against the transfer of Class A Common Stock or of Class C Common Stock issued or issuable upon conversion of Class A Common Stock in any manner which would interfere with the timely conversion of Class A Common Stock.

4C. Stock Splits. If the Corporation in any manner subdivides or combines the outstanding shares of one class of Common Stock, the outstanding shares of the other class of Common Stock shall be proportionately subdivided or combined in a similar manner.

Section 5. Registration of Transfer. The Corporation shall keep at its principal office (or such other place as the Corporation reasonably designates) a register for the registration of shares of Common Stock. Upon the surrender of any certificate representing shares of any class of Common Stock at such place, the Corporation shall, at the request of the record holder of such certificate, execute and deliver (at the Corporation's expense) a new certificate or certificates in exchange therefor representing in the aggregate the number of shares of such class represented by the surrendered certificate and the Corporation shall forthwith cancel such surrendered certificate. Each such new certificate shall be registered in such name and shall represent such number of shares of such class as is requested by the holder of the surrendered certificate and shall be substantially identical in form to the surrendered certificate. The issuance of new certificates shall be made without charge to the holders of the surrendered certificates for any issuance tax in respect thereof or other cost incurred by the Corporation in connection with such issuance.

Section 6. Replacement. Upon receipt of evidence reasonably satisfactory to the Corporation (provided, that an affidavit of the registered holder will be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing one or more shares of any class of Common Stock, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Corporation (provided that if the holder is a financial institution or other institutional investor its own agreement will be satisfactory), or, in the case of any such mutilation upon surrender of such certificate, the Corporation shall (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the number of shares of such class represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

Section 7. Notices. All notices referred to herein shall be in writing, and shall be delivered by registered or certified mail, return receipt requested, postage prepaid, and shall be deemed to have been given when so mailed (i) to the Corporation at its principal executive offices and (ii) to any stockholder at such holder's address as it appears in the stock records of the Corporation (unless otherwise specified in a written notice to the Corporation by such holder).

Section 8. Amendment and Waiver. No amendment or waiver of any provision of this Part C shall be effective without the prior consent of the holders of a majority of the then outstanding shares of Class A Common Stock and Class C Common Stock voting as a single class.

Part D. Definitions.

For purposes of this Article Four, the following terms shall have the following meanings:

“Conversion Shares” means the Common Stock; provided that if there is a change such that the securities issuable upon conversion of the Shares are issued by an entity other than the Corporation or there is a change in the class of securities so issuable, then the term “Conversion Share” shall mean one share of the security issuable upon conversion of the Shares if such security is issuable in shares, or shall mean the smallest unit in which such security is issuable if such security is not issuable in shares.

“Junior Securities” means any capital stock or other equity securities of the Corporation, except for the Shares.

“Liquidation Value” of any Share as of any particular date shall be equal to \$1,000.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“Public Offering” means any sale of the common equity securities of the Corporation in an underwritten public offering pursuant to an effective registration statement under the Securities Act filed with the Securities and Exchange Commission; provided that the

following shall not be considered a Public Offering: (i) any issuance of common equity securities as consideration for a merger or acquisition and (ii) any issuance of common equity securities or rights to acquire common equity securities to employees of the Corporation or its Subsidiaries as part of an incentive or compensation plan.

“Redemption Date” as to any Share means the date specified in the notice of any redemption at the Corporation’s option or at the holder’s option or the applicable date specified herein in the case of any other redemption; provided that no such date shall be a Redemption Date unless the Liquidation Value of such Share (plus all accrued and unpaid dividends thereon) is actually paid in full on such date, and if not so paid in full, the Redemption Date shall be the date on which such amount is fully paid.

“Repurchase Agreements” mean, collectively, all agreements which provide for a repurchase of the capital stock of the Corporation upon termination of employment or similar events or circumstances as approved by the Corporation’s Board of Directors.

“Securities Act” means the Securities Act of 1933, as amended, and applicable rules and regulations thereunder, and any successor to such statute, rules, or regulations. Any reference herein to a specific section, rule, or regulation of the Securities Act shall be deemed to include any corresponding provisions of future law.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended, and applicable rules and regulations thereunder, and any successor to such statute, rules, or regulations. Any reference herein to a specific section, rule, or regulation of the Securities Exchange Act shall be deemed to include any corresponding provisions of future law.

“Securities Purchase Agreement” means the Securities Purchase Agreement, dated as of March 31, 2004, among the Corporation and the purchasers named therein, as amended from time to time in accordance with its terms.

“Stockholders Agreement” means the Stockholders Agreement, dated as of March 31, 2004, among the Corporation and the stockholders of the Corporation from time to time party thereto, as amended from time to time in accordance with its terms.

“Subsidiary” means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity

gains or losses or shall be or control the managing general partner of such limited liability company, partnership, association or other business entity.

ARTICLE FIVE

The Corporation is to have perpetual existence.

ARTICLE SIX

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Corporation is expressly authorized to make, alter or repeal the by-laws of the Corporation.

ARTICLE SEVEN

Meetings of stockholders may be held within or without the State of Delaware, as the by-laws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the Corporation. Election of directors need not be by written ballot unless the by-laws of the Corporation so provide.

ARTICLE EIGHT

To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended, a director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director. Any repeal or modification of this Article Eight shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE NINE

The Corporation expressly elects not to be governed by §203 of the General Corporation Law of the State of Delaware.

ARTICLE TEN

Subject to Section 4(b)(xii) of the Securities Purchase Agreement, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed herein and by the laws of the State of Delaware, and all rights conferred upon stockholders herein are granted subject to this reservation. For purposes of this Article Ten, "Securities Purchase Agreement" means the Securities Purchase Agreement, dated as of March 31, 2004, among the Corporation and the purchasers named therein, as amended from time to time in accordance with its terms.

ARTICLE ELEVEN

To the maximum extent permitted from time to time under the law of the State of Delaware, the Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to its officers, directors or stockholders, other than those officers, directors or stockholders who are employees of the Corporation. No amendment or repeal of this Article Eleven shall apply to or have any effect on the liability or alleged liability of any officer, director or stockholder of the Corporation for or with respect to any opportunities of which such officer, director, or stockholder becomes aware prior to such amendment or repeal.

ARTICLE TWELVE

So long as the CHS Group (as defined in the Stockholders Agreement which is defined in Part D of Article Four hereof) owns 50.01% or more of the voting power of the Corporation, no vote or other action of the directors of the Corporation shall constitute the act of the board of directors of the Corporation unless and until such act is approved by a unanimous vote of all of the directors designated pursuant to Section 2(a)(ii)(A) of the Stockholders Agreement.

BY-LAWS

OF

THE HILLMAN COMPANIES, INC.¹

A Delaware Corporation

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the corporation in the State of Delaware shall be located at 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of the corporation's registered agent at such address shall be The Corporation Trust Company. The registered office and/or registered agent of the corporation may be changed from time to time by action of the board of directors.

Section 2. Other Offices. The corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place and Time of Meetings. An annual meeting of the stockholders shall be held each year within one hundred twenty (120) days after the close of the immediately preceding fiscal year of the corporation for the purpose of electing directors and conducting such other proper business as may come before the meeting. The date, time and place of the annual meeting shall be determined by the chief executive officer of the corporation; provided, that if the chief executive officer does not act, the board of directors shall determine the date, time and place of such meeting.

Section 2. Special Meetings. Special meetings of stockholders may be called for any purpose and may be held at such time and place, within or without the State of Delaware, as shall be stated in a notice of meeting or in a duly executed waiver of notice thereof. Such meetings may be called at any time by the board of directors, the chief executive officer, the president or the holders of shares entitled to cast not less than a majority of the votes at the meeting.

Section 3. Place of Meetings. The board of directors may designate any place, either within or without the State of Delaware, as the place of meeting for any annual meeting or for

¹ Adopted March 30, 2004.

any special meeting called by the board of directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal executive office of the corporation.

Section 4. Notice. Whenever stockholders are required or permitted to take action at a meeting, written or printed notice stating the place, date, time, and, in the case of special meetings, the purpose or purposes, of such meeting shall be given to each stockholder entitled to vote at such meeting (with a copy of such notice to each director) not less than ten (10) nor more than sixty (60) days before the date of the meeting. All such notices shall be delivered, either personally or by mail, by or at the direction of the board of directors, the chief executive officer, the president or the secretary, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the stockholder at his, her or its address as the same appears on the records of the corporation. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Stockholders List. The officer having charge of the stock ledger of the corporation shall make, at least ten (10) days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The holders of a majority of the outstanding shares of voting capital stock, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders, except as otherwise provided by applicable statute or by the certificate of incorporation. If a quorum is not present, the holders of a majority of the shares present in person or represented by proxy at the meeting, and entitled to vote at the meeting, may adjourn the meeting to another time and/or place. When a specified item of business requires a vote by a class or series (if the corporation shall then have outstanding shares of more than one class or series) voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum (as to such class or series) for the transaction of such item of business. When a quorum is once present to commence a meeting of stockholders, it is not broken by the subsequent withdrawal of any stockholders or their proxies.

Section 7. Adjourned Meetings. When a meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 8. Vote Required. Subject to the Stockholders Agreement dated as of , 2004 by and among the corporation and certain of its stockholders, as amended from time to time in accordance with its terms (the “Stockholders Agreement”) and the HCI Securities Purchase Agreement dated as of , 2004 by and among the corporation and certain of its stockholders, as amended from time to time in accordance with its terms (the “Securities Purchase Agreement”), when a quorum is present, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the question is one upon which by express provisions of an applicable law or of the certificate of incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question. Subject to the Stockholders Agreement and the Securities Purchase Agreement, where a separate vote by class is required, the affirmative vote of the majority of shares of such class present in person or represented by proxy at the meeting shall be the act of such class.

Section 9. Voting Rights. Except as otherwise provided by the General Corporation Law of the State of Delaware or by the certificate of incorporation of the corporation or any amendments thereto and subject to Section 3 of Article VI hereof, every stockholder shall at every meeting of the stockholders be entitled to one (1) vote in person or by proxy for each share of voting common stock held by such stockholder.

Section 10. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. Any proxy is suspended when the person executing the proxy is present at a meeting of stockholders and elects to vote, except that when such proxy is coupled with an interest and the fact of the interest appears on the face of the proxy, the agent named in the proxy shall have all voting and other rights referred to in the proxy, notwithstanding the presence of the person executing the proxy. At each meeting of the stockholders, and before any voting commences, all proxies filed at or before the meeting shall be submitted to and examined by the secretary or a person designated by the secretary and no shares may be represented or voted under a proxy that has been found to be invalid or irregular.

Section 11. Action by Written Consent. Subject to the Stockholders Agreement and the Securities Purchase Agreement, and unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the state of Delaware, or the corporation’s principal place of business, or an officer or agent of

the corporation having custody of the book or books in which proceedings of meetings of the stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. All consents properly delivered in accordance with this Section shall be deemed to be recorded when so delivered. No written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered to the corporation as required by this section, written consents signed by the holders of a sufficient number of shares to take such corporate action are so recorded. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Any action taken pursuant to such written consent or consents of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

ARTICLE III

DIRECTORS

Section 1. General Powers. The business and affairs of the corporation shall be managed by or under the direction of the board of directors.

Section 2. Number, Election and Term of Office. The number of authorized directors shall be seven (7). Subject to the Stockholders Agreement and the certificate of incorporation of the corporation, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors. The directors shall be elected in this manner at the annual meeting of the stockholders, except as provided in Section 4 of this Article III. Each director elected shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal and Resignation. Subject to the Stockholders Agreement and the certificate of incorporation of the corporation, any director or the entire board of directors may be removed at any time, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of any class or series are entitled to elect one (1) or more directors by the provisions of the corporation's certificate of incorporation, the provisions of this section shall apply, in respect to the removal without cause of a director or directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Any director may resign at any time upon written notice to the corporation.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled in accordance with the Stockholders Agreement and the certificate of incorporation of the corporation. Each director so chosen shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as herein provided. Subject to the Stockholders Agreement, whenever holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

Section 5. Annual Meetings. The annual meeting of each newly elected board of directors shall be held, without other notice than this by-law (subject to Section 3 of Article II), immediately after and at the same place as, the annual meeting of stockholders.

Section 6. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the board of directors may be held at such time and at such place as shall from time to time be determined by resolution of the board, provided that whenever the time and place of a regular meeting is determined, prompt notice of such action shall be given, either personally, by facsimile, by mail or telegraph or by telephone (pursuant to which the director participates in the conversation), to each director who was not present at the meeting at which such action was taken. Special meetings of the board of directors may be called by or at the request of the chief executive officer or any director on at least 48 hours notice to each director, either personally, by telephone (pursuant to which the director participates in the conversation), by mail or by telegraph.

Section 7. Quorum, Required Vote and Adjournment. Subject to the certificate of incorporation of the corporation and the Stockholders Agreement, a majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of directors present at a meeting at which a quorum is present shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8. Committees. Subject to the Stockholders Agreement and the Securities Purchase Agreement, the board of directors may, by resolution passed by a majority of the whole board, designate one (1) or more committees, each committee to consist of one (1) or more of the directors of the corporation, which to the extent provided in such resolution or these by-laws shall have and may exercise the powers of the board of directors in the management and affairs of the corporation except as otherwise limited by law. Subject to the Stockholders Agreement, the board of directors may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the board of directors designating such committee. Subject to the Stockholders Agreement, in the event that a member and that member's alternate, if alternates are designated by the board of directors as provided in Section 8 of this Article III, of such committee is or are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in place of any such absent or disqualified member.

Section 10. Executive Committee. Subject to the Stockholders Agreement, the board of directors of the corporation may, by resolution adopted by a majority of the whole board, designate three (3) directors to constitute an executive committee. Subject to the Stockholders Agreement and the Securities Purchase Agreement, the executive committee, to the extent provided in the resolution, shall have and may exercise all of the authority of the board of directors in the management of the corporation, except that the committee shall have no authority in reference to amending the certificate of incorporation; adopting an agreement of merger or consolidation; recommending to the stockholders the sale, lease, or exchange of all or substantially all of the corporation's property and assets; recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution; amending the by-laws of the corporation; electing or removing directors or officers of the corporation or members of the executive committee; declaring dividends; or amending, altering, or repealing any resolution of the board of directors which, by its terms, provides that it shall not be amended, altered or repealed by the executive committee. Subject to the Stockholders Agreement, the board of directors shall have power at any time to fill vacancies in, to change the size or membership of and to discharge the executive committee.

Section 11. Audit Committee. Subject to the Stockholders Agreement, the audit committee shall consist of not fewer than two (2) members of the board of directors as shall from time to time be appointed by resolution of the board of directors. No member of the board of directors who is an affiliate of the corporation (other than solely by virtue of his or her position as a director, employee of the corporation or an employee or agent of an owner of capital stock of the corporation or its subsidiaries) or an officer or an employee of the corporation or any subsidiary of the corporation shall be eligible to serve on the audit committee. The audit committee shall review and, as it shall deem appropriate, recommend to the board internal accounting and financial controls for the corporation and accounting principles and auditing practices and procedures to be employed in the preparation and review of financial statements of the corporation. The audit committee shall make recommendations to the board concerning the engagement of independent public accountants to audit the annual financial statements of the corporation and the scope of the audit to be undertaken by such accountants.

Section 12. Compensation Committee. Subject to the Stockholders Agreement, the compensation committee shall consist of not fewer than two (2) members of the board of directors as from time to time shall be appointed by resolution of the board of directors. No member of the board of directors who is an affiliate of the corporation (other than solely by virtue of his or her position as a director, employee of the corporation or an employee or agent of an owner of capital stock of the corporation or its subsidiaries) or an officer or an employee of the corporation or any subsidiary of the corporation shall be eligible to serve on the compensation committee. The compensation committee shall review and, as it deems appropriate, recommend to the president and the board of directors policies, practices and procedures relating to the compensation of managerial employees and the establishment and administration of employee benefit plans. The compensation committee shall have and exercise all authority under any employee stock option plans of the corporation as the committee therein (unless the board of directors by resolution appoints any other committee to exercise such authority), and shall otherwise advise and consult with the officers of the corporation as may be requested regarding managerial personnel policies.

Section 13. Communications Equipment. Members of the board of directors or any committee thereof may participate in and act at any meeting of such board or committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in the meeting pursuant to this section shall constitute presence in person at the meeting.

Section 14. Waiver of Notice. Any member of the board of directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 15. Action by Written Consent. Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

ARTICLE IV

OFFICERS

Section 1. Number. Subject to the Securities Purchase Agreement, the officers of the corporation shall be elected by the board of directors and shall consist of a chairman, if any is elected, a chief executive officer, a president, a vice-president, if any is elected, a secretary, a treasurer, if any is elected, and such other officers and assistant officers as may be deemed necessary or desirable by the board of directors. Any number of offices may be held by the same person. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually by the board of directors at its first meeting held after each annual meeting of stockholders or as soon thereafter as such meeting may conveniently be held. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. Subject to the Securities Purchase Agreement, any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term by the board of directors then in office.

Section 5. Compensation. Compensation of all officers shall be fixed by the board of directors, and no officer shall be prevented from receiving such compensation by virtue of his or her also being a director of the corporation.

Section 6. Chairman of the Board. The chairman of the board shall be the chief executive officer of the corporation, and shall have the powers and perform the duties incident to that position. Subject to the powers of the board of directors, he or she shall be in the general and active charge of the entire business and affairs of the corporation, and shall be its chief policy making officer. He or she shall preside at all meetings of the board of directors and stockholders and shall have such other powers and perform such other duties as may be prescribed by the board of directors or provided in these by-laws. Whenever the chief executive officer is unable to serve, by reason of sickness, absence or otherwise, the chairman of the board shall perform all the duties and responsibilities and exercise all the powers of the chief executive officer.

Section 7. The Chief Executive Officer. The chief executive officer shall, if no chairman is provided for, be the chief executive officer of the corporation; shall preside at all meetings of the stockholders and board of directors at which he or she is present; subject to the powers of the board of directors and the chairman, shall have general and active charge of the entire business and affairs of the corporation, and shall be its chief policy-making officer. The chief executive officer shall see that all orders and resolutions of the Board are carried into effect. The chief executive officer shall have such other powers and perform such other duties as may be prescribed by the Board

Section 8. The President. The president shall, subject to the powers of the Board and the chief executive officer, be the chief administrative officer of the corporation and shall have general and active charge of the entire business, affairs and property of the corporation, and control over its officers (other than the chief executive officer), agents and employees. The president shall see that all orders and resolutions of the Board and the chief executive officer are carried into effect. The president shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. The president shall be responsible for the employment of employees, agents and Officers (other than the chief executive officer) as may be required for the conduct of the business and the attainment of the objectives of the corporation. The president shall have authority to suspend or to remove any employee, agent or officer (other than the chief executive officer) of the corporation and, in the case of the suspension for cause of any such officer, to recommend to the Board what further action should be taken. The president shall have such other powers and perform such other duties as may be prescribed by the chairman of the board, the chief executive officer or the board of directors as may be provided in these by-laws. In the absence of the president, his or duties shall be performed and his or her authority may be exercised by the chief executive officer. In the absence of the president and the chief executive officer, the duties of the president shall be performed and his or her authority may be exercised by such officer as may have been designated as the most senior officer of the corporation.

Section 9. The Vice-Presidents. The vice-president, or if there shall be more than one (1), the vice-presidents in the order determined by the board of directors, shall, in the absence or disability of the chief executive officer and president, act with all of the powers and be subject to all the restrictions of the president. The vice-presidents shall also perform such other duties and have such other powers as the board of directors, the chairman, the chief executive officer, the president or these by-laws may, from time to time, prescribe.

Section 10. The Secretary and Assistant Secretaries. The secretary shall attend all meetings of the board of directors, all meetings of the committees thereof and all meetings of the stockholders and record all the proceedings of the meetings in a book or books to be kept for that purpose. Under the chief executive officer and the president's supervision, the secretary shall give, or cause to be given, all notices required to be given by these by-laws or by law; shall have such powers and perform such duties as the board of directors, the chairman, the chief executive officer, the president or these by-laws may, from time to time, prescribe; and shall have custody of the corporate seal of the corporation. The secretary, or an assistant secretary, shall have authority to affix the corporate seal to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his or her signature. The assistant secretary, or if there be more than one (1), the assistant secretaries in the order determined by the board of directors, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors, the chairman, the chief executive officer, the president or secretary may, from time to time, prescribe.

Section 11. The Treasurer and Assistant Treasurer. The treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all monies and other valuable effects in the name and to the credit of the corporation as may be ordered by the board of directors; shall cause the funds of the corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the chief executive officer, the president and the board of directors, at its regular meeting or when the board of directors so requires, an account of the corporation; shall have such powers and perform such duties as the board of directors, the chairman, the chief executive officer, the president or these by-laws may, from time to time, prescribe. If required by the board of directors, the treasurer shall give the corporation a bond (which shall be rendered every six years) in such sums and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of the office of treasurer and for the restoration to the corporation, in case of death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in the possession or under the control of the treasurer belonging to the corporation. The assistant treasurer, or if there shall be more than one (1), the assistant treasurers in the order determined by the board of directors, shall in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer. The assistant treasurers shall perform such other duties and have such other powers as the board of directors, the chairman, the chief executive officer, the president or treasurer may, from time to time, prescribe.

Section 12. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these by-laws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the board of directors.

Section 13. Absence or Disability of Officers. In the case of the absence or disability of any officer of the corporation and of any person hereby authorized to act in such officer's place during such officer's absence or disability, the board of directors may by resolution delegate the powers and duties of such officer to any other officer or to any director, or to any other person whom it may select.

ARTICLE V

INDEMNIFICATION OF OFFICERS, DIRECTORS AND OTHERS

Section 1. Nature of Indemnity. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer, of the corporation or is or was serving at the request of the corporation as a director, officer, employee, fiduciary, or agent of another corporation or of a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the corporation to the fullest extent which it is empowered to do so by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended against all expense, liability and loss (including attorneys' fees actually and reasonably incurred by such person in connection with such proceeding) and such indemnification shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in Section 2 hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding initiated by such person only if such proceeding was authorized by the board of directors of the corporation. The corporation may, by action of its board of directors, provide indemnification to employees and agents of the corporation with the same scope and effect as the foregoing indemnification of directors and officers.

Section 2. Procedure for Indemnification of Directors and Officers. Any indemnification of a director or officer of the corporation under Section 1 of this Article V or advance of expenses under Section 5 of this Article V shall be made promptly, and in any event within 30 days, upon the written request of the director or officer. If a determination by the corporation that the director or officer is entitled to indemnification pursuant to this Article V is required, and the corporation fails to respond within sixty (60) days to a written request for indemnity, the corporation shall be deemed to have approved the request. If the corporation denies a written request for indemnification or advancing of expenses, in whole or in part, or if payment in full pursuant to such request is not made within 30 days, the right to indemnification or advances as granted by this Article V shall be enforceable by the director or officer in any court of competent jurisdiction. Such person's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any

proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the corporation to indemnify the claimant for the amount claimed, but the burden of such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the corporation (including its board of directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 3. Article Not Exclusive. The rights to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article V shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the certificate of incorporation, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Section 4. Insurance. The corporation may purchase and maintain insurance on its own behalf and on behalf of any person who is or was a director, officer, employee, fiduciary, or agent of the corporation or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, whether or not the corporation would have the power to indemnify such person against such liability under this Article V.

Section 5. Expenses. Expenses incurred by any person described in Section 1 of this Article V in defending a proceeding shall be paid by the corporation in advance of such proceeding's final disposition unless otherwise determined by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

Section 6. Employees and Agents. Persons who are not covered by the foregoing provisions of this Article V and who are or were employees or agents of the corporation, or who are or were serving at the request of the corporation as employees or agents of another corporation, partnership, joint venture, trust or other enterprise, may be indemnified to the extent authorized at any time or from time to time by the board of directors.

Section 7. Contract Rights. The provisions of this Article V shall be deemed to be a contract right between the corporation and each director or officer who serves in any such capacity at any time while this Article V and the relevant provisions of the General Corporation Law of the State of Delaware or other applicable law are in effect, and any repeal or modification of this Article V or any such law shall not affect any rights or obligations then existing with respect to any state of facts or proceeding then existing.

Section 8. Merger or Consolidation. For purposes of this Article V, references to “the corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article V with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Form. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by the chairman, the chief executive officer, the president or a vice-president and the secretary or an assistant secretary of the corporation, certifying the number of shares of a specific class or series owned by such holder in the corporation. If such a certificate is countersigned (1) by a transfer agent or an assistant transfer agent other than the corporation or its employee or (2) by a registrar, other than the corporation or its employee, the signature of any such chairman, chief executive officer, president, vice-president, secretary, or assistant secretary may be facsimiles. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the corporation. Shares of stock of the corporation shall only be transferred on the books of the corporation by the holder of record thereof or by such holder’s attorney duly authorized in writing, upon surrender to the corporation of the certificate or certificates for such shares endorsed by the appropriate person or persons, with such evidence of the authenticity of such endorsement, transfer, authorization, and other matters as the corporation may reasonably require, and accompanied by all necessary stock transfer stamps. In that event, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate or certificates, and record the transaction on its books. The board of directors may appoint a bank or trust company organized under the laws of the United States or any state thereof to act as its transfer agent or registrar, or both in connection with the transfer of any class or series of securities of the corporation.

Section 2. Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of

that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his or her legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against the corporation on account of the loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 3. Fixing a Record Date for Stockholder Meetings. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the next day preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 4. Fixing a Record Date for Action by Written Consent. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by statute, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by statute, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

Section 5. Fixing a Record Date for Other Purposes. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment or any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purposes of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining

stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

Section 6. Registered Stockholders. Prior to the surrender to the corporation of the certificate or certificates for a share or shares of stock with a request to record the transfer of such share or shares, the corporation may treat the registered owner as the person entitled to receive dividends, to vote, to receive notifications, and otherwise to exercise all the rights and powers of an owner.

Section 7. Subscriptions for Stock. Unless otherwise provided for in the subscription agreement, subscriptions for shares shall be paid in full at such time, or in such installments and at such times, as shall be determined by the board of directors. Any call made by the board of directors for payment on subscriptions shall be uniform as to all shares of the same class or as to all shares of the same series. In case of default in the payment of any installment or call when such payment is due, the corporation may proceed to collect the amount due in the same manner as any debt due the corporation.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation and the Securities Purchase Agreement, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation and the Securities Purchase Agreement. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or any other purpose and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks, Drafts or Orders. All checks, drafts, or other orders for the payment of money by or to the corporation and all notes and other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation, and in such manner, as shall be determined by resolution of the board of directors or a duly authorized committee thereof.

Section 3. Contracts. Subject to the Securities Purchase Agreement, the board of directors may authorize any officer or officers, or any agent or agents, of the corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 4. Loans. Subject to the Securities Purchase Agreement and applicable law, regulation or stock exchange rule, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its

subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

Section 5. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 6. Corporate Seal. The board of directors shall provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the corporation and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 7. Voting Securities Owned By Corporation. Voting securities in any other corporation held by the corporation shall be voted by the chief executive officer, unless the board of directors specifically confers authority to vote with respect thereto, which authority may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

Section 8. Inspection of Books and Records. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean any purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal place of business.

Section 9. Section Headings. Section headings in these by-laws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

Section 10. Inconsistent Provisions. In the event that any provision of these by-laws is or becomes inconsistent with any provision of the certificate of incorporation, the Stockholders Agreement, the Securities Purchase Agreement, the General Corporation Law of the State of Delaware or any other applicable law, the provision of these by-laws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

ARTICLE VIII

AMENDMENTS

Subject to the Securities Purchase Agreement and with the exception of the provisions of Article III hereof, these by-laws may be amended, altered, or repealed and new by-laws adopted at any meeting of the board of directors by a majority vote. The fact that the power to adopt, amend, alter, or repeal the by-laws has been conferred upon the board of directors shall not divest the stockholders of the same powers.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Max W. Hillman, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hillman Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 8/13/04

/s/ Max W. Hillman
Max W. Hillman
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, James P. Waters, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hillman Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 8/13/04

/s/ James P. Waters

James P. Waters
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, (the "Report") of The Hillman Companies, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof; I, Max W. Hillman, the Chief Executive Officer of the Registrant, certify, to the best of my knowledge, that:

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

/s/ Max W. Hillman

Name: Max W. Hillman

Date: August 13, 2004

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, (the "Report") of The Hillman Companies, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof; I, James P. Waters, the Chief Financial Officer of the Registrant, certify, to the best of my knowledge, that:

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

/s/ James P. Waters

Name: James P. Waters

Date: August 13, 2004