UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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

For the fiscal year ended December 31, 2004

Commission file number 1-13293

The Hillman Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**23-2874736**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10590 Hamilton Avenue Cincinnati, Ohio	**45231**
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. ☑

On March 28, 2006, 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 aggregate market value of the Trust Preferred Securities held by non-affiliates at June 30, 2004 was $113,878,548.

Explanatory Note:

This Amendment to The Hillman Companies, Inc. (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2004 (the “Amendment”) is being filed (i) to restate certain amounts to correct our financial statements as explained in “Item 8. Financial Statements and Supplementary Data—Note 2. Restatement of Financial Statements,” (ii) to amend “Item 9A. Controls and Procedures,” to disclose certain matters identified in connection with the Company’s evaluation, under the supervision and with the participation of the Company’s management, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to the U.S. Securities and Exchange Commission (“SEC”) Rules 13a-15 and 15d-15 under the Exchange Act and (iii) to amend Item 1 in Part I, Items 6, 7 and 8 in Part II, Item 15 in Part IV and the “Forward-Looking Information” section. The Company has also made conforming updates to the index and signature page. Items not being amended and restated are presented for the convenience of the reader only. This Amendment continues to describe conditions as of the date of the original filing of the Annual Report on Form 10-K for the year ended December 31, 2004 and the Company has not updated the disclosures contained therein to reflect events that occurred at a later date, except for items relating specifically to the restatement, and items relating specifically to disclosure controls and procedures. Therefore, this Amendment should be read together with other documents that the Company has filed with the SEC subsequent to the filing of the original Annual Report on Form 10-K for the year ended December 31, 2004. Information in such reports and documents updates and supercedes certain information contained in this Amendment.

PART I

Item 1 – Business.

General

The Hillman Companies, Inc. ("Hillman" or the "Company") is one of the largest providers of hardware-related products and related merchandising services to retail markets in North America. The Company's principal business is operated through its wholly-owned subsidiary, The Hillman Group, Inc. (the "Hillman Group") which had sales of approximately $351.6 million in 2004 (as restated, see Note 2, Restatement of Financial Statements, of Notes to Consolidated Financial Statements). The Hillman Group sells its products to hardware stores, home centers, mass merchants, pet supply stores, and other retail outlets principally in the United States, Canada, Mexico and South America. Product lines include thousands of small parts such as fasteners and related hardware items; keys, key duplication systems and accessories; and identification items, such as, tags and letters, numbers, and signs. The Company supports its product sales with value added services including design and installation of merchandising systems and maintenance of appropriate in-store inventory levels.

The Company headquarters is located at 10590 Hamilton Avenue, Cincinnati, Ohio. The Company maintains a website athttp://www.hillmangroup.com. Information contained or linked on our website is not incorporated by reference into this annual report, and you should not consider any such information to be a part of this annual report.

Background

On March 18, 2002, SunSource Inc., a Delaware corporation ("SunSource"), as a result of the acquisition of a majority of SunSource common stock by Allied Capital Corporation in September 2001 as discussed below, changed its name to The Hillman Companies, Inc., which reflects its predominant business as one of the largest providers of hardware-related products and related merchandising services to the retail markets in North America. In connection with the SunSource name change, SunSource Capital Trust, which has 4.2 million Trust Preferred Securities outstanding and trading on the American Stock Exchange under the symbol "HLM.Pr", changed its name to the Hillman Group Capital Trust.

On September 26, 2001, SunSource Inc. was acquired by Allied Capital Corporation ("Allied Capital") pursuant to the terms and conditions of an Agreement and Plan of Merger dated as of June 18, 2001, by and among Allied Capital, Allied Capital Lock Acquisition Corporation and SunSource. Allied Capital acquired approximately 96.8% of the Company and certain members of management and other stockholders continued as stockholders of the Company after the merger. The total transaction value was $74.0 million or $10.375 per SunSource common share, consisting of the cash purchase price paid for the outstanding common stock of the Company aggregating approximately $71.5 million and management and other stockholders' common shares valued at approximately $2.5 million. SunSource was the surviving entity in the merger and organized as an independently managed portfolio company of Allied Capital.

In connection with the transaction, on September 28, 2001, the Company completed the sale of substantially all of the assets of its SunSource Technology Services business (the "STS Business") to STS Operating, Inc. ("STS OP"), an entity formed by certain officers and managers of the STS Business, Allied Capital and Easton Hunt Capital Partners, L.P. for the purpose of acquiring the STS Business. STS OP purchased the assets of the STS Business including the rights to the name SunSource from SunSource Technology Services, LLC, a wholly-owned subsidiary of SunSource, pursuant to an Asset Purchase Agreement, dated September 28, 2001, by and between SunSource Technology Services, LLC and STS OP. The purchase price aggregated approximately $25.5 million in cash and preferred stock of STS OP, subject to post-closing adjustments, plus the assumption of certain liabilities. On October 16, 2002, Hillman's equity investment in STS OP preferred stock and $0.2 million of cash was distributed to the Company's common stockholders.

On March 2, 2000, the Company contributed its Kar Products operations to a newly formed partnership affiliated with Glencoe Capital LLC ("Glencoe"). Glencoe contributed cash equity to the new partnership in exchange for a 51% controlling interest with the remaining

minority interest retained by SunSource. The Company received $105 million in cash proceeds from the transaction through repayment of assumed debt by the new partnership, GC-Sun Holdings, L.P. ("G-C"). On October 4, 2000, G-C acquired all of the outstanding stock of Brampton Fastener Co. Limited (d/b/a Brafasco). On January 4, 2002, G-C provided the Company notice that it intended to exercise its call right to purchase the Company's partnership interest as a result of the merger transaction with Allied Capital. On April 13, 2002, the Company entered into a Unit Repurchase Agreement with G-C, pursuant to which G-C exercised its call right. In exchange for its interest in G-C, the Company received a $10 million subordinated note from G-C. The G-C note was distributed to the Company's common stockholders on March 31, 2004.

On May 1, 2002, the Company purchased certain assets of the Lowe's specialty fastener business from R&B, Inc. for cash consideration of $6.2 million. In connection with this transaction, the Company settled litigation filed by R&B, Inc. in February 1996 related to the Company's sale of the Dorman Products division.

On October 3, 2002, the Company, through its Hillman Group subsidiary, purchased the net assets of the DIY division ("DIY") of the Fastenal Company of Winona, MN ("Fastenal"). DIY distributed fasteners, anchors, picture hanging wire, hooks, tacks, and brads to national hardware cooperatives and home centers. The Company paid $15.3 million in cash to Fastenal for the net assets of DIY.

On March 31, 2004, Hillman was acquired by an affiliate of Code Hennessy & Simmons LLC ("CHS"). Pursuant to the terms and conditions of the related 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 the repayment of outstanding debt and the value of the Company's outstanding Trust Preferred Securities.

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 HarbourVest Partners VI owns 8.7% of the Company's common stock and 9.7% of the Company's voting common stock. OTPP's voting rights with respect to the election of directors to the Board is limited to the lesser of 30.0% or the actual percentage of voting common stock held. Certain members of management own 14.1% of the Company's common stock and 4.5% of the Company's voting common stock. For a discussion of the Company's capital stock, see Note 14, Common and Preferred Stock, of Notes to Consolidated Financial Statements.

For additional information on certain of the transactions, see "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations".

Industry Overview

Hillman operates in multiple channels of the retail marketplace such as hardware stores, national and regional home centers and mass merchants. Hillman focuses on delivering merchandising systems, point-of-sale displays, product support and sales installation services through its nationwide field sales and service force to the retail sector.

These retail channels have experienced significant change as a result of the growth of the large national big box ("Big Box") chains (defined as mass merchants, home centers and large-format grocery/drug centers), which have taken market share from the regional home centers and independent hardware dealers and cooperatives. Hillman has developed sales, marketing, merchandising and service specifically to meet the needs of the Big Box chains. Hillman believes that its market knowledge, merchandising skills, breadth of inventory, and value-added services, including superior support and fulfillment capabilities, will enable the Company to prosper with the Big Box chains.

The Hillman Group

The Company is organized as a single business segment, the Hillman Group. With annualized sales of approximately $351.6 million, the Hillman Group believes it is the leading provider

of fasteners and related small hardware items; keys, key duplication systems and related accessories, and identification items, such as tags and letters, numbers and signs ("LNS") to retail outlets in North America. Retail outlets served by Hillman include hardware stores, home centers, mass merchants, pet supply stores, grocery stores and drug stores. Through its field sales and service organization, Hillman complements its extensive product selection with value-added services for the retailer.

Sales and service representatives regularly visit retail outlets to review stock levels, reorder items in need of replacement, and interact with the store management to offer new product and merchandising ideas. Thousands of items can be actively managed with the retailer experiencing a substantial reduction in paperwork and labor costs. Service representatives also assist in organizing the products in a consumer-friendly manner. Hillman complements its broad range of products with value-added merchandising services such as displays, product identification stickers, retail price stickers, store rack and drawer systems, assistance in rack positioning and store layout, and inventory restocking services. Hillman regularly introduces new products and package designs with color-coding for ease of shopping by consumers and modifies rack designs to improve the attractiveness of individual store displays. In effect, Hillman functions as a merchandising manager for retailers, supporting these services with high order fill rates and rapid delivery from its twelve distribution centers across the United States and Canada. Currently, orders are shipped within 48 hours with a 97% order fill rate.

The Company ships its products from twelve strategically located distribution centers in the U.S and Canada (See Item 2 – Properties). In 2002, Hillman invested $9.8 million in a state of the art distribution facility in Cincinnati, Ohio. In addition to improving order turnaround time and reducing labor costs, the new facility provides additional capacity to accommodate future sales growth. In 2004, the Company moved into a new facility in Lewisville, Texas and the implementation of warehouse management technology was completed in December. A similar undertaking was started on the Shafter, California facility with an expected completion date of April 2005.

Hillman also manufactures and markets a value-added mix of high-tech and conventional products in two core product categories: key duplication systems and identification systems. The patent-protected Axxess Precision Key Duplication System™ has proven to be a profitable revenue source within Big Box retailers. The technology developed for this system revolutionized the key duplicating process utilizing computer aided alignment, indexing and duplication of keys. This system has been placed in over 13,900 retail locations to date and is supported by Hillman sales and service representatives.

In addition, Hillman offers a commercialized, innovative, consumer-operated vending system, Quick-Tag™, which provides custom engraved specialty items, such as pet identification tags, luggage tags and other engraved identification tags. To date, more than 3,250 Quick-Tag™ machines have been placed in retail locations which are being supported by Hillman's sales and service representatives.

Products and Suppliers

Currently, Hillman purchases its products from approximately 650 vendors, the largest of which accounted for approximately 10% of the Group's annual purchases and the top five of which accounted for 34% of its purchases. About half of its purchases are from overseas suppliers, with the balance from domestic manufacturers and master distributors. Hillman's vendor quality control procedures include on-site evaluations and frequent product testing. Vendors are also evaluated based on delivery performance and the accuracy of their shipments.

Fasteners

Hillman's fastener product line encompasses standard and specialty nuts, bolts, washers, screws, anchors and picture hanging items. The line also includes brass, nylon, stainless steel, chrome and galvanized and other miscellaneous fasteners. The depth of the line, over 37,500 products, is believed to be the largest among suppliers servicing the hardware retail segment. Fasteners generated 56.7% of total revenue in 2004.

Keys and Key Accessories

Hillman provides a competitive line of metal key products for major retailers and the automotive sector. Hillman manufactures two metal key duplication systems that are niche-marketed to retail outlets, primarily mass merchants and home centers, and a code cutting system for use in automotive dealerships and in vehicle fleet environments.

The Axxess Precision Key Duplication System™ creates high quality duplicate keys with the precision of a locksmith while minimizing the technical skill required by operators. The system was developed in response to retailers needs for reducing the miscut rate on keys. Axxess keys provide retailers with nearly ten times more gross profit per square foot than the average of all products sold in grocery and mass merchant channels.

Hillman also markets a conventional key cutting system. The styles of keys marketed include standard brass keys, Wackeys™, NFL, MLB, NCAA logo keys, Color Plus™ keys, rubber head keys, and high security vehicle anti-theft key blanks. The conventional system is marketed to retailers who do not experience high employee turnover and therefore do not have the same labor constraints as mass merchants, home centers or grocery and drug retailers.

The key cutting system developed for the automotive industry, PC+ Code Cutter, produces automobile keys using alphanumeric codes based on a vehicle's identification number. Utilizing a proprietary computer program, the PC+ Code Cutter identifies and then cuts keys based on the automobile's original key pattern. The PC+ Code Cutter is distributed through Barnes Distribution, a distribution company serving vehicular and industrial markets. Since its introduction in February 1996, more than 7,900 PC+ Code Cutter and 2,800 of the new Flash Code Cutter systems have been sold.

Hillman also markets key accessories in conjunction with its key duplication systems. Popular accessories include the Key Light™, Valet KeyChain™, Fanatix™ key identifiers, key coils and key clips. The Key Mates™ line of key accessories includes a broad range of products such as key chains, tags, lights, floats, holders, whistles, and a host of other miscellaneous complementary items. Revenues for keys, key accessories, and the PC+ Code Cutter represented 26.3% of total revenues in 2004.

Engraving

Quick-Tag™ is a patented, state-of-the-art consumer-operated vending system that custom engraves specialty products such as pet identification tags, military-style I.D. tags, holiday ornaments and luggage tags. Hillman initially targeted the pet identification market with its Quick-Tag™ system, and has facilitated the process of obtaining a pet tag by providing pet owners with a quick and highly convenient means to custom engrave tags while shopping at large format retail stores such as Wal-Mart and PETsMART. Hillman has developed other high impact applications for its Quick-Tag™ interactive engraving technology, including luggage tags, key chains and military-style identification tags. The Company has placed over 3,250 Quick-Tag machines in retail outlets throughout the United States and Canada. Using an interactive touch screen, customers input information such as a pet name and telephone number, and the system's proprietary technology engraves the tag in less than two minutes. The Quick-Tag system does not require incremental labor and generates high levels of customer satisfaction and attractive margins for the retailer. The Quick-Tag custom engraving systems generate retail profit per square foot over seven times the typical retail average. Revenues for engraving products represented 8.4% of total revenues in 2004.

Hillman purchases a wide variety of materials and components to manufacture the Axxess Key Duplication and Quick-Tag engraving machines, many of which are manufactured to its specifications. Management does not believe that it is overly dependent on any one supplier. The machine components do not generally require proprietary technology and Hillman has identified or used alternate suppliers for its primary sourcing needs.

Letters, Numbers and Signs ("LNS")

The LNS program offers an extensive collection of items for both domestic and commercial use such as packaged self-adhesive letters and numbers, mailbox numbers and accessories, house numbers and letters, contractor safety program signs, and driveway markers and

reflectors. Typical retailers dedicate eight linear feet of retail space for this product and view it as a significant contributor to their retail offerings. Hillman also offers a variety of merchandisers and program configurations for this line. LNS sales accounted for 8.6% of 2004 revenues.

Markets and Customers

Hillman sells its products to national accounts such as Wal-Mart, Home Depot, Lowe's, Sears, Tractor Supply, PETsMART, and PetCo. Hillman's status as a national supplier of unique, proprietary products to Big Box retailers allows it to develop a formidable market position and high barriers to entry within its product categories. Management believes that the dynamics, which make its services attractive to hardware retailers, are present with these larger customers as well.

Hillman services approximately 15,000 franchise and independent ("F&I") retail outlets. These individual dealers are typically members of the larger cooperatives, such as Tru-Serv, Ace and Do-it-Best. The Company sells directly to the cooperative's retail locations and also supplies many fastener items to the cooperative's central warehouses. These central warehouses distribute to their members that do not have a requirement for Hillman's in-store service. These arrangements reduce credit risk and logistic expense for Hillman and reduce central warehouse inventory and delivery costs for the cooperatives.

A typical hardware store maintains in inventory thousands of different items, many of which generate small dollar sales but large profits. It is difficult for a retailer to economically monitor all stock levels and to reorder the products from multiple vendors. The problem is compounded by the necessity of receiving small shipments of inventory at different times and having to stock the goods. However, failure to have these small items available will have an adverse effect on store traffic, thereby denying the retailer the opportunity to sell items that generate higher dollar sales.

Hillman sells its products to approximately 20,000 customers, the top five of which accounted for 44.4% of its annualized sales. Lowe's is the single largest customer, representing 17.7% of total sales, Wal-Mart is the second largest at 10.4% and Home Depot is the third largest at 10.4%. No other customer accounted for more than 10% of the Company's total sales in 2004.

Hillman's telemarketing activity sells to approximately 6,700 smaller hardware outlets and over 6,000 non-hardware accounts. New business is also being pursued internationally in such places as Canada, Mexico, South and Central America, and the Caribbean.

Sales and Marketing

Management believes that Hillman provides unmatched product support, customer service and profit opportunities for its retail distribution partners. It also believes that a significant source of its competitive advantage rests in its ability to provide a greater level of customer service than its competitors. Hillman products are covered directly by the combined field service organization, which provides service support through field visits. These field visits provide Hillman with critical information relating to consumer buying patterns and retailing trends, and complements their new product development efforts. Field service representatives also help retail customers to improve the efficiency and profitability of Hillman's on-site merchandising systems by consulting with customers in the areas of EDI, product planning, inventory control, systems interface and store operations.

The national accounts field service organization consists of over 395 service people and 23 field managers focusing on Big Box retailers, pet super stores, large national discount chains and grocery stores. This organization reorders products, details store shelves and sets up in-store promotions.

Management believes the Company consistently is able to be responsive to the needs of the F&I retailers because it employs the largest direct sales organization in the retail home industry. This organization consists of 226 people, managed by 17 field managers. Each sales representative is responsible for approximately 50 full service accounts that they call on approximately every two weeks. Coupled with the efforts of the Marketing

Department, the sales force not only sells products, but can sell merchandising and technological support capabilities as well. The Marketing Department provides support through the development of new products, sales collateral material, promotional items, merchandising aids and marketing services such as advertising and trade show management. Its electronic data interchange ("EDI") system is used by a number of its large customers for handling of orders and invoices.

Competition

The primary competitors in the national accounts marketplace for fasteners are Crown-Bolt, R&B, Inc. and the Newell Group. Competition is based primarily on in-store service and price. Other competitors are local and regional distributors.

The principal competitors for Hillman's F&I business are Midwest Fasteners, Serv-A-Lite and Hyko in the hardware store marketplace. The first two carry mainly fastener products, while the latter is the major competitor in LNS products. Hillman competes primarily on field service, merchandising, as well as product availability, price and breadth of product line.

Management estimates that Hillman sells to approximately 65% of the full service hardware stores in the F&I marketplace. The hardware outlets that purchase products but not services from Hillman also purchase products from local and regional distributors and cooperatives. Competition in the F&I marketplace is primarily on the basis of price and availability.

Hillman competes with Hyko for LNS sales in hardware stores, home centers and mass merchants. Competitors in the pet tag market are specialty retailers, direct mail order and retailers with in-store mail order capability. The Quick-Tag system has patent protected proprietary technology that is a major barrier to entry and preserves this market segment.

Risk Factors

An investment in the Company's securities involves certain risks as discussed below. However, the risks set forth below are not the only risks the Company faces, and it faces other risks which have not yet been identified or which are not yet otherwise predictable. If any of the following risks occur or are otherwise realized, the Company's business, financial condition and results of operations could be materially adversely affected. You should consider carefully the risks described below and all other information in this annual report, including the Company's financial statements and the related notes and schedules thereto, prior to making an investment decision with regard to the Company's securities.

The Company operates in a highly competitive industry, which may have a material adverse effect on its business, financial condition and results of operations.

The retail industry is highly competitive, with the principal methods of competition being price, quality of service, quality of products, product availability, credit terms and the provision of value-added services, such as merchandising design, in-store service and inventory management. The Company encounters competition from a large number of regional and national distributors, some of which have greater financial resources than the Company and may offer a greater variety of products. If these competitors are successful, the Company's business, financial condition and results of operations may be materially adversely affected.

The Company's business, financial condition and results of operations may be materially adversely affected by seasonality and general economic conditions affecting its sales.

Hillman has, in the past, experienced seasonal fluctuations in sales and operating results from quarter to quarter. Typically, the first calendar quarter is the weakest due to the effect of weather on home projects and the construction industry.

The Company's profitability may be materially adversely affected as a result of consolidation in the retail trade industry.

With the trend toward retail trade consolidation, the Company is increasingly dependent upon key retailers whose bargaining strength is growing. Accordingly, the Company faces greater pressure from its retail trade customers to provide more favorable trade terms. The Company's profitability may be negatively affected by changes in the policies of its retail trade customers.

Changes in general economic conditions could also have a material adverse effect on the Company's sales.

The Company's success is highly dependent on information and technology systems.

The Company believes that its proprietary computer software programs are an integral part of its business and growth strategies. Hillman depends on its information systems to process orders, to manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations and to provide superior service to its customers. There can be no assurance that the precautions which the Company has taken against certain events that could disrupt the operations of its information systems will prevent the occurrence of such a disruption. Any such disruption could have a material adverse effect on the Company's business and results of operations.

These factors could have a material adverse affect on the Company's business, financial condition and results of operations.

The inability to make timely and cost effective acquisitions may adversely affect the Company's business.

An element of Hillman's future growth strategy is to pursue selected acquisitions that either expand or complement its businesses in new or existing markets. However, there can be no assurance that the Company will be able to identify or acquire acceptable acquisition candidates on terms favorable to the Company and in a timely manner, if at all, to the extent necessary to fulfill Hillman's growth strategy. Furthermore, there can be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of acquisitions. The process of integrating acquired businesses into the Company's operations may result in unforeseen difficulties and may require a disproportionate amount of resources and management's attention, and there can be no assurance that Hillman will be able to successfully integrate acquired businesses into its operations.

Insurance Arrangements

Under the Company's current insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of expected claims. Since October 1991, the Company has retained the exposure on certain expected losses related to worker's compensation, general liability and automobile. The Company also retains the exposure on expected losses related to health benefits of certain employees. The Company believes that its present insurance is adequate for its businesses. See Note 19, Commitments and Contingencies, of Notes to Consolidated Financial Statements of the Company as of and for the three years ended December 31, 2004.

Employees

As of December 31, 2004, the Company had 1,794 full time and part time employees. In the opinion of management, employee relations are good.

Backlog

The Company's sales backlog from ongoing operations was $5.7 million as of December 31, 2004, and $4.8 million as of December 31, 2003.

Where You Can Find More Information

The Company files quarterly reports on Form 10-Q, annual reports on Form 10-K and special reports on Form 8-K, and other information with the Securities and Exchange Commission (the "Commission"). You may read and copy any reports, statements, or other information filed by the Company at the Commission's public reference rooms at 450 5th Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for more information on the public reference rooms. The Commission also maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, like Hillman, that file electronically with the Commission. Copies may also be obtained, after paying a duplicating fee, by electronic request to publicinfo@sec.gov or by written request to Public Reference Section, Washington, D.C. 20549-0102.

You can inspect reports, proxy statements, and other information about the Company at the offices of The American Stock Exchange, 86 Trinity Place, New York, NY 10006.

Item 2 – Properties.

The Company's principal office, manufacturing and distribution properties are as follows:

Location	Approximate Square Footage	Description
Cincinnati, Ohio	240,000	Office, Distribution
Forest Park, Ohio	260,000	Distribution
Tempe, Arizona	161,000	Mfg., Distribution
Tempe, Arizona	47,000	Office
Shafter, California	84,000	Distribution
Lewisville, Texas	72,000	Distribution
Wilsonville, Oregon	29,000	Distribution
Charlotte, North Carolina	40,000	Distribution
Green Island, New York	56,000	Distribution
LaCrosse, Wisconsin	48,000	Distribution
Riviera Beach, Florida	37,000	Distribution
Goodlettsville, Tennessee	72,000	Mfg., Distribution
Mississauga, Ontario	11,000	Distribution

With the exception of Goodlettsville, Tennessee, all of the Company's facilities are leased. In the opinion of management, the Company's existing facilities are in good condition.

Item 3 – Legal Proceedings.

Legal proceedings are pending which are either in the ordinary course of business or incidental to the Company's business. Those legal proceedings incidental to the business of the Company are generally not covered by insurance or other indemnity. In the opinion of management, the ultimate resolution of the pending litigation matters will not have a material adverse effect on the consolidated financial position, operations or cash flows of the Company.

Item 4 – Submission of Matters to a Vote of Security Holders.

The Company did not submit any matters to a vote of Trust Preferred holders during the quarter ended December 31, 2004.

Part II

Item 5 – Market for Registrant's Common Shares and Related Stockholder Matters.

Stock Exchange Listing

The Company's common stock does not trade and is not listed on or quoted in an exchange or other market. However, the Trust Preferred Securities trade under the ticker symbol HLM.Pr on the American Stock Exchange. The following table sets forth the high and low closing sale prices on the American Stock Exchange composite tape for the Trust Preferred Securities.

2004	High	Low
First Quarter	$27.50	$26.15
Second Quarter	27.55	26.50
Third Quarter	27.70	26.80
Fourth Quarter	29.45	27.40

2003	High	Low
First Quarter	$25.85	$25.00
Second Quarter	27.00	25.14
Third Quarter	26.95	26.00
Fourth Quarter	27.04	26.20

The Trust Preferred Securities have a liquidation value of $25.00 per security. As of March 22, 2005, there were 731 holders of Trust Preferred Securities and fifteen (15) common stockholders. The total number of Trust Preferred Securities outstanding as of March 25, 2005 was 4,217,724. The total number of shares of Common Stock outstanding as of March 25, 2005 was 10,000.

Distributions

The Company pays interest to the Hillman Group Capital Trust ("the Trust") on the Junior Subordinated Debentures underlying the Trust Preferred Securities at the rate of 11.6% per annum on their face amount of $105.4 million, or $12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the years ended December 31, 2004 and 2003, the Company paid $12.2 million per year in interest on the Junior Subordinated Debentures, which was equivalent to the amounts distributed on the Trust for the same periods.

The interest payments on the Junior Subordinated Debentures underlying the Trust Preferred Securities are deductible for federal income tax purposes by the Company under current law and will remain an obligation of the Company until the Trust Preferred Securities are redeemed or upon their maturity in 2027.

For more information on the Trust and Junior Subordinated Debentures, see "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations".

Issuer Purchases of Equity Securities

The Company made no repurchases of its equity securities during 2004.

Item 6 – Selected Financial Data.

As a result of the Merger Transaction, the Company's operations for the periods presented subsequent to the September 30, 2001 acquisition by Allied Capital but prior to March 31, 2004 are referenced herein as the predecessor operations (the "Predecessor" or "Predecessor Operations"). The Company's operations for the periods presented since the merger are referenced herein as the successor operations (the "Successor" or "Successor Operations") and include the effects of the Company's debt refinancing. Periods prior to the acquisition by Allied Capital are referred to below as the pre-predecessor operations (the "Pre-predecessor" or "Pre-predecessor Operations").

The following table sets forth selected consolidated financial data (as restated, see Note 2 of Notes to Consolidated Financial Statements) of the Pre-predecessor as of and for the year ended December 31, 2000 and the nine months ended September 30, 2001; and consolidated financial data of the Predecessor as of and for the three months ended March 31, 2004, the two years ended December 31, 2003 and the three months ended December 31, 2001; and consolidated financial data of the Successor as of and for the nine months ended December 31, 2004. See the accompanying Notes to Consolidated Financial Statements and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the acquisition of the Company by CHS and the Company's debt refinancing as well as other acquisitions that affect comparability.

	Successor	Predecessor				
($ in 000's)	Nine Months Ended 12/31/04 As Restated	Three Months Ended 03/31/04 As Restated	Year Ended 12/31/03 As Restated	Year Ended 12/31/02 As Restated (3)	Three Months Ended 12/31/01 As Reported	Three Months Ended 12/31/01 As Restated
Income Statement Data:						
Net sales	$ 273,374	$ 78,190	$317,671	$ 286,599	$ 60,040	$ 61,538
Gross profit	150,402	42,807	174,316	160,503	34,442	35,249
Non-recurring expense (2)	—	30,707	—	—	—	—
Net income (loss)	779	(20,366)	(5,709)	5,243	(2,909)	(2,128)
Balance Sheet Data at December 31:						
Total assets	$ 628,899	N/A	$354,253	$ 375,653	$ 339,961	$ 352,960
Long-term debt and capitalized lease obligations (1)	264,101	N/A	150,338	147,175	128,739	130,836

	Pre-predecessor(4)			
($ in 000's)	Nine Months Ended 9/30/01 As Reported	Nine Months Ended 9/30/01 As Restated	Year Ended 12/31/00 As Reported	Year Ended 12/31/00 As Restated
Income Statement Data:				
Continuing Operations				
Net sales	$ 341,307	$ 340,426	$462,839	$463,428
Gross profit	143,564	142,986	184,660	184,979
Gain on contribution of subsidiaries (5)	—	—	49,115	49,115
Income (loss) before discontinued operations (5)	(1,327)	(1,097)	27,290	28,435
Income (loss) from discontinued operations (5)	—	—	(2,610)	(2,610)
Net income (loss)	$ (1,327)	$ (1,097)	$ 24,680	$ 25,825
Balance Sheet Data at December 31:				
Total assets	N/A	N/A	$320,960	$326,108
Long-term debt and capitalized lease obligations (1)	N/A	N/A	$102,790	$102,790

(1) Includes current portion of long-term debt and capitalized lease obligations

(2) Non-recurring expenses incurred in connection with the CHS Merger including $24,353 for stock options granted at an exercise price below fair market value, $4,035 in investment banking and legal fees, $1,922 in management bonuses and $397 in payroll taxes. See the Notes to the Consolidated Financial Statements for further details.

(3) Total assets and long-term debt and capitalized lease obligations as reported as of December 31, 2002 were $363,194 and $146,716, respectively

(4) Financial data for the nine months ended September 30, 2001 and the year ended December 31, 2000 include the operating results of the SunSource Technology Services business, the assets of which were sold pursuant to an Asset Purchase Agreement on September 28, 2001.

(5) This information is not included in the current Consolidated Statements of Operations for the three years ended December 31, 2004, however, it was included in prior years when applicable.

Item 7 – 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 related notes and schedules thereto appearing elsewhere herein.

General

The Hillman Companies, Inc. ("Hillman" or the "Company") is one of the largest providers of hardware-related products and related merchandising services to the retail markets in North America.

The Company's principal business is operated through its wholly-owned subsidiary, The Hillman Group, which had sales of approximately $351.6 million in 2004. The Hillman Group sells its product lines and provides its services to hardware stores, home centers, mass merchants, pet supply stores, and other retail outlets principally in the United States, Canada, Mexico and South America. Product lines include thousands of small parts such as fasteners and related hardware items; keys, key duplication systems and accessories; and identification items, such as, tags and letters, numbers, and signs. Services offered include design and installation of merchandising systems and maintenance of appropriate in-store inventory levels.

Restatement of Financial Statements

As discussed more fully in Note 2, Restatement of Financial Statements, of Notes to Consolidated Financial Statements, the Company has restated the previously issued consolidated financial statements for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004.

Management's discussion and analysis should be read in conjunction with the restated consolidated financial statements and notes thereon in Item 8 of this Form 10-K/A. All items within the management's discussion and analysis have been updated to reflect the impact of the restatement.

Merger Transaction

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 ($102.4 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 HarbourVest 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 operations 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 December 31, 2004 and its related Consolidated Statements of Operations for the nine months ended December 31, 2004, and its Consolidated Statements of Cash Flows and Changes in Stockholders' Equity for the nine months ended December 31, 2004 are referenced herein as the successor financial statements (the "Successor" or "Successor Financial Statements").

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 (the "Senior Credit Agreement") consisting of a $40.0 million revolving credit facility (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 as of the last day 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"). 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.

In addition, on March 31, 2004, the Company, through The Hillman Group, 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 effectively fixes the interest rate on $50.0 million of the 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.

Acquisitions and Divestitures

On October 3, 2002, the Company, through The Hillman Group, purchased the net assets of the DIY division ("DIY") of the Fastenal Company of Winona, MN ("Fastenal"). DIY, with annual sales of approximately $22 million, distributes fasteners, anchors, picture hanging wire, hooks, tacks, and brads to national hardware cooperatives and home centers. The Company paid $15.3 million in cash to Fastenal for the net assets of DIY. The transaction was financed from the Company's existing credit lines.

In connection with the DIY acquisition, the Company developed an overall plan that included the elimination of redundant headcount and facilities. In accordance with ETIF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the Company accrued $3.4 million of estimated costs related to the plan in the fourth quarter of 2002. The estimated costs consisted of approximately $1.5 million of fixed asset disposals, $0.9 million of facilities lease costs, $0.5 million of inventory conversion and relocation expense and $0.5 million for planned workforce reductions. The plan was substantially completed by December 31, 2003.

Additional reserves were established in 2003 for costs associated with the integration of the DIY acquisition. Additional costs include severance of $0.3 million, facility lease of $1.2 million, inventory adjustments of $0.8 million, and customer conversion costs which include product buybacks of $1.6 million. The actual cost of fixed asset disposals was $0.4 million less than the original estimate.

On May 1, 2002, the Company's Hillman Group purchased certain assets of the Lowe's specialty fastener business from R&B, Inc. for cash consideration of $6.2 million. The purchase of the specialty fastener business has expanded the breadth of the Company's product offering to Lowe's. In connection with this transaction, the Company settled litigation filed by R&B, Inc. in February 1996 related to the Company's sale of the Dorman Products division. The litigation settlement in the amount of $1.25 million was fully reserved on the Company's balance sheet, and accordingly, there was no charge to income in 2002.

On March 2, 2000, the Company contributed the interests in its Kar Products, Inc. and A & H Bolt & Nut Company Limited operations (collectively, the "Kar business"), to a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership, GC-Sun Holdings L.P. ("G-C"). The Company received $105 million in cash proceeds from the transaction through repayment of assumed debt by G-C and retained minority ownership in G-C. Affiliates of Glencoe held the controlling interest in G-C. The Company recorded a pre-tax gain on the transaction of approximately $49.1 million in the first quarter of 2000. On January 4, 2002, G-C provided the Company notice that it intended to exercise its call right to purchase the Company's partnership interest as a result of the merger transaction with Allied Capital. On April 13, 2002, the Company entered into a Unit Repurchase Agreement with G-C, pursuant to which G-C exercised its call right. In exchange for its interest in G-C, the Company received a $10 million subordinated note from G-C.

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 thereon. Accordingly, the Company recorded an $11.3 million charge to income during the year ended December 31, 2003 to write-down the face value of the note and accrued interest thereon to zero.

The G-C note was distributed to the Company's common stockholders on March 31, 2004.

Results of Operations

Sales and Profitability for each of the Three Years Ended December 31

	2004 (a)		2003		2002	
	(dollars in thousands)					
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
	(As Restated)		**(As Restated)**		**(As Restated)**	
Net sales	$ 351,564	100.0%	$ 317,671	100.0%	$ 286,599	100.0%
Cost of sales (exclusive of depreciation and amortization shown below)	158,355	45.0%	143,355	45.1%	126,096	44.0%
Gross profit	193,209	55.0%	174,316	54.9%	160,503	56.0%
Operating expenses:						
Selling	67,796	19.3%	57,939	18.2%	54,872	19.1%
Warehouse & delivery	44,245	12.6%	40,590	12.8%	33,048	11.5%
General & Administrative	18,221	5.2%	22,229	7.0%	23,740	8.3%
Stock compensation expense	272	0.1%	—	0.0%	—	0.0%
Total SG&A	130,534	37.1%	120,758	38.0%	111,660	39.0%
Non-recurring expense (b)	30,707	8.7%	—	0.0%	—	0.0%
Depreciation	15,187	4.3%	14,399	4.5%	12,004	4.2%
Amortization	5,748	1.6%	1,437	0.5%	1,485	0.5%
Management fees	1,329	0.4%	1,800	0.6%	1,800	0.6%
Total operating expenses	183,505	52.2%	138,394	43.6%	126,949	44.3%
Gain on termination of defined benefit pension plan (c)	—	0.0%	—	0.0%	1,231	0.4%
Other income (expense)	277	0.1%	681	0.2%	320	0.1%
Income from operations	9,981	2.8%	36,603	11.5%	35,105	12.2%
Interest expense	17,539	5.0%	15,405	4.8%	12,982	4.5%
Interest expense on mandatorily redeemable preferred stock & management purchased preferred options	5,458	1.6%	—	0.0%	—	0.0%
Interest expense on junior subordinated notes	12,609	3.6%	—	0.0%	—	0.0%
Investment income on trust common securities	(378)	-0.1%	—	0.0%	—	0.0%
Distributions on guaranteed preferred beneficial interests	—	0.0%	12,231	3.9%	12,231	4.3%
Write-down of note receivable	—	0.0%	11,258	3.5%	—	0.0%
Income (loss) before taxes	(25,247)	-7.2%	(2,291)	-0.7%	9,892	3.5%

(a) For the purpose of comparing the Company’s results of operations for each of the three years ended December 31, 2004, the results of the Predecessor Operations for the three months ended March 31, 2004 have been combined with the results of the Successor Operations for the nine months ended December 31, 2004.

(b) Represents one-time charges for stock options, management bonuses, investment banking, and legal fees incurred in connection with the March 31, 2004 Merger Transaction.

(c) Represents income as a result of the final settlement of the Company’s defined benefit plans in 2002.

Years Ended December 31, 2004 and 2003

Net sales increased $33.9 million or 10.7% in 2004 to $351.6 million from $317.7 million in 2003. Sales to national accounts represented $19.4 million of the $33.9 million total sales increase. The new store growth of our national accounts customers was primarily responsible for the increased fastener, keys, and LNS sales to Lowe's, increased keys and LNS sales to Home Depot, and increased keys sales to Wal-Mart. Sales to Franchise and Independent ("F&I") accounts increased $9.4 million from 2003 primarily due to 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 Tru-Serv, Ace, and Do-It-Best. In addition, the regional and engraving accounts increased $3.3 million over the comparable period in 2003. The regional accounts represent mid-sized hardware and lumber chains. Sales by our Canadian division increased $1.3 million, export sales increased $0.7 million, and other sales were $0.2 million less than the prior year.

The Company's sales backlog, based upon cancelable purchase orders, was $5.7 million as of December 31, 2004 and $4.8 million as of December 31, 2003.

The Hillman Group's gross margin of 55.0% in 2004 increased slightly from 54.9% in 2003. Price increases together with production efficiencies following the December 2003 consolidation of the Rockford packaging and distribution facility into the Company's Cincinnati facility offset the rising cost of the Company's products.

The Company's consolidated selling, general and administrative ("S,G&A") expenses increased $9.7 million or 8.1% from $120.8 million in 2003 to $130.5 million in 2004. Selling expenses increased $9.8 million or 17.1% primarily as a result of increased servicing and display costs at new national account stores. Warehouse and delivery expenses increased $3.6 million or 8.9% as a result of increased freight and labor costs of $2.8 million to process and ship the additional sales volume. General and administrative expenses decreased by $4.0 million or 18.0% as a result of a substantial decrease in medical claims experienced in 2004 compared to 2003 which included $1.5 million in claims by an employee for medical services. In addition, 2004 expense declined further from 2003 as a result of the elimination of several positions from our corporate office and Tempe facility together with the December 2003 shutdown of the Rockford facility. Stock compensation expenses from stock options related to the Merger Transaction were $0.3 million in 2004. There was no stock compensation expense in 2003.

Depreciation expense increased $0.8 million to $15.2 million in 2004 from $14.4 million in 2003 primarily as a result of an increase in the depreciable fixed asset base in connection with the placement of key duplication machines used in new national accounts.

Amortization expense increased $4.3 million to $5.7 million in 2004 from $1.4 million in 2003. The increase in amortization was the result of an increase in the valuation of certain intangible assets in connection with the Merger Transaction.

The Company has recorded a management and transaction fee charge of $1.3 million for 2004 and $1.8 million for 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 transaction fees to a subsidiary of OTPP 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.

Income from operations for the year ended December 31, 2004 was $40.7 million after excluding $30.7 million in non-recurring costs recorded in connection with the Merger Transaction. This represents an increase of $4.1 million or 11.2% from the $36.6 million for the year ended December 31, 2003.

The Company's consolidated operating profit margin from operations (income from operations as a percentage of net sales) was up nominally from 11.5% in 2003 to 11.6% in 2004 after excluding non-recurring costs recorded in connection with the Merger Transaction. The operating profit margin benefited from the reduction of S,G&A expenses and management fees as a percentage of sales, but these benefits were offset by the increase in amortization costs as a percentage of sales which resulted from the Merger Transaction.

Interest expense, net, increased $2.1 million to $17.5 million in 2004 from $15.4 million in 2003. The increase in interest expense, net, was primarily the result of increased Company debt related to the Merger Transaction and the amortization of additional deferred financing costs.

Interest expense was $5.5 million in 2004 on the mandatorily redeemable preferred stock and management purchased preferred options related to the Merger Transaction. No such interest expense was recorded in 2003.

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 $12.6 million per annum in the aggregate. The Company receives investment income on the trust common securities in the amount of $0.4 million per annum. The Trust distributes the equivalent net amount to the holders of the trust preferred securities. For the years ended December 31, 2004 and 2003, the Company paid interest net of investment income of $12.2 million on the junior subordinated debentures, which is equivalent to the amounts distributed by the Trust on the trust preferred securities.

The Company also pays interest to the Trust on the junior subordinated debentures underlying the trust common securities at the rate of 11.6% per annum on their face amount of $3.3 million, or $0.4 million per annum in the aggregate. The Trust distributes an equivalent amount to the Company as a distribution on the underlying trust common securities. For the year ended December 31, 2004, the Company paid $0.4 million interest on the Junior Subordinated Debentures, which is equivalent to the amounts received by the Company as investment income.

See Note 7, Income Taxes, of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 2004, for income taxes and disclosures related to 2004 and 2003 income tax events.

Years Ended December 31, 2003 and 2002

Net sales from the Hillman Group operations increased $31.1 million or 10.8% in 2003 to $317.7 million from $286.6 million in 2002. DIY was acquired from the Fastenal Company in October 2002 and it contributed $12.8 million of the 2003 sales increase. Increased fastener sales to Lowe's represented $4.4 million of the $31.1 million total sales increase in 2003 over 2002. In May 2002, Hillman began supplying all Lowe's locations following the acquisition of the specialty fastener business from R&B, Inc. Sales to other national accounts, including Home Depot and Wal-Mart, increased by an aggregate $6.7 million in 2003 compared to 2002, primarily as a result of new store growth. In addition, the regional and engraving accounts together with F&I accounts increased $6.8 million over the comparable period in 2002. The regional accounts represent mid-sized hardware and lumber chains. The F&I accounts are typically individual dealers who are members of larger cooperatives, such as Tru-Serv, Ace, and Do-It-Best. Sales by our Canadian division increased $0.5 million, Export sales increased $0.7 million, and other sales decreased $0.8 million from 2002.

The Company's sales backlog, based upon cancelable purchase orders, was $4.8 million as of December 31, 2003 and $3.0 million as of December 31, 2002.

The Hillman Group's gross margin was 54.9% in 2003 compared with 56.0% in 2002. The increase in sales volume generated from the newly acquired DIY division was made primarily

to warehouse accounts at lower margin rates than other typical Hillman accounts. The resultant shift in sales mix contributed to the 1.1% decrease in gross margin in the comparison period.

The Company's consolidated selling, general and administrative expenses increased $9.1 million or 8.2% from $111.7 million in 2002 to $120.8 million in 2003. Selling expenses increased $3.1 million or 5.5% primarily as a result of servicing costs at new national account stores. Warehouse and delivery expenses increased $7.5 million or 23.0% as a result of increased freight and labor costs to process and ship the additional sales volume. General and administrative expenses decreased by $1.5 million or 6.4% primarily as a result of the closing of the Philadelphia corporate office in May 2002 and moving the corporate operations to Cincinnati.

Depreciation expense from operations increased $2.4 million to $14.4 million in 2003 from $12.0 million in 2002 primarily as a result of an increase in the depreciable fixed asset base in connection with the purchase of automation equipment for the Cincinnati distribution center.

Amortization expense from operations decreased $0.1 million to $1.4 million in 2003 from $1.5 million in 2002. The decrease in amortization was the result of certain intangible assets becoming fully amortized during 2003.

The Company has recorded a management fee charge of $1.8 million in both the years 2003 and 2002. In connection with the merger transaction with Allied Capital, 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 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.

Income from operations for the year ended December 31, 2003 was $36.6 million. This represents an increase of $2.7 million or 8.1% from the $33.9 million for the year ended December 31, 2002 after excluding a one-time gain of $1.2 million on termination of the pension plan.

The Company's consolidated operating profit margin from operations (income from operations as a percentage of net sales) decreased to 11.5% in 2003 from 11.9% after excluding a one-time gain on termination of the pension plan in 2002. The operating profit margin decreased as a result of lower gross profit on the change in sales mix discussed above and the increase in depreciation expense which resulted from the larger depreciable fixed asset base. The operating profit margin benefited from the reduction of S,G&A expenses as a percentage of sales.

Interest expense, net, increased $2.4 million to $15.4 million in 2003 from $13.0 million in 2002. The increase in interest expense, net of interest income, was primarily the result of a decrease in interest income recorded on the $10.0 million note received from Glencoe from sale of the Company's interest in GC-Sun Holdings L.P. The Company recorded no interest income in 2003 as compared to $1.3 million in 2002. The remaining increase in interest expense was primarily the result of additional borrowings to finance the expansion and automation of the Company's distribution facility, to purchase the Lowe's specialty fastener business from R&B, Inc., and to purchase the DIY division of Fastenal Company.

The Company pays interest to the Trust on the junior subordinated debentures underlying the trust preferred securities at the rate of 11.6% per annum on their face amount of $105.4 million, or $12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the trust preferred securities. For the years ended December 31, 2003 and 2002, the Company paid $12.2 million interest on the junior subordinated debentures, equivalent to the amounts distributed by the Trust on the trust preferred securities.

See Note 7, Income Taxes, of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 2004, for income taxes and disclosures related to 2003 and 2002 income tax events.

Liquidity and Capital Resources

Excluding the non-cash adjustment of $24.4 million for a stock option grant, net cash provided by operating activities for the year ended December 31, 2004 was $4.3 million, primarily due to cash related adjustments of $4.1 million for routine operating activities represented by changes in inventories, accounts receivable, accounts payable, and other assets. The net income adjusted for non-cash charges for depreciation, amortization, dispositions of equipment, deferred taxes, PIK interest, interest on mandatorily redeemable preferred stock and all other was $1.3 million less the prepayment penalty of $1.1 million.

Net cash used for investing activities was $12.0 million for the year ended December 31, 2004. Capital expenditures for the year totaled $12.0 million, consisting of $5.7 million for key duplicating machines, $2.0 million for engraving machines and $4.3 million for equipment purchases.

Net cash provided by financing activities for the year ended December 31, 2004 was $11.8 million, primarily related to the assumption of additional debt in connection with the Merger Transaction.

The Company's working capital (current assets minus current liabilities) position of $87.7 million as of December 31, 2004, represents an increase of $28.9 million from the December 31, 2003 level of $58.8 million as follows:

(dollars in thousands)	Amount (as restated)
Increase in cash and cash equivalents	$ 28,450
Increase in accounts receivable, net	4,219
Decrease in inventories, net	(2)
Decrease in other current assets	(2,950)
Decrease in deferred taxes	(823)
Increase in accounts payable	(6,708)
Decrease in current portion of senior term loan	7,093
Increase in accrued interest	(2,105)
Decrease in other accrued liabilities	2,735
Other items, net	(1,035)
Net increase in working capital for the year ended December 31, 2004	$ 28,874

The Company's contractual obligations in thousands of dollars as of December 31, 2004 are summarized below:

		Payments Due (as restated)			
	Total	Less Than One Year	1 to 3 Years	3 to 5 Years	More Than Five Years
Contractual Obligations					
Junior Subordinated Debentures (1)	$ 117,690	—	—	—	$ 117,690
Long Term Senior Term Loans	215,869	$ 2,175	$ 4,350	$ 4,350	204,994
Long Term Unsecured Subordinated Notes	48,090	—	—	—	48,090
Operating Leases	31,670	6,793	8,021	5,017	11,839
Mandatorily Redeemable Preferred Stock	62,232	—	—	—	62,232
Management Purchased Preferred Options	3,577	—	—	—	3,577
Deferred Compensation Obligations	4,223	75	150	150	3,848
Capital Lease Obligations	142	43	82	17	—
Other Long Term Obligations	5,547	1,485	950	793	2,319
Total Contractual Cash Obligations	$ 489,040	$ 10,571	$ 13,553	$ 10,327	$ 454,589

(1) The junior subordinated debentures liquidation value is approximately $108,707.

All of the obligations noted above are reflected on the Company's Consolidated Balance Sheet as of December 31, 2004, except for the Operating Leases. See Notes To Consolidated Financial Statements as of and for the three years ended December 31, 2004 for additional information.

The Company does not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

As of December 31, 2004, the Company had $34.5 million available under its secured credit facilities. The Company had approximately $216.0 million of outstanding debt under its secured credit facilities at December 31, 2004, consisting of $215.9 million in a term loan and $0.1 million in capitalized lease obligations. The term loan consisted of a $215.3 million Term B Loan currently at a six (6) month LIBOR rate of 5.50% and a $0.6 million Term B Loan currently at a three (3) month LIBOR rate of 5.8125%. The capitalized lease obligations were at various interest rates.

As of December 31, 2004, the Company had purchase commitments which totaled $1.25 million for the expansions of the Cincinnati and Tempe office locations. The Company had no other 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 by the remaining 2.25% PIK Amount. All of the PIK Amounts are due on the maturity date of the Subordinated Debt Issuance. As of December 31, 2004, the outstanding Subordinated Debt Issuance including the PIK Amounts was $48.1 million.

In accordance with the Company's Senior Credit Agreement, Hillman must maintain its fixed charge coverage at all times in excess of 1.10x through December 31, 2004, 1.05x from January 1, 2005 through December 31, 2005 and 1.15x thereafter to continue monthly distributions on its Trust Preferred Securities ($1.0 million per month). Hillman's fixed charge coverage was 1.44x for the twelve-month period ended December 31, 2004 as calculated in accordance with the Senior Credit Agreement.

The Company had deferred tax assets aggregating $46.0 million, net of valuation allowance of $15.6 million, and deferred tax liabilities of $72.4 million as of December 31, 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.

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.

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 this Agreement and Plan of Merger, 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 per year, plus out of pocket expenses, for calendar years subsequent to 2001. The Company has recorded a management fee charge of $0.5 million, $1.8 million and $1.8 million on the Predecessor's Statement of Operations for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. 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 management fee for the year ended December 31, 2002 was paid in March 2003 and the management fee for the three months ended December 31, 2001 was paid in March 2002. 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.

On March 31, 2004, the Company was acquired by an affiliate of CHS. In connection with the CHS acquisition, the Company is obligated to pay management fees to a subsidiary of CHS in the amount of $58 thousand per month and to pay transaction fees to a subsidiary of OTPP in the amount of $26 thousand per month, plus out of pocket expenses, for each month commencing with the closing date of the Merger Transaction. The Company has recorded management fee charges and expenses from CHS and OTPP of $0.8 million for the nine month period ended December 31, 2004.

The Predecessor Company incurred interest expense to Allied Capital on the unsecured subordinated note 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. See discussion above and in Note 10, Long-Term Debt, of Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

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 Company's consolidated financial statements and results of operations.

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. The Company's purchase price allocation methodology requires estimates of the fair value of assets acquired and liabilities assumed. 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 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; purchase price allocation adjustments are based on changes in settlements of liabilities and assets realized; litigation is based on projections provided by legal counsel; deferred taxes are based on the Company's projections of future taxable income; sales and returns and allowances are based on historical activity and customer contracts; accounts receivable reserves are based on doubtful accounts and aging of outstanding balances; inventory reserves are based on expected obsolescence and excess inventory levels; and 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 is recognized when products are shipped or delivered to customers depending upon when title and risks of ownership have passed.

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.

Accounts Receivable and Allowance for Doubtful Accounts:

The Company establishes the allowance for doubtful accounts using the specific identification method and also provides a reserve in the aggregate. The estimates for calculating the aggregate reserve are based on historical information. The allowance for doubtful accounts was $526 and $524 as of December 31, 2004 and 2003, respectively.

Inventory Realization:

Inventories consisting predominantly of finished goods are valued at the lower of cost or market, cost being determined principally on the weighted average cost 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 in an inventory reserve 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. The inventory reserve amounts were $3.6 million and $3.2 million at December 31, 2004 and 2003, respectively.

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 income from 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 over the terms of the related leases.

Goodwill and Other Intangible Assets:

The Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” and accordingly, goodwill is no longer amortized, but is reviewed annually for impairment. Other intangible assets arising principally from the Merger Transaction are amortized on a straight-line basis over periods ranging from four to twenty-three years except the trademarks which are not amortized due to their indefinite useful lives.

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.

Investments:

All of the Company’s investments are in marketable equity securities classified as available-for-sale. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income.

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 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 $250 thousand up to $35 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.

Retirement Benefits:

Certain employees of the Company are covered under a profit-sharing and retirement savings plan ("defined contribution plan"). See Note 16, Retirement Benefits, of Notes to Consolidated Financial Statements for additional information.

Shipping and Handling:

The costs incurred to ship product to customers, including freight and handling expenses, are included in selling, general and administrative expenses on the Company's Statements of Operations. The Predecessor Company's shipping and handling costs were $3.6 million, $15.9 million, and $13.9 million for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. The Successor Company's shipping and handling costs were $12.8 million for the nine months ended December 31, 2004.

Research and Development:

The Company incurs research and development costs consisting primarily of internal wages and benefits in connection with improvements to the key duplicating and engraving machines. The Predecessor Company's research and development costs were $277 thousand, $1.4 million, and $1.5 million for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. The Successor Company's research and development costs were $796 thousand for the nine months ended December 31, 2004.

Stock Based Compensation:

For options granted under the 2004 stock option plan (see Note 15), the Company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its stock based employee compensation plans. The Company is also subject to disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123").

Fair Value of Financial Instruments:

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

Translation of Foreign Currencies:

The translation of the Company's Canadian foreign currency based financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The exchange rates represent the noon buying rates reported by the Federal Reserve Bank of New York.

Comprehensive Income (Loss):

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

	Successor	Predecessor	Predecessor	Predecessor
	Nine months ended December 31, 2004	Three months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
	(As restated)	(As restated)	(As restated)	(As restated)
Net income (loss)	$ 779	$ (20,366)	$ (5,709)	$ 5,243
Unrealized gains on investments, net	34	16	19	39
Change in derivative security value, net	(18)	—	—	—
Foreign currency translation adjustment, net	(110)	10	(135)	5
Comprehensive income (loss)	$ 685	$ (20,340)	$ (5,825)	$ 5,287

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 3, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements:

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. This statement requires that these items be expensed as incurred and not included in overhead. In addition, SFAS 151 requires that allocation of fixed production overhead to conversion costs should be based on normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact from this standard on its results of operations and financial position.

In December 2003, the Financial Accounting Standards Board issued Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). This statement replaced Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123(R) will require compensation costs related to share-based payment transactions to be

recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact from this standard on its results of operations and financial position.

Forward Looking Statements

Certain disclosures related to acquisitions and divestitures, refinancing, capital expenditures, resolution of pending litigation and realization of deferred tax assets contained in this annual report involve substantial risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

These forward-looking statements are not historical facts, but rather are based on management's current expectations, assumptions and projections about future events. Although management believes that the expectations, assumptions and projections on which these forward-looking statements are based are reasonable, they nonetheless could prove to be inaccurate, and as a result, the forward-looking statements based on those expectations, assumptions and projections also could be inaccurate. Forward-looking statements are not guarantees of future performance. Instead, forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause the Company's strategy, planning, actual results, levels of activity, performance, or achievements to be materially different from any strategy, planning, 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 this annual report. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements.

All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements included in this annual report; they should not be regarded as a representation by the Company or any other individual. 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 annual report might not occur or be materially different from those discussed.

Item 7A – Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to the impact of interest rate changes as borrowings under the Senior Credit Agreement 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 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 December 31, 2004, a one percent (1%) change in the weighted average interest rate for a period of one year 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 $1.6 million net asset value of its Canadian subsidiary, The Hillman Group Canada, Ltd., as of December 31, 2004. Management considers the Company's exposure to foreign currency translation gains or losses to be minimal.

Item 8 — Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of
The Hillman Companies, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of The Hillman Companies, Inc. and its subsidiaries (successor company) at December 31, 2004 and the results of their operations and their cash flows for the nine months ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the accompanying financial statement schedule for the nine months ended December 31, 2004 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 13, effective January 1, 2004, the Company adopted the provisions of Statement of Financial Accounting Standards No. 150, "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity" and FASB Interpretation No. 46(R), "Consolidation of Variable interest Entities — an interpretation of ARB No. 51 (revised December 2003)."

As discussed in Note 2, the Company restated the consolidated financial statements as of December 31, 2004 and for the nine months ended December 31, 2004.

PricewaterhouseCoopers LLP
Cincinnati, Ohio
March 10, 2005, except for Note 2,
as to which the date is March 27, 2006

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of
The Hillman Companies, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of The Hillman Companies, Inc. and its subsidiaries (predecessor company) at December 31, 2003 and the results of their operations and their cash flows for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the accompanying financial statement schedule for the three months ended March 31, 2004 and the years ended December 31,2003 and 2002 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13, effective January 1, 2004, the Company adopted the provisions of Statement of Financial Accounting Standards No. 150, "Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity" and FASB Interpretations No. 46(R), "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51 (revised December 2003)."

As discussed in Note 2, the Company restated the consolidated financial statements for the three months ended March 31, 2004 and as of and for the years ended December 31, 2003 and 2002.

PricewaterhouseCoopers LLP
Cincinnati, Ohio
March 10, 2005, except for Note 2,
as to which the date is March 27, 2006

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

	Successor December 31, 2004 (as restated, see Note 2)	Predecessor December 31, 2003 (as restated, see Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,613	$ 1,163
Restricted investments	75	1,145
Accounts receivable, net	37,370	33,151
Inventories, net	65,835	65,837
Deferred income taxes, net	6,712	7,535
Other current assets	2,820	5,770
Total current assets	142,425	114,601
Property and equipment, net	61,111	64,846
Goodwill	242,267	141,375
Other intangibles, net	167,842	9,631
Deferred income taxes, net	—	10,954
Restricted investments	4,148	5,932
Deferred financing fees, net	6,786	5,638
Investments	432	349
Investment in trust common securities	3,261	—
Other assets	627	927
Total assets	$ 628,899	$ 354,253
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,172	$ 14,464
Current portion of senior term loans	2,175	9,268
Current portion of capitalized lease obligations	43	54
Accrued expenses:		
Salaries and wages	4,299	4,875
Pricing allowances	9,681	8,242
Income and other taxes	1,520	1,337
Interest	3,362	1,257
Deferred compensation	75	1,145
Other accrued expenses	12,407	15,142
Total current liabilities	54,734	55,784
Long term senior term loans	213,694	51,290
Bank revolving credit	—	45,524
Long term capitalized lease obligations	99	140
Long term unsecured subordinated notes	48,090	—
Long term unsecured subordinated notes to related party	—	44,062
Junior subordinated debentures	117,690	—
Mandatorily redeemable preferred stock (Note 14)	62,232	—
Management purchased preferred options	3,577	—
Deferred compensation	4,148	5,932
Deferred income taxes, net	33,221	—
Other non-current liabilities	9,770	2,617
Total liabilities	547,255	205,349

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

	Successor December 31, 2004 (as restated, see Note 2)	Predecessor December 31, 2003 (as restated, see Note 2)
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 December 31, 2004	407	—
Class B Common stock, $.01 par, 2,500 shares authorized, 1,000 issued and outstanding at December 31, 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 December 31, 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 December 31, 2004	—	—
Class C Common stock, $.01 par, 30,109 shares authorized, 2,787.1 issued and outstanding at December 31, 2004	—	—
Additional paid-in capital	80,330	52,231
Accumulated deficit	—	(5,709)
Accumulated other comprehensive loss	(94)	(53)
Total stockholders' equity	80,237	46,540
Total liabilities and stockholders' equity	$ 628,899	$ 354,253

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)

	Successor	Predecessor		
	Nine months ended December 31, 2004	Three months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
	(as restated, see Note 2)	(as restated, see Note 2)	(as restated, see Note 2)	(as restated, see Note 2)
Net sales	$ 273,374	$ 78,190	$ 317,671	286,599
Cost of sales (exclusive of depreciation and amortization shown separately below)	122,972	35,383	143,355	126,096
Gross profit	150,402	42,807	174,316	160,503
Operating expenses:				
Selling, general and administrative expenses	99,266	30,996	120,758	111,660
Non-recurring expense (Note 17)	—	30,707	—	—
Stock compensation expense	272	—	—	—
Depreciation	11,388	3,799	14,399	12,004
Amortization	5,427	321	1,437	1,485
Management fee to related party	805	524	1,800	1,800
Total operating expenses	117,158	66,347	138,394	126,949
Gain on termination of defined benefit pension plan (Note 16)	—	—	—	1,231
Other income (expense), net	417	(140)	681	320
Income (loss) from operations	33,661	(23,680)	36,603	35,105
Interest expense, net	13,698	3,841	15,405	12,982
Interest expense on mandatorily redeemable preferred stock and management purchased preferred options	5,458	—	—	—
Interest expense on junior subordinated notes	9,457	3,152	—	—
Investment income on trust common securities	(284)	(94)		
Distributions on guaranteed preferred beneficial interests	—	—	12,231	12,231
Write-down of note receivable (Note 5)	—	—	11,258	—
Income (loss) before income taxes	5,332	(30,579)	(2,291)	9,892
Income tax provision (benefit)	4,553	(10,213)	3,418	4,649
Net income (loss)	$ 779	$ (20,366)	$ (5,709)	$ 5,243

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Successor	Predecessor		
	Nine months ended December 31, 2004 (as restated, see Note 2)	Three months ended March 31, 2004 (as restated, see Note 2)	Year ended December 31, 2003 (as restated, see Note 2)	Year ended December 31, 2002 (as restated, see Note 2)
Cash flows from operating activities:				
Net income (loss)	$ 779	$ (20,366)	$ (5,709)	$ 5,243
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	16,815	4,120	15,836	13,489
Dispositions of property and equipment	75	—	—	1,269
Deferred income tax (benefit)	4,040	(11,608)	1,971	5,405
PIK interest on unsecured subordinated notes	590	506	1,954	1,868
Interest on mandatorily redeemable preferred stock	5,458	—	—	—
Stock option grant	—	24,353	—	—
Write-down of note receivable	—	—	11,258	—
Prepayment penalty	(1,097)	—	—	—
Changes in operating items, net of effects of acquisitions:				
Decrease (increase) in accounts receivable, net	380	(4,599)	(2,758)	1,081
Decrease (increase) in inventories, net	1,123	(1,121)	(5,404)	(1,262)
Decrease (increase) in other assets	1,786	1,464	(1,236)	2,484
Increase (decrease) in accounts payable	95	6,613	(3,494)	1,911
(Decrease) increase in other accrued liabilities	(2,380)	670	(2,129)	264
Other items, net	955	6	1,925	(1,114)
Net cash provided by operating activities	28,619	38	12,214	30,638
Cash flows from investing activities:				
Proceeds from sale of property and equipment	—	—	20	104
Payment for acquired businesses, net of cash	—	—	—	(21,592)
Capital expenditures	(9,404)	(2,586)	(11,479)	(23,234)
Repurchase of common stock	—	—	—	(231)
Other, net	—	(23)	(143)	1,062
Net cash used for investing activities	(9,404)	(2,609)	(11,602)	(43,891)
Cash flows from financing activities:				
Borrowings of senior term loans	217,500	—	—	20,220
Repayments of senior term loans	(62,189)	—	(9,269)	(4,518)
Borrowings of revolving credit loans	4,728	2,680	10,533	—
Repayments of revolving credit loans	(52,932)	—		(1,158)
Borrowings of unsecured subordinated notes	47,500	—	—	—
Repayments of unsecured subordinated notes	(44,569)	—	—	—
Principal payments under capitalized lease obligations	(38)	(14)	(55)	(73)
Payment on STS preferred stock	—	—	—	(174)
Financing fees, net	(7,592)	—	(1,447)	(1,387)
Purchase of predecessor common stock	(239,077)	—	—	—
Receipt of successor equity proceeds	147,980	—	—	—
Merger transaction expenses	(2,171)	—	—	—
Net cash provided by (used for) financing activities	9,140	2,666	(238)	12,910
Net increase (decrease) in cash and cash equivalents	28,355	95	374	(343)
Cash and cash equivalents at beginning of period	1,258	1,163	789	1,132
Cash and cash equivalents at end of period	$ 29,613	$ 1,258	$ 1,163	$ 789

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)

	Predecessor Common Stock	Successor Common Stock Class A	Successor Common Stock Class C	Additional Paid-in Capital	Class A Preferred Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2001 - Predecessor (as previously reported)	$ 71	$ —	$ —	$ 56,252	$ —	$ (2,909)	$ —	$ 53,414
Effect of restatement (see note 2)						781	19	800
Balance at December 31, 2001 - Predecessor (as restated)	71	—	—	56,252	—	(2,128)	19	54,214
Net Income (as restated)	—	—	—	—	—	5,243	—	5,243
Purchase and retirement of 20,000 shares of common stock	—	—	—	(231)	—	—	—	(231)
Dividends to stockholders	—	—	—	(3,790)	—	(3,115)	—	(6,905)
Net unrealized gains on investments (1)	—	—	—	—	—	—	39	39
Change in cumulative foreign translation adjustment (1)	—	—	—	—	—	—	5	5
Balance at December 31, 2002- Predecessor (as restated)	71	—	—	52,231	—	—	63	52,365
Net Loss (as restated)	—	—	—	—	—	(5,709)	—	(5,709)
Net unrealized gains on investments (1)	—	—	—	—	—	—	19	19
Change in cumulative foreign translation adjustment (1)	—	—	—	—	—	—	(135)	(135)
Balance at December 31, 2003- Predecessor (as restated)	71	—	—	52,231	—	(5,709)	(53)	46,540
Net Loss (as restated)	—	—	—	—	—	(20,366)	—	(20,366)
Stock option grant	—	—	—	24,353	—	—	—	24,353
Net unrealized gains on investments (1)	—	—	—	—	—	—	16	16
Change in cumulative foreign translation adjustment (1)	—	—	—	—	—	—	10	10
Balance at March 31, 2004 — Predecessor (as restated)	71	—	—	76,584	—	(26,075)	(27)	50,553
Close Predecessor's stockholder's equity at merger date	(71)	—	—	(76,584)	—	26,075	27	(50,553)
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
Balance at March 31, 2004 - Successor (as restated)	—	—	—	86,872	1	—	—	86,873
Net Income (as restated)	—	—	—	—	—	779	—	779
Dividends to shareholders	—	—	—	(6,542)	—	(779)	—	(7,321)
Net unrealized gains on investments (1)	—	—	—	—	—	—	34	34
Change in cumulative foreign translation adjustment (1)	—	—	—	—	—	—	(110)	(110)
Change in derivative security value (1)	—	—	—	—	—	—	(18)	(18)
Balance at December 31, 2004 - Successor (as restated)	$ —	$ —	$ —	$ 80,330	$ 1	$ —	$ (94)	$ 80,237

(1) The net unrealized gains on investment, cumulative foreign translation adjustment and change in derivative security value are net of taxes and 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 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 $511,646 including repayment of outstanding debt and including the value of the Company's outstanding Trust Preferred Securities ($102,395 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 HarbourVest Partners VI owns 8.7% of the Company's common stock and 9.7% of the Company's voting common stock. OTPP's voting rights with respect to the election of directors to the Board is limited to the lesser of 30.0% or the actual percentage of voting common stock held. 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 Consolidated 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 December 31, 2004 and its related Consolidated Statements of Operations, Cash Flows and Changes in Stockholders' Equity for the nine months ended December 31, 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 $511,646, 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 ("SFAS") No. 141, "Business Combinations." The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price (as restated, see Note 2):

Accounts receivable	$ 37,750
Inventory	66,958
Property and equipment	63,264
Goodwill	242,267
Intangible assets	173,269
Other assets	8,923
Total assets acquired	592,431
Less:	
Liabilities assumed	43,576
Deferred taxes, net	21,618
Junior subordinated debentures	117,986
Total assumed liabilities	183,180
Total purchase price	$ 409,251

1. Basis of Presentation (continued):

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 years ended December 31, 2004 (including non-recurring charges of $30,707 as discussed in Note 17, Non-Recurring Expense), 2003 and 2002. The pro forma financial statements give effect to the Merger Transaction and subsequent refinancing and the acquisitions described in Note 5, Acquisitions and Divestitures, as if they had occurred on January 1, 2002:

	2004	2003	2002
	As Restated	As Restated	As Restated
Net sales	$351,564	$317,671	$303,918
Net loss	22,277	16,022	4,733

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, 2002, 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.

Nature of Operations:

The Company is one of the largest providers of value-added merchandising services and hardware-related products to retail markets in North America through its wholly-owned subsidiary, The Hillman Group, Inc. (the "Hillman Group"). A subsidiary of the Hillman Group operates in Canada under the name The Hillman Group Canada, Ltd. The Hillman Group provides merchandising services and products such as fasteners and related hardware items, key duplication equipment, keys and related accessories, and identification equipment and items to retail outlets, primarily hardware stores, home centers and mass merchants. The Company has approximately 20,000 customers, the largest three of which accounted for 38.6% of net sales in 2004. The average single sale in 2004 was less than six hundred dollars.

2. Restatement of Financial Statements:

Subsequent to the issuance of the Company's March 31, 2005 unaudited condensed consolidated financial statements, the Company concluded that certain of its accounting practices with respect to revenue recognition, income taxes, capitalized interest cost, stock options, outstanding checks, customer pricing allowances, insurance demutualization and trust preferred securities were not in accordance with generally accepted accounting principles.

The following table reconciles the net income as originally reported to amounts as restated for applicable periods:

2. Restatement of Financial Statements (continued):

	Successor	Predecessor		
	Nine months ended December 31, 2004	Three months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Net income (loss) as originally reported	$ 627	$ (19,316)	$ (4,647)	$ 6,103
Revenue recognition, before tax (1)	303	(461)	(355)	(111)
Other matters, before tax:				
Capitalized interest (2)	—	—	—	245
Outstanding checks (3)	—	—	—	—
Volume rebates (4)	177	51	—	—
Trust de-consolidation (5)	—	—	—	—
Stock option grant (6)	—	—	—	—
Insurance demutualization (7)	—	—	—	—
Income tax effects on the above	(196)	168	145	(54)
Other adjustments relating to income tax matters:				
Interim tax provisions (8)	—	—	—	—
Tax rate (9)	48	(340)	6	149
Axxess intangible amortization and transaction fees (10)	(85)	104	412	409
Severance payments (11)	—	—	—	(438)
1998 Stock Option exercises (12)	(252)	(2,001)	—	—
2001 Stock Option exercises (13)	—	—	—	—
Indefinite lived intangibles (14)	—	—	—	—
Valuation allowance adjustments (15)	712	982	(170)	(173)
Uncertain tax position adjustments (16)	(395)	406	(967)	(379)
G-C Note (17)	—	—	—	(365)
State income and franchise tax (18)	(88)	41	117	(272)
Provision to return adjustments (19)	(72)	—	(161)	240
Other tax corrections (20)	—	—	(89)	(111)
Total adjustments	152	(1,050)	(1,062)	(860)
Net income (loss) as restated	$ 779	$ (20,366)	$ (5,709)	$ 5,243

(1) The Company's standard freight terms are FOB shipping point and historically revenue was recognized upon shipment. However, the Company arranges for the shipment of product, selects the carrier and maintains responsibility for lost or damaged product. Accordingly, management has determined that the risk of loss is not fully transferred to the customer until shipments are received by the customer which is generally within two days of product shipment. Therefore, the Company concluded that revenue was not recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements".

(2) During the year ended December 31, 2002, the Company incurred $9.8 million for the automation and expansion of its Cincinnati distribution facility. The Company did not capitalize interest in the amount of $245 on the assets acquired. Generally accepted accounting principles require the capitalization of interest cost from the date of acquisition until the asset is ready for its intended use. The capitalized interest adjustment increased the amount reported as capital expenditures in the December 31, 2002 consolidated statement of cash flows by $245.

2. Restatement of Financial Statements (continued):

(3) At the end of each period the Company has historically reclassified all checks issued but still outstanding between cash and accounts payable or, for outstanding payroll checks, between cash and accrued salaries and wages. Generally accepted accounting principles allow only the portion of the outstanding checks in excess of available deposits to be classified as a liability. In the accompanying consolidated balance sheets as of December 31, 2003, an adjustment has been made to reclassify the portion of the outstanding checks in excess of available deposits to the revolver. The remainder of the outstanding check balance has been reclassified from accounts payable and accrued salaries and wages as a reduction of cash and cash equivalents. As of December 31, 2004, an adjustment has been made to reclassify outstanding checks from accounts payable and accrued salaries and wages with a corresponding reduction to cash and cash equivalents. The adjustments will increase/(decrease) reported cash flows from financing activities for revolver borrowings and repayments in the accompanying consolidated statements of cash flows by ($1,638), $1,570 and ($2,029) for the years ended December 31, 2002 and 2003 and the three months ended March 31, 2004, respectively. Cash provided by (used for) operating activities in the accompanying consolidated statement of cash flows will be adjusted by $586, $44, $686 and ($1,939) for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004, respectively, as a result of the change in accounts payable and accrued liabilities.

(4) For the year ended December 31, 2004, the Company's estimate of the accrued volume rebate for a certain customer was overstated by $228. As a result, net sales were understated and accrued pricing allowances were overstated by $51 and $177 for the three months ended March 31, 2004 and the nine months ended December 31, 2004, respectively.

(5) On March 31, 2004 the Company de-consolidated The Hillman Group Capital Trust in accordance with FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") (see Note 13). Following the deconsolidation, the Company presented junior subordinated debentures net of the investment in the trust common securities in the consolidated balance sheet as of December 31, 2004. Investment income from the trust common securities was improperly netted against interest expense on the junior subordinated debentures in the statement of operations. The investment in trust common securities and junior subordinated debentures should have been recorded gross on the balance sheet, as no right of offset exists. The related investment income and interest expense should have been recorded gross in the statement of operations.

(6) For the three months ended March 31, 2004, the Company recorded a $24,353 charge in connection with the grant of stock options (see Note 15, Stock Based Compensation). The charge should have been recorded to additional paid-in capital in the Predecessor balance sheet but was incorrectly recorded as an accrued liability. The adjustment increases the amount reported as paid-in capital of the Predecessor in the consolidated statement of changes in stockholders' equity. Additional paid-in capital of the Predecessor was then eliminated in connection with the Merger Transaction. The consolidated statements of cash flows for the periods ended March 31, 2004 and December 31, 2004 were also adjusted to reflect the stock option grants as a non cash adjustment to net income which were expensed in the Predecessor statements and a financing activity in the Successor statement for the payment of these options in connection with the Merger Transaction.

(7) A former subsidiary of the Company was a policyholder of The Principal Mutual Holding Company which demutualized in October 2001. The Company was entitled to receive 10,550 shares of The Principal Group common stock in connection with the demutualization. The Company was not notified of the ownership in the common shares until January 2006 and, therefore, had not recorded the investment. Adjustments have been recorded in the three months ended December 31, 2001 to record the original investment of $222 less an income tax provision of $87. Changes in the fair value of the common stock for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended

2. Restatement of Financial Statements (continued):

December 31, 2004 have been recorded, net of the related tax effect, in accumulated other comprehensive income.

(8) The Company also reviewed its accounting for income taxes and determined that the income tax accounts were not properly recorded in accordance with Statement of Financial Accounting Standard No. 109, “Accounting for Income Taxes” (“SFAS 109”), APB Opinion 28, “Interim Financial Reporting”, and FASB Interpretation No. 18, “Accounting for Income Taxes in Interim Periods”. Historically the Company calculated income taxes in the interim periods on a discrete period basis by multiplying the statutory income tax rate by pretax earnings adjusted for permanent book tax basis differences. APB Opinion 28, however, generally requires that an estimated annual effective tax rate be used to determine interim period income tax provisions.

(9) The Company applied a combined 41% state and federal statutory tax rate to taxable income in determining the income tax provision for all interim and annual periods from 2002 through 2004. The combined state and federal statutory rate applied to taxable income should have been 39.8%, 39.4%, 39.4% and 39.5% for the years ended December 31, 2002 and 2003, for the three months ended March 31, 2004 and the nine months ended December 31, 2004, respectively.

(10) In April 2000, the Company acquired Axxess Technologies, Inc. (Axxess). In connection with the acquisition, the Company recorded intangible assets of $14.4 million. The Company did not record a deferred tax liability on the intangible assets in accordance with SFAS 109. As a result, deferred tax liabilities and goodwill were understated at the date of the acquisition by $5,853. In subsequent periods through the March 31, 2004 Merger Transaction, the Axxess intangible amortization was treated as a permanent difference and, accordingly, income tax expense was overstated. In addition, the Company did not record a deferred tax asset of $356 on transaction fees capitalized for tax purposes as part of the Axxess acquisition. The Company’s income tax expense was understated in subsequent periods to the extent that a tax benefit was recognized on the amortization of the transaction fees.

(11) In 2002, severance payments to a terminated executive of the Company were recorded to goodwill as part of the acquisition of the Company by Allied Capital in 2001. For income tax provision purposes, the severance payments were treated as a permanent basis difference and an income tax benefit was recognized. SFAS 109 requires the Company to record the tax benefit of the severance payments as an adjustment to goodwill. Accordingly, the 2002 income tax provision has been increased with a corresponding reduction in December 31, 2002 goodwill.

(12) In the three months ended March 31, 2004 and the nine months ended December 31, 2004, the Company did not properly record the tax effect of stock option exercises in accordance with SFAS 109. The tax benefit of stock option exercises was improperly recorded as an income tax benefit in the statement of operations for the three months ended March 31, 2004 and the nine months ended December 31, 2004. The tax benefit of the stock option exercises should have been recorded as a reduction to goodwill.

(13) The Company recorded a deferred tax asset at March 31, 2004 to reflect the future tax benefit of unexercised stock options. Under SFAS 109, the benefit of the options should not be recognized in a purchase business combination until they are exercised. As a result, the December 31, 2004 and March 31, 2004 deferred tax assets were overstated and goodwill was understated by $53 and $693, respectively.

2. Restatement of Financial Statements (continued):

(14) At the Merger Transaction date, the Company did not properly record deferred taxes associated with indefinite-lived intangible assets and tax deductible goodwill as required by SFAS 109 which resulted in an understatement of goodwill and deferred tax liabilities of $22,964.

(15) In connection with the purchase of the Company by Allied Capital in September 2001 and the Merger Transaction in March 2004, the Company established valuation allowances for state net operating loss carryforwards and capital loss carryforwards. SFAS 109 requires subsequent recognition of a tax benefit for valuation allowances established at the date of acquisition to be recorded as a reduction of goodwill. The Company had initially recorded the benefit of the change as a reduction in the provision and, accordingly, an adjustment is required to reverse the benefit with an offsetting adjustment to goodwill for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004.

Also, at December 31, 2002 and 2003 valuation allowances were established for 100% of the deferred tax asset for state net operating loss carryforwards. Similarly, at March 31, 2004 the deferred tax asset for state net operating loss carryforwards was almost entirely offset by valuation allowances. Based on the length of the carryforward period for the underlying state net operating loss carryforwards and estimates of future taxable income available at the time the valuation allowances were established, the Company has determined a portion of the deferred tax asset for state net operating loss carryforwards at December 31, 2002 and 2003 and March 31, 2004 was realizable. Accordingly, adjustments have been recorded to reduce the valuation allowance for state net operating loss carryforwards.

Deferred tax assets for NOL carryforwards of the Company’s foreign subsidiaries were presented net of valuation allowances in the notes to the consolidated financial statements. The disclosure in Note 7, Income Taxes, has been revised to gross up the deferred tax asset and related valuation allowance on foreign subsidiaries.

In connection with the insurance demutualization described above, valuation allowances for capital loss carryforwards have been reduced to the extent of the fair value of the common shares and the subsequent increases in the fair value. As the valuation allowances for capital loss carryforwards were established in purchase accounting, the initial recognition of the benefit has been recorded as a reduction of goodwill.

(16) The Company established reserves for uncertain tax positions in connection with both the September 2001 Allied Capital acquisition and the Merger Transaction. EITF No. 93-7, “Uncertainties Related to Income Taxes in a Purchase Business Combination,” requires subsequent changes to reserves for uncertain tax positions established in purchase business combinations to be charged to goodwill. The Company has recorded an adjustment for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004 to properly record changes in estimates for uncertain tax positions to goodwill. Additionally, contingencies for certain non-income tax liabilities including payroll and sales taxes were included in the reserve for uncertain tax positions. Adjustments have been made in the year ended December 31, 2003, the three months ended March 31, 2004, and the nine months ended December 31, 2004 to record the non-income tax contingencies as selling, general, and administrative expense.

For the year ended December 31, 2002, the Company reported realized losses from the non-qualified deferred compensation trust as an ordinary loss rather than a capital loss. As a result, additional reserves for uncertain tax positions have been recorded for the year ended December 31, 2002.

(17) At the time of the Allied Capital acquisition, the Company had an investment in a partnership, GC Sun Holdings L.P. (“G-C”). See Note 5 to the Consolidated Financial

2. Restatement of Financial Statements (continued):

Statements for details of the G-C investment. For the years ended December 31, 2002 and 2003, the Company incorrectly did not record deferred taxes on the book versus tax difference in the basis of the investment in the partnership and the related note. In the restatement, a deferred tax asset has been recorded with an offsetting valuation allowance, as it has been determined that it is not likely that the deferred tax asset for the capital loss on the GC-note will be realized.

(18) A review of the Company's state income and franchise tax expense and liabilities resulted in adjustments to the state tax provision and related state and franchise tax payable accounts as of and for the periods ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004. The adjustments to the state income tax and franchise liabilities reduced the reported goodwill balance by $498 and $551 as of December 31, 2003 and 2004, respectively.

Also, the Company has historically included state franchise tax expense in the income tax provision in the consolidated statements of operations. SFAS 109 requires state franchise taxes to be reported as a component of selling, general and administrative expense. Accordingly, an adjustment to reclassify state franchise taxes from the income tax provision to selling, general and administrative expense has been recorded for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004.

(19) For the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004, the Company estimated the amount of certain book versus tax permanent and temporary differences when preparing the income tax provision. During the subsequent preparation of the state and federal income tax returns, several of the book versus tax adjustments were adjusted based on better information. The Company has determined that some of the income tax provision versus tax return differences were based on information available at the time the provision was prepared. Therefore, adjustments have been made to record income tax provision versus return adjustments in the proper period.

(20) Adjustments have been made to the deferred tax balances and the income tax provision for the years ended December 31, 2002 and 2003, and the three months ended March 31, 2004 as a result of mathematical errors, book versus tax basis temporary differences incorrectly treated as permanent items and corrections to certain deferred tax balances.

In connection with the Merger Transaction, the Company incurred $4,035 of transaction fees which were treated as a permanent difference in the computation of the March 31, 2004 tax provision. The transaction fees should have been treated as a timing item, and accordingly, an adjustment has been made to increase deferred tax assets by $1,654 as of March 31, 2004 and December 31, 2004. An offsetting valuation allowance was established for the entire amount of the deferred asset for transaction fees as management has concluded it is not more likely than not a deduction for the transaction fees will be utilized.

As a result of the items noted above, the Company has restated its consolidated balance sheets at December 31, 2003 and 2004 and its consolidated statements of operations and cash flows for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004. In connection with the restatement, the changes in earnings for the three months ended December 31, 2001 and for the year ended December 31, 2002 and the nine months ended December 31, 2004 caused adjustments to dividends allocable to additional paid-in capital.

2. Restatement of Financial Statements (continued):

The following is a summary of the effects of these changes on the Company's consolidated balance sheets as of December 31, 2003 and 2004, as well as the effect on the consolidated statements of operations and cash flows for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004.

	Consolidated Statement of Operations				
		Adjustments			
	As Previously Reported	Revenue Recognition	Income Taxes	Other (1)	As Restated
For the nine months ended December 31, 2004:					
Net sales	$ 272,640	$ 557	$ —	$ 177	$ 273,374
Cost of sales	122,718	254	—	—	122,972
Gross profit	149,922	303	—	177	150,402
Selling, general and administrative	99,096	—	170	—	99,266
Income from operations	33,351	303	(170)	177	33,661
Interest expense on junior subordinated debentures	9,173	—	—	284	9,457
Investment income on trust common securities	—	—	—	(284)	(284)
Income before income taxes	5,022	303	(170)	177	5,332
Income tax provision	4,395	124	(38)	72	4,553
Net income	627	179	(132)	105	779

	Consolidated Statement of Operations				
		Adjustments			
	As Previously Reported	Revenue Recognition	Income Taxes	Other (1)	As Restated
For the three months ended March 31, 2004:					
Net sales	$ 78,997	$ (858)	$ —	$ 51	$ 78,190
Cost of sales	35,780	(397)	—	—	35,383
Gross profit	43,217	(461)	—	51	42,807
Selling, general and administrative	30,999		(3)		30,996
Loss from operations	(23,273)	(461)	3	51	(23,680)
Interest expense on junior subordinated debentures	3,058	—	—	94	3,152
Investment income on trust common securities	—	—	—	(94)	(94)
Loss before income taxes	(30,172)	(461)	3	51	(30,579)
Income tax benefit	(10,856)	(189)	811	21	(10,213)
Net loss	(19,316)	(272)	(808)	30	(20,366)

2. Restatement of Financial Statements (continued):

	Consolidated Statement of Operations			
		Adjustments		
	As Previously Reported	Revenue Recognition	Income Taxes	As Restated
For the year ended December 31, 2003:				
Net sales	$ 318,441	$ (770)	$ —	$ 317,671
Cost of sales	143,770	(415)	—	143,355
Gross profit	174,671	(355)	—	174,316
Selling, general and administrative	120,451	—	307	120,758
Income from operations	37,265	(355)	(307)	36,603
Loss before income taxes	(1,629)	(355)	(307)	(2,291)
Income tax provision	3,018	(145)	545	3,418
Net loss	(4,647)	(210)	(852)	(5,709)

	Consolidated Statement of Operations				
		Adjustments			
	As Previously Reported	Revenue Recognition	Income Taxes	Capitalized Interest	As Restated
For the year ended December 31, 2002:					
Net sales	$ 286,788	$ (189)	$ —	$ —	$ 286,599
Cost of sales	126,174	(78)	—	—	126,096
Gross profit	160,614	(111)	—	—	160,503
Selling, general and administrative	111,436	—	224		111,660
Income from operations	35,440	(111)	(224)	—	35,105
Interest expense, net	13,227	—	—	(245)	12,982
Income before income taxes	9,982	(111)	(224)	245	9,892
Income tax provision	3,879	(46)	716	100	4,649
Net income	6,103	(65)	(940)	145	5,243

	Consolidated Balance Sheet					
		Adjustments				
	As Previously Reported	Revenue Recognition	Income Taxes	Other (1)	Dividends	As Restated
As of December 31, 2004:						
Cash and cash equivalents	$ 33,032	$ —	$ —	$ (3,419)	$ —	$ 29,613
Accounts receivable, net	39,903	(2,533)	—	—	—	37,370
Inventories, net	64,627	1,208	—	—	—	65,835
Deferred tax assets- current	6,520	613	(328)	(93)	—	6,712
Goodwill	219,051	974	22,499	(257)	—	242,267
Investments	—	—	—	432	—	432
Investment in trust common securities	—	—	—	3,261	—	3,261
Accounts payable	24,367	—	—	(3,195)	—	21,172
Accrued salaries and wages	4,523	—	—	(224)	—	4,299
Accrued pricing allowances	9,909	—	—	(228)	—	9,681
Accrued income and other taxes	2,137	—	(617)	—	—	1,520
Other accrued expenses	11,724	27	656	—	—	12,407
Junior subordinated debentures	114,429	—	—	3,261	—	117,690
Deferred tax liabilities- non current	10,730	56	22,264	171	—	33,221
Additional paid-in capital	81,452	—	—	—	(1,122)	80,330
Accumulated deficit	(1,274)	179	(132)	105	1,122	—
Accumulated other comprehensive loss	(128)	—	—	34	—	(94)

2. Restatement of Financial Statements (continued):

	Consolidated Balance Sheet					
		Adjustments				
	As Previously Reported	Revenue Recognition	Income Taxes	Other (1)	Dividends(2)	As Restated
As of December 31, 2003:						
Cash and cash equivalents	$ 1,528	$ —	$ —	$ (365)	$ —	$ 1,163
Accounts receivable, net	35,383	(2,232)	—	—	—	33,151
Inventories, net	64,772	1,065	—	—	—	65,837
Deferred tax assets — current	5,283	548	1,804	(100)	—	7,535
Deferred tax assets — non current	20,498	(56)	(9,350)	(138)	—	10,954
Property and equipment, net	64,601	—	—	245	—	64,846
Goodwill	134,725	903	5,747	—	—	141,375
Investments	—	—	—	349	—	349
Accounts payable	16,836	—	—	(2,372)	—	14,464
Accrued salaries and wages	4,897	—	—	(22)	—	4,875
Accrued income and other taxes	1,966	—	(629)	—	—	1,337
Other accrued expenses	14,664	27	451	—	—	15,142
Bank revolving credit	43,495		—	2,029	—	45,524
Additional paid-in capital	52,310	—	—	—	(79)	52,231
Accumulated deficit (3)	(4,647)	201	(1,621)	279	79	(5,709)
Accumulated other comprehensive loss (4)	(130)	—	—	77	—	(53)

(1) Other adjustments include the cash overdraft, gross up of the junior subordinated debentures, the volume rebate, insurance demutualization and capitalized interest. See discussion above for details.

(2) Reflects adjustments to dividends for the year ended December 31, 2002 which are reflected in the proper period in the consolidated statement of changes in stockholder's equity.

(3) Reflects cumulative effect of the revenue recognition, income tax restatements and other adjustments of $411, ($769) and $279, respectively, as of December 31, 2002.

(4) Reflects the cumulative effect of other adjustments of $58 as of December 31, 2002.

	Consolidated Statement of Cash Flows	
	As Previously Reported	As Restated
For the nine months ended December 31, 2004:		
Net cash provided by operating activities	$ 6,028	$ 28,619
Net cash used for investing activities	(9,404)	(9,404)
Net cash provided by financing activities	33,493	9,140
Net increase in cash and equivalents	30,117	28,355
Cash and cash equivalents at beginning of period	2,915	1,258
Cash and cash equivalents at end of period	$ 33,032	$ 29,613

2. Restatement of Financial Statements (continued):

	Consolidated Statement of Cash Flows	
	As Previously Reported	As Restated
For the three months ended March 31, 2004:		
Net cash (used for) provided by operating activities	$ (699)	$ 38
Net cash used for investing activities	(2,609)	(2,609)
Net cash provided by financing activities	4,695	2,666
Net increase in cash and equivalents	1,387	95
Cash and cash equivalents at beginning of period	1,528	1,163
Cash and cash equivalents at end of period	$ 2,915	$ 1,258

	Consolidated Statement of Cash Flows	
	As Previously Reported	As Restated
For the year ended December 31, 2003:		
Net cash provided by operating activities	$ 12,170	$ 12,214
Net cash used for investing activities	(11,602)	(11,602)
Net cash used for financing activities	(1,808)	(238)
Net (decrease) increase in cash and equivalents	(1,240)	374
Cash and cash equivalents at beginning of period	2,768	789
Cash and cash equivalents at end of period	$ 1,528	$ 1,163

	Consolidated Statement of Cash Flows	
	As Previously Reported	As Restated
For the year ended December 31, 2002:		
Net cash provided by operating activities	$ 29,807	$ 30,638
Net cash used for investing activities	(43,646)	(43,891)
Net cash provided by financing activities	14,548	12,910
Net increase (decrease) in cash and equivalents	709	(343)
Cash and cash equivalents at beginning of period	2,059	1,132
Cash and cash equivalents at end of period	$ 2,768	$ 789

3. Summary of Significant Accounting Policies:

Cash Equivalents:

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

Restricted Investments:

Restricted investments, which are carried at market value, represent assets held in a Rabbi Trust to fund deferred compensation liabilities due to the Company's employees. See Note 12, Deferred Compensation Plans.

Investments:

All of the Company's investments are in marketable equity securities classified as available-for-sale. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income.

Accounts Receivable and Allowance for Doubtful Accounts:

The Company establishes the allowance for doubtful accounts using the specific identification method and also provides a reserve in the aggregate. The estimates for calculating the aggregate reserve are based on historical information. The allowance for doubtful accounts was $526 and $524 as of December 31, 2004 and 2003, respectively.

Inventories:

Inventories consisting predominantly of finished goods are valued at the lower of cost or market, cost being determined principally on the weighted average cost 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 in an inventory reserve 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. The inventory reserve amounts were $3,558 and $3,189 at December 31, 2004 and 2003, respectively.

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. The cost and related accumulated depreciation are removed from their respective accounts when assets are sold or otherwise disposed of 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 over the terms of the related leases.

3. Summary of Significant Accounting Policies (continued):

Goodwill and Other Intangible Assets:

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," and accordingly, goodwill is no longer amortized, but is reviewed annually for impairment. Other intangible assets arising principally from the Merger Transaction are amortized on a straight-line basis over periods ranging from four to twenty-three years except the trademarks which are not amortized due to their indefinite useful lives.

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 tax benefits will not be realized. Adjustments to valuation allowances are recorded from changes in utilization of the tax related item. See Note 7, Income Taxes.

Retirement Benefits:

Certain employees of the Company are covered under a profit-sharing and retirement savings plan ("defined contribution plan"). See Note 16, Retirement Benefits.

Revenue Recognition:

Revenue is recognized when products are shipped or delivered to customers depending upon when title and risks of ownership have passed.

The Company offers a variety of sales incentives to its customers primarily in the form of discounts and rebates. 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. Rebates and discounts 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.

Shipping and Handling:

The costs incurred to ship product to customers, including freight and handling expenses, are included in selling, general and administrative expenses on the Company's Statements of Operations. The Predecessor Company's shipping and handling costs were $3,629, $15,916, and $13,913 for the three months ended March 31, 2004 and the years ended December 31, 2003

3. Summary of Significant Accounting Policies (continued):

and 2002, respectively. The Successor Company's shipping and handling costs were $12,790 for the nine months ended December 31, 2004.

Research and Development:

The Company incurs research and development costs consisting primarily of internal wages and benefits in connection with improvements to the key duplicating and engraving machines. The Predecessor Company's research and development costs were $277, $1,381, and $1,510 for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. The Successor Company's research and development costs were $796 for the nine months ended December 31, 2004.

Stock Based Compensation:

For options granted under the 2004 Stock Option Plan (See Note 15), the Company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its stock based employee compensation plans. The Company is also subject to disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123").

Fair Value of Financial Instruments:

Cash, accounts receivable, short-term borrowings, accounts payable, accrued liabilities and bank revolving credit are reflected in the consolidated financial statements at fair value due to the short-term maturity or revolving nature of these instruments. The fair values
of the Company's debt instruments are disclosed in Note 10, Long-Term Debt. The fair value of the Trust Preferred Securities is disclosed in Note 13, Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures.

Translation of Foreign Currencies:

The translation of the Company's Canadian foreign currency based financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The exchange rates represent the noon buying rates reported by the Federal Reserve Bank of New York.

Comprehensive Income (Loss):

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

	Successor	Predecessor	Predecessor	Predecessor
	Nine months ended December 31, 2004	Three months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
	As Restated	As Restated	As Restated	As Restated
Net income (loss)	$ 779	$ (20,366)	$ (5,709)	$ 5,243
Unrealized gains on investments, net	34	16	19	39
Change in derivative security value, net	(18)	—	—	—
Foreign currency translation adjustment, net	(110)	10	(135)	5
Comprehensive income (loss)	$ 685	$ (20,340)	$ (5,825)	$ 5,287

3. Summary of Significant Accounting Policies (continued):

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 for the reporting period. Actual results may differ from estimates.

Reclassifications:

Certain amounts in the 2003 and 2002 consolidated financial statements have been reclassified to conform to the 2004 presentation.

4. Recent Accounting Pronouncements:

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. This statement requires that these items be expensed as incurred and not included in overhead. In addition, SFAS 151 requires that allocation of fixed production overhead to conversion costs should be based on normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact from this standard on its results of operations and financial position.

In December 2003, the Financial Accounting Standards Board issued Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). This statement replaced SFAS 123 and supersedes APB 25. SFAS 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. The Securities and Exchange Commission has ruled that FAS 123(R) is effective for public companies for annual periods, rather than interim periods, that begin after June 15, 2005. The Company is currently evaluating the impact from this standard on its results of operations and financial position.

5. Acquisitions and Divestitures:

On October 3, 2002, the Company, through its Hillman Group subsidiary, purchased the net assets of the DIY division ("DIY") of the Fastenal Company of Winona, MN. DIY distributes fasteners, anchors, picture hanging wire, hooks, tacks, and brads to national hardware cooperatives and home centers. The Company's management believes that the purchase of the DIY business will further strengthen the Company's position in its core market segments, particularly with the national hardware cooperatives.

The accompanying financial statements reflect the allocation of the aggregate purchase price of $15,218 to the assets and liabilities of the Company based on fair values at the date of the transaction in accordance with SFAS No. 141, "Business Combinations." The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price:

5. Acquisitions and Divestitures (continued):

Accounts Receivable	$ 3,658
Inventory	7,323
Property and equipment	2,490
Other Assets	3,523
Goodwill	5,976
Total assets acquired	22,970
Less assumed liabilities	7,752
Total purchase price	$ 15,218

In connection with the DIY acquisition, the Company developed an overall plan that included the elimination of redundant headcount and facilities. In accordance with EITF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the Company accrued $3,395 of estimated costs related to the DIY acquisition plan in the fourth quarter of 2002. The estimated costs consisted of approximately $1,500 of fixed asset disposals, $900 of facilities lease costs, $500 of inventory conversion and relocation expense and $495 for planned workforce reductions. The integration was substantially completed by December 31, 2003.

Additional reserves of $3,470, before tax adjustments of $1,422, have been established in 2003 for acquisition related costs associated with the purchase of DIY and recorded to goodwill. Additional costs include severance of $256, facility lease of $1,230, inventory adjustments of $832, and customer conversion costs which include product buybacks of $1,581. The actual cost of fixed asset disposals was $429 less than the original estimate.

The following table provides a rollforward from December 31, 2002 to December 31, 2004 of the remaining liabilities and acquisition related charges recorded by the Company:

	Severence & Related Costs	Facility Lease	Inventory Adjustments	Fixed Asset Disposal	Customer Conversions	Total
As of December 31, 2002	$ 495	$ 900	$ 500	$ 1,500	$ —	$ 3,395
Additions (Reductions)	256	1,230	832	(429)	1,581	3,470
Payments	(217)	—	(952)	(1,071)	(399)	(2,639)
As of December 31, 2003	534	2,130	380	—	1,182	4,226
Additions (Reductions)	(22)	93	(35)		(36)	—
Payments	(512)	(602)	(345)		(1,042)	(2,501)
As of December 31, 2004	$ —	$ 1,621	$ —	$ —	$ 104	$ 1,725

On May 1, 2002, the Hillman Group purchased certain assets of the Lowe's specialty fastener business from R&B, Inc. for cash consideration of $6,207. The purchase price has been allocated as follows: $690 to accounts receivable, $1,338 to inventory, $138 to fixed assets, $51 to accrued liabilities and $4,092 to goodwill. The purchase of the specialty fastener business will expand the breadth of the Company's product offering to Lowe's. In connection with this transaction, the Company settled litigation filed by R&B, Inc. in February 1996 related to the Company's sale of the Dorman Products division. The litigation settlement in the amount of $1,250 was fully reserved on the Company's balance sheet, and accordingly, there was no charge to income in 2002.

5. Acquisitions and Divestitures (continued):

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 is payable quarterly at a rate of 18% from May 1, 2002 to April 30, 2003, 17% from May 1, 2003 to April 30, 2004, and 16% thereafter. G-C's payment of interest on the note is subject to certain restrictions under the terms of the subordinated note agreement. If such restrictions do not permit the current payment of interest in cash when due, accrued interest is added to the principal.

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 was determined to be insufficient to support the value of the G-C note and accrued interest. Accordingly, the Company recorded an $11,258 charge to income during the year ended December 31, 2003 to write-down the face value of the note and accrued interest thereon to zero.

The G-C note was distributed to the Company's common stockholders on March 31, 2004.

6. 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 Agreement and Plan of Merger, the Company is obligated to pay management 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 Company has recorded a management fee charge of $524, $1,800 and $1,800 on the Predecessor's Statement of Operations for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. 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 management fee for the year ended December 31, 2002 was paid in March 2003 and the management fee for the three months ended December 31, 2001 was paid in March 2002. 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 CHS. 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 transaction 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. The Company has recorded management and transaction fee charges and expenses from CHS and OTPP of $805 for the nine month period ended December 31, 2004.

The Predecessor Company incurred interest expense to Allied Capital on the unsecured 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. See discussion above and Note 10, Long-Term Debt, for additional details.

7. Income Taxes

The components of the Company's income tax provision (benefit) for the three years ended December 31, 2004 were as follows:

	Successor	Predecessor		
	Nine Months ended December 31, 2004	Three Months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
	As Restated	As Restated	As Restated	As Restated
Current:				
Federal & State	$ 50	$ 1,427	$ 78	$ 482
Foreign	—	—	—	—
Total current	50	1,427	78	482
Deferred:				
Federal & State	4,503	(13,389)	(600)	4,167
Foreign	—	—	—	—
Total deferred	4,503	(13,389)	(600)	4,167
Valuation allowance	—	1,749	3,940	—
Provision (benefit) for income taxes	$ 4,553	$ (10,213)	$ 3,418	$ 4,649

The Company has U.S. federal net operating loss ("NOL") carryforwards for tax purposes, totaling $85,251 as of December 31, 2004, that are available to offset future taxable income. These carryforwards expire from 2019 to 2024. Limitations on utilization may apply to approximately $61,621 of these loss carryforwards. Management believes that these losses will be fully utilized prior to the expiration date. No valuation allowance has been provided against the federal NOL. In addition, the Company's foreign subsidiaries have NOL carryforwards aggregating $1,261 which expire from 2009 to 2014. A valuation allowance of $465 has been established for the foreign NOL carryforwards.

The Company has state net operating loss carryforwards with an aggregate tax benefit of $4,228 which expire from 2005 to 2024. A valuation allowance of $796 has been established for these deferred tax assets.

The Company has federal unused capital losses totaling $36,103 as of December 31, 2004 that are available to offset future capital gains. These carryforwards expire in 2006. A valuation allowance of $12,466 has been established for these deferred tax assets. The Company also has $283 of general business tax credits which expire from 2009 to 2021. A valuation allowance of $283 has been established for these tax credits. In 2004, the change in the valuation allowance is primarily due to the Merger Transaction with CHS and utilization of capital loss and state net operating loss carryforwards.

In the three month period ended March 31, 2004, a deferred tax asset was recorded for costs incurred in connection with the Merger Transaction. The Company has established a valuation reserve of $1,594 for the entire amount of the deferred tax asset related to the Merger transaction costs.

In connection with the March 30, 2004 exercise of options under the Sunsource Inc. 2001 Stock Incentive Plan (see Note 15, Stock Based Compensation), tax benefits to the Company of $1,924 and $30 were recorded as additional paid-in capital for the three months ended March 31, 2004 and the nine months ended December 31, 2004, respectively.

7. Income Taxes (continued):

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The table below reflects the significant components of the Company's net deferred tax assets and liabilities at December 31, 2004 and 2003:

	Successor		Predecessor	
	As of December 31, 2004		As of December 31, 2003	
	Current As Restated	Non-current As Restated	Current As Restated	Non-current As Restated
Deferred Tax Asset:				
Inventory	$ 3,937	$ —	$ 4,863	$ —
Acquisition related/severance reserve	1,532	—	2,042	—
Bad debt reserve	804	—	767	—
Casualty loss reserve	526	689	450	609
Deferred compensation	30	1,638	451	2,337
Medical insurance reserve	450	—	552	—
Revenue recognition — shipping terms	561	—	526	—
Federal net operating loss	—	30,293	—	18,536
State net operating loss	—	4,228	—	2,779
Original issue discount amortization		450	—	—
Transaction costs	—	2,206	—	742
Federal capital loss carryforwards	—	12,636	—	12,848
All other items	1,147	524	945	817
Gross deferred tax assets	8,987	52,664	10,596	38,668
Valuation allowance for deferred tax assets	(2,275)	(13,329)	(3,061)	(11,171)
Net deferred tax assets	$ 6,712	$ 39,335	$ 7,535	$ 27,497
Deferred Tax Liability:				
Intangible asset amortization	$ —	$ 66,583	$ —	$ 5,660
Property and equipment	—	5,803	—	6,139
Original issue discount amortization	—	—	—	4,506
All other items	—	170	—	238
Gross deferred tax liabilities	$ —	$ 72,556	$ —	$ 16,543

The valuation allowance was $15,604 at December 31, 2004, of which $15,499 was established at the Merger Transaction date. Therefore, initial recognition of a tax benefit by a future reduction in $15,499 of the December 31, 2004 valuation allowance will reduce goodwill related to the Merger Transaction.

Reductions in the valuation allowance for the years ended December 31, 2002 and 2003, the three months ended March 31, 2004 and the nine months ended December 31, 2004 of $825, $708, $150 and $366, respectively, were recorded as a reduction to goodwill resulting from the initial recognition of the tax benefits from release of valuation allowances established in purchase accounting. Foreign tax benefits in the three months ended March 31, 2004 and the nine months ended December 31, 2004 were fully offset by charges to the valuation allowance of $35 and $105, respectively.

7. Income Taxes (continued):

Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

Below is a reconciliation of statutory income tax rates to the effective income tax rates for the periods indicated:

	Successor	Predecessor		
	Nine Months ended December 31, 2004	Three Months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
	As Restated	As Restated	As Restated	As Restated
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
Impact of foreign losses for which a current tax benefit is not available	0.0%	-0.4%	-5.3%	1.8%
State and local income taxes, net of U.S. federal income tax benefit	9.8%	4.9%	4.1%	5.2%
Adjustment of reserve for uncertain tax positions and other items	0.7%	-4.6%	-4.0%	4.6%
Permanent differences for interest expense on mandatorily redeemable preferred stock	35.8%	—	—	—
Other permanent differences	4.1%	4.2%	-7.0%	0.4%
Effect of change in valuation allowances	0.0%	-5.7%	-172.0%	0.0%
Effective income tax rate	85.4%	33.4%	-149.2%	47.0%

8. Property and Equipment, net:

Property and equipment, net, consists of the following at December 31, 2004 and 2003:

	Estimated Useful Life (Years)	Successor 2004	Predecessor 2003
Land		$ 131	$ 131
Buildings	27	781	884
Leasehold improvements	3-10	2,095	4,029
Machinery and equipment	3-10	66,823	75,104
Furniture and fixtures	3-5	1,080	1,511
Construction in process		445	—
Property and equipment, gross		71,355	81,659
Less: Accumulated depreciation		10,244	16,813
Property and equipment, net		$ 61,111	$ 64,846

9. Other Intangibles, net:

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 an independent appraisal. Other Intangibles, net as of December 31, 2004 and 2003 consist of the following:

	Successor		Predecessor	
	2004 Amount	Estimated Useful Life (Years)	2003 Amount	Estimated Useful Life (Years)
Customer Relationships	$ 114,897	23	$ —	—
Trademarks	44,670	Indefinite	6,500	25
Patents	7,960	9	6,700	8
Proprietary Software	—	—	1,000	8
Non Compete Agreements	5,742	4	1,250	4-5
Intangible assets, gross	173,269		15,450	
Less: Accumulated amortization	5,427		5,819	
Other Intangibles, net	$ 167,842		$ 9,631	

The Predecessor Company's amortization expense for amortizable assets was $321, $1,437, and $1,485 for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. The Successor Company's amortization expense for amortizable assets for the nine months ended December 31, 2004 was $5,427 and for the years ending December 31, 2005, 2006, 2007, 2008, and 2009 are estimated to be $7,236, $7,236, $6,762, $6,525, and $6,364, respectively.

10. 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 (the "Senior Credit Agreement") consisting of a $40,000 revolving credit facility (the "Revolver") and a $217,500 Term B Loan (the "Term Loan") collateralized by the Company's cash, accounts receivable, inventories, and fixed assets. 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".) 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. In addition, the Senior Credit Agreement prohibits the payment of dividends on any of the Company's equity securities. The Company

10. Long-Term Debt (continued):

was in compliance with all provisions of the Senior Credit Agreement as of December 31, 2004.

In addition, on March 31, 2004, the Company, through The Hillman Group, Inc., 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.

As of December 31, 2004 and 2003, long-term debt is summarized as follows:

	Successor 2004	Predecessor 2003
Revolving Credit Agreement	$ —	$ 45,524
Term Loan A	—	24,003
Term Loan B	215,869	36,555
Subordinated Debt Issuance	48,090	44,062
Capital Leases	142	194
	264,101	150,338
Less: amounts due in one year	2,218	9,322
Long-term debt	$ 261,883	$ 141,016

The aggregate minimum principal maturities of the long-term debt for each of the five years following December 31, 2004, are as follows:

2005	$ 2,218
2006	2,219
2007	2,213
2008	2,192
2009	2,175
2010 and thereafter	253,084

As of December 31, 2004, the Company had $34,452 available under its revolving credit agreement and letter of credit commitments outstanding of $5,548. The Company had outstanding debt of $216,011 under its secured credit facilities at December 31, 2004, consisting of $215,869 in term loans and $142 in capitalized lease obligations. The term loans consisted of a $215,325 Term B Loan currently at a six (6) month LIBOR rate of 5.50% and a $544 Term B Loan currently at a three (3) month LIBOR rate of 5.8125%. The capitalized lease obligations were at various interest rates.

As of December 31, 2004, the estimated fair value of the Company's Term Loans approximates the recorded value as determined in accordance with SFAS No. 107, "Disclosure about Fair Value of Financial Instruments." The Company discounted the future cash flows of its Term Loans based on borrowing rates for debt with similar terms and remaining maturities. The fair value estimate is made at a specific point in time, is subjective in nature, and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

11. Leases:

Certain warehouse and office space and equipment are leased under capital and operating leases with terms in excess of one year. Future minimum lease payments under noncancellable leases consisted of the following at December 31, 2004:

	Capital Leases	Operating Leases
2005	$ 53	$ 6,793
2006	50	4,934
2007	41	3,087
2008	18	2,690
2009	0	2,327
Later years	0	11,839
Total minimum lease payments	162	$ 31,670
Less amounts representing interest	(20)	
Present value of net minimum lease payments (including $43 currently payable)	$ 142	

The Successor's rental expense for all operating leases was $6,251 for the nine months ended December 31, 2004 and the Predecessor's rental expense for all operating leases was $2,055 for the three months ended March 31, 2004 and $8,913 and $7,560 for the years ended December 31, 2003 and 2002, respectively. Certain leases are subject to terms of renewal and escalation clauses.

12. Deferred Compensation Plans:

The Company maintains a deferred compensation plan for key employees (the "Nonqualified Deferred Compensation Plan") which allows for deferral of cash compensation from salary and annual bonuses. Executive deferrals can grow at mutual fund investment rates.

As of December 31, 2004 and 2003, the Company's consolidated balance sheet included $4,223 and $7,077, respectively, in restricted investments representing the assets held in mutual funds to fund deferred compensation liabilities due to the Company's current and former employees. The current portion of the restricted investments was $75 and $1,145 as of December 31, 2004 and 2003, respectively.

During the three years ended December 31, 2004, distributions from the deferred compensation plans aggregated $4,080 in 2004, $948 in 2003, and $1,142 in 2002.

13. 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 $105,446 underwritten public offering of 4,217,724 Trust Preferred Securities ("TOPrS"). The Trust invested the proceeds from the sale of the preferred 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.

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

In connection with the public offering of TOPrS the Trust issued $3,261 of trust common securities to the Company. The Trust invested the proceeds from the sale of the trust 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 the Company at an annual rate of 11.6% on the liquidation amount of the common 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 the Company is not the primary beneficiary of the Trust pursuant to the provisions of 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 December 31, 2004 (as restated).

Non-current assets — junior subordinated debentures — preferred	$ 114,429
Non-current assets — junior subordinated debentures — common	3,261
Total assets	$ 117,690
Non-current liabilities — trust preferred securities	$ 114,429
Stockholder's equity — trust common securities	3,261
Total liabilities and stockholder's equity	$ 117,690

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.

In accordance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("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 $117,986 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 plus the liquidation value of the trust common securities. The Company is amortizing the premium on the Junior Subordinated Debentures of $9,279 over their remaining life in the amount of $395 per year.

13. Guaranteed Preferred Beneficial Interest in the Company'sJunior Subordinated Debentures (continued):

At December 31, 2004, the recorded value of the Junior Subordinated Debentures, net of premium amortization, was $117,690. The fair value of the Junior Subordinated Debentures on December 31, 2004 was $126,419 based on the $29.20 per share closing price of the underlying Trust Preferred Securities as quoted on the American Stock Exchange plus the liquidation value of the trust common securities.

14. 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 Stock 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. The SEC's Accounting Series Release No. 268, "Presentation in Financial Statements of Redeemable Preferred Stock," 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 allows 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.

The repurchase feature of the Class B Common Stock triggers variable accounting treatment under FASB Interpretation No. 44, "Accounting For Certain Transactions involving Stock Compensation – an interpretation of APB Opinion No. 25" ("FIN 44"). At December 31, 2004, the fair value of the Class B Common Stock was equivalent to the share price and accordingly no compensation charge was recorded for the nine months ended December 31, 2004.

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

14. Common and Preferred Stock (continued):

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 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.

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 December 31, 2004 Balance Sheet. Dividends on the mandatorily redeemable Class A Preferred Stock for the nine months ended December 31, 2004 are included in interest expense on the accompanying Consolidated Statements of Operations.

15. Stock Based Compensation:

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 per share. 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. 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. Dividends on the Purchased Options are recorded as interest expense in the accompanying Consolidated Statement of Operations. 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.

15. Stock Based Compensation (continued):

SFAS 150 requires the initial and subsequent valuations of the Purchased Options be measured at fair value with the change in fair value recognized as interest expense.

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 adopted the 2004 Stock Option Plan ("Common Option Plan") following Board and shareholder approval. Grants under the 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 that the exercise period may not exceed ten years from date of grant. On December 14, 2004, options to purchase 10 shares of Class B Common Shares were granted at a strike price of $1,000 per share to certain members of the Company's Board of Directors. Management has determined that SFAS 123 has a de minimis impact on net income and stockholders' equity of the Company as of and for the nine month period ended December 31, 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 were granted with an exercise price of $1,000 per share which was equal to the value of the underlying Preferred Stock. The Preferred Options vest over five years with 20% vesting on each anniversary of the Merger Transaction. Holders of the Preferred Options are entitled to accrued dividends as if the underlying Preferred Stock were issued and outstanding as of the grant date.

Upon resignation from the Company after the third anniversary of grant, termination by the Company without Cause, death or disability, or retirement at age 61 the holder of the Preferred Options has a put right on the vested securities at a price equal to fair market value less any option exercise price payable. FIN 44 requires variable accounting treatment for stock awards with employee repurchase rights. Under APB Opinion 25, compensation expense is recognized to the extent the market value of the underlying security on the measurement date exceeds the cost to the employee. The market value on the Preferred Options increases by the amount of dividends accrued on the underlying Preferred Stock. Compensation expense will be recognized over the five-year vesting period in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans – an interpretation of APB Opinions No. 15 and 25" ("FIN 28"). Accordingly, the Company has recorded a compensation charge of $272 in the accompanying Consolidated Statements of Operations for the nine months ended December 31, 2004.

16. Retirement Benefits:

Certain employees of the Company are covered under a profit-sharing and retirement savings plan ("defined contribution plan"). The plan provides for a matching contribution for eligible employees of 50% of each dollar contributed by the employee up to 6% of employee's compensation. In addition, the plan provides an annual contribution in amounts authorized by the Board, subject to the terms and conditions of the plan.

In April 2002, the Company made the final distribution of the assets of a defined benefit plan for a discontinued subsidiary. The defined benefit plan was terminated in 2001 prior to the sale of the subsidiary. Other income for the year ended December 31, 2002 includes a favorable income adjustment of $1,231 resulting from final settlement of this defined benefit plan.

Costs (income) charged to operations under all retirement benefit plans for the three years ended December 31, 2004 was as follows:

	Successor	Predecessor	Predecessor	Predecessor
	Nine months ended December 31, 2004	Three months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Defined contribution plans	$ 1,759	$ 406	$ 827	$ 1,905
Defined benefit plans	—	—	—	(1,231)
Total	$ 1,759	$ 406	$ 827	$ 674

17. 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 14, 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 stockholders 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.

18. Derivatives and Hedging:

The Company uses derivative financial instruments to manage its exposure 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," ("SFAS 133") as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." As amended, SFAS 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 $50,000. The Swap fixes the interest rate on $50,000 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 December 31, 2004 was ($18), net of $12 in tax benefit. The Swap is reported on the consolidated balance sheet in other non-current liabilities. The related deferred loss on the swap agreements of $18 has been deferred in shareholders' equity as a component of other comprehensive loss. This deferred loss 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.

19. Commitments and Contingencies:

The Company self insures its product liability, worker's compensation and general liability losses up to $250 per occurrence. Catastrophic coverage is maintained for occurrences in excess of $250 up to $35,000. As of December 31, 2004, the Company has provided insurers letters of credit aggregating $5,548 related to its product liability, workers compensation and general liability coverage.

The Company self insures its group health claims up to an annual stop loss limit of $125 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.

Legal proceedings are pending which are either in the ordinary course of business or incidental to the Company's business. Those legal proceedings incidental to the business of the Company are generally not covered by insurance or other indemnity. In the opinion of management, the ultimate resolution of the pending litigation matters will not have a material adverse effect on the consolidated financial position, operations or cash flows of the Company.

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

20. Statements of Cash Flows:

Supplemental disclosures of cash flow information are presented below:

	Successor	Predecessor		
	Nine Months ended December 31, 2004	Three Months ended March 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Cash paid (refunded) during the period for :				
Interest on junior subordinated debentures	$ 9,457	$ 3,152	$ —	$ —
Distributions on guaranteed preferred beneficial interests	$ —	$ —	$ 12,231	$ 12,231
Interest	$ 8,992	$ 4,038	$ 12,318	$ 10,065
Income taxes	$ 22	$ 48	$ 338	$ (179)
Cash investing activities:				
Fair value of assets acquired, including goodwill	$ —	$ —	$ —	$ 21,592
Non-cash operating activities:				
Stock option grant	$ —	$ 24,353	$ —	$ —
Non-cash investing activities:				
Exchange of G-C interest for subordinated G-C note (Note 5)	$ —	$ —	$ —	$ 10,000
Non-cash financing activities:				
Dividends on preferred stock (Note 14)	$ 7,321	$ —	$ —	$ —

21. Quarterly Data (unaudited):

The unaudited quarterly data for the nine months ended December 31, 2004, the three months ended March 31, 2004 and the year ended December 31, 2003 have been restated to reflect corrections for the matters discussed in Note 2. The following table presents previously reported and restated amounts (in thousands):

2004	Fourth	Third	Second	First
Net sales (as previously reported)	$ 82,541	$ 97,463	$ 92,636	$ 78,997
Net sales (as restated)	83,022	97,032	93,320	78,190
Gross profit (as previously reported)	45,387	53,505	51,030	43,217
Gross profit (as restated)	45,661	53,288	51,453	42,807
Net (loss)income (as previously reported)	(1,274)	1,690	211	(19,316)
Net income(loss) (as restated)	3,077	(1,172)	(1,126)	(20,366)

2003	Fourth	Third	Second	First
Net sales (as previously reported)	$ 78,134	$ 86,055	$ 84,263	$ 69,989
Net sales (as restated)	78,260	86,553	84,087	68,771
Gross profit (as previously reported)	43,136	47,237	45,973	38,325
Gross profit (as restated)	43,218	47,507	45,885	37,706
Net (loss)income (as previously reported)	(2,100)	1,720	1,578	(5,845)
Net (loss)income (as restated)	(311)	1,078	1,259	(7,735)

22. Concentration of Credit Risks:

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to sales and trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. For the year ended December 31, 2004, the largest three customers accounted for 38.6% of sales and 42.9% of the year-end accounts receivable balance. No other customer accounted for more than 10% of the Company's total sales in 2004.

Concentration of credit risk with respect to purchases and trade payables are limited due to the large number of vendors comprising the Company's vendor base, with dispersion across different industries and geographic areas. The Company's largest vendor in terms of annual purchases accounted for 10.4% of the Company's total purchases and 7.0% of the Company's total trade payables on December 31, 2004.

23. Segment Information:

The following geographic area data includes revenue based on product shipment destination and plant and equipment based on physical location:

	Successor	Predecessor		
	Nine Months Ended December 31, 2004	Three Months Ended March 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
	(As restated)	(As restated)	(As restated)	(As restated)
Net sales				
United States	$ 266,909	$ 76,713	$ 311,626	$ 281,553
Canada	2,296	314	1,491	1,217
Mexico	895	116	973	725
Other	3,274	1,047	3,581	3,104
Consolidated net sales	$ 273,374	$ 78,190	$ 317,671	$ 286,599
Plant & equipment:				
United States	$ 61,055	$ 63,372	$ 64,795	$ 68,546
Canada	56	45	51	50
Mexico	—	—	—	—
Other	—	—	—	—
Consolidated plant & equipment	$ 61,111	$ 63,417	$ 64,846	$ 68,596

Financial Statement Schedule:

Schedule II — VALUATION ACCOUNTS

(dollars in thousands)

	Deducted From Assets in Balance Sheet	
	Allowance for Doubtful Accounts	Allowance for Obsolete/ Excess Inventory
Balance, December 31, 2001 - Predecessor	$ 537	$ 3,927
Additions charged to cost and expense	277	654
Additions for DIY Acquisition	100	1,419
Deductions due to:		
Others	359(A)	1,625(A)
Ending Balance — December 31, 2002 - Predecessor	555	4,375
Additions charged to cost and expense	63	697
Deductions due to:		
Others	94(A)	1,883(A)
Balance, December 31, 2003 - Predecessor	524	3,189
Additions charged to cost and expense	31	500
Deductions due to:		
Others	31(A)	215(A)
Ending Balance — March 31, 2004 - Predecessor	524	3,474
Additions charged to cost and expense	198	397
Deductions due to:		
Others	196(A)	313(A)
Ending Balance — December 31, 2004 - Successor	$ 526	$ 3,558

Notes:

(A) Includes write-off of accounts receivable (net of bad debt recoveries) and inventories.

Item 9 – Changes in and Disagreements on Accounting and Financial Disclosure.

There were no changes in or disagreements on accounting and financial disclosure during the year ended December 31, 2004.

Item 9A – Controls and Procedures

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, which included the matters discussed below, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were not effective, as of the end of the period covered by this Report (December 31, 2004), in ensuring that material information relating to The Hillman Companies, Inc. required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Notwithstanding the material weaknesses described below, the Company's management has concluded that the consolidated financial statements included in this annual report fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles ("GAAP").

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Although we have not yet been required to assess and report on the effectiveness of our internal control over financial reporting, as a result of the restatement described above, the Company concluded that the material weaknesses described below existed as of December 31, 2004.

(1) The Company did not maintain effective controls over the timing of the recognition of revenue. Specifically, revenue recognition determination was not reflective of contract terms related to when title and risk of loss transferred to the customer in order to record revenue in accordance with GAAP. This control deficiency resulted in the restatement of the Company's 2002 consolidated financial statements, interim and annual consolidated financial statements for the year ended December 31, 2003, the three months ended March 31, 2004, the nine months ended December 31, 2004, the three months ended March 31, 2005, as well as audit adjustments to the 2005 consolidated financial statements affecting revenue, cost of sales, deferred revenue and other current assets.

(2) The Company did not maintain effective controls over its accounting for income and other taxes required under GAAP. Specifically, the Company did not maintain a sufficient complement of personnel within its tax accounting function with the appropriate level of knowledge, experience and training in the application of GAAP related to income and other taxes. This control deficiency contributed to the following:

- Deferred income tax balances related to purchase business combinations were not appropriately determined to ensure that deferred income tax liabilities and allocated goodwill were fairly stated in accordance with GAAP;
- Quarterly income tax provisions were not appropriately determined utilizing an estimate of the annual effective tax rate;
- The annual income tax provision was calculated using an inappropriate estimate of federal and state statutory tax rates;
- Deferred tax balances were not accurate;
- The income tax provision did not appropriately reflect the tax effect of stock option exercises in accordance with GAAP;
- Valuation allowances for state tax operating loss carryforwards were overstated based on loss carryforward periods and estimates of future state taxable income;
- Changes in valuation allowances and reserves for uncertain tax positions established in purchase business combinations were incorrectly charged to income tax expense instead of goodwill;
- State income and franchise tax provisions and the related tax payable accounts were incorrectly calculated;
- Certain book versus tax basis differences were based on estimates which were not updated on a timely basis and certain temporary differences were incorrectly treated as permanent items; and
- State franchise taxes were incorrectly included as a component of income tax expense instead of operating expenses.

This control deficiency resulted in the restatement of the Company's 2002 consolidated financial statements, interim and annual consolidated financial statements for the year ended December 31, 2003, the three months ended March 31, 2004, the nine months ended December 31, 2004, the three months ended March 31, 2005 as well as audit adjustments to the 2005 consolidated financial statements.

(3) The Company did not maintain effective controls over its accounting for stock compensation. Specifically, the Company did not maintain effective controls to ensure that a stock compensation charge was recorded as additional paid-in capital in stockholders' equity rather than a liability on the consolidated balance sheet. This control deficiency resulted in a restatement of the consolidated financial statements for the three months ended March 31, 2004.

(4) The Company did not maintain effective controls over it accounting for outstanding checks. Specifically, the Company did not maintain effective controls to properly reclassify outstanding checks in excess of available deposits from cash to accounts payable, accrued salaries and wages and the revolver and to properly report cash flows from operating and financing activities. This control deficiency resulted in the restatement of the Company's 2002 consolidated financial statements, interim and annual consolidated financial statements for the year ended December 31, 2003, the three months ended March 31, 2004, the nine months ended December 31, 2004, the three months ended March 31, 2005 as well as audit adjustments to the 2005 consolidated financial statements.

Additionally, each of these control deficiencies could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

Accordingly, management has determined that each of the above control deficiencies represents a material weakness.

Management also considered the impact of the restatements related to the following items on the Company's internal control over financial reporting. See Note 2, Notes to Consolidated Financial Statements for a detailed description.

- Investment in trust common securities;
- Capitalized interest on construction of Cincinnati distribution facility;
- Accrued pricing allowances; and,
- Insurance demutualization.

Management reviewed and analyzed the Securities and Exchange Commission's Staff Accounting Bulletin(SAB) No. 99, "Materiality," paragraph 29 of Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," and concluded that the restatement related to the items described above were not material to the financial statements of any prior interim or annual periods taken as a whole. Accordingly, because management concluded that a material misstatement did not occur, management has concluded that these control deficiencies do not represent a material weakness.

Plan for Remediation of Material Weaknesses

Management is in the process of remediating these material weaknesses in internal control over financial reporting. In particular, we intend to:

- Increase our training and resources in the income tax accounting area;
- Expand review procedures and controls related to unique and specialized transactions;
- Increase review procedures and controls related to income tax accounting;
- Increase review procedures and controls related to sales and marketing initiatives as well as sales contracts and agreements; and
- Review the disclosure committee process and increase the frequency of such meetings from quarterly to monthly.

Management will consider the design and operating effectiveness of these actions and will make any changes management determines are appropriate.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B – Other Information

None

PART III

Item 10 – Directors and Executive Officers of the Registrant.

The following is a summary of the biographies for at least the last five years of the continuing directors and officers. Each of the directors has served as such since March 31, 2004 except for Maurice P. Andrien, Jr. and Max W. Hillman who have served since September 2001 and Shael J. Dolman who has served since June 19, 2005.

Directors

Name and Age	Principal Occupation; Five-Year Employment; Other Directorships
Peter M. Gotsch (41)	Chairman of The Hillman Companies, Inc. since March 31, 2004. Mr. Gotsch has been a member of Code Hennessy & Simmons LLC since 1997 and employed by its affiliates since 1989. Mr. Gotsch presently serves on the Board of Beacon Roofing Supply, Inc.
Maurice P. Andrien, Jr. (64)	From September 2001 to March 2004 Mr. Andrien was Chairman of The Hillman Companies, Inc., Cincinnati, Ohio. From April 1999 to November 2001 Mr. Andrien was President and Chief Executive Officer of SunSource Inc. From June 1998 to April 1999, Mr. Andrien was President and Chief Operating Officer of Unican Security Systems, Ltd., Montreal, Quebec, Canada.
Max W. Hillman (59)	President and Chief Executive Officer of The Hillman Companies, Inc., Chief Executive Officer of The Hillman Group, Inc., Cincinnati, Ohio. From April 2000 to November 2001, Mr. Hillman was Co-Chief Executive Officer of The Hillman Group, Inc. From 1999 to April 2000, Mr. Hillman held the position of Chief Executive Officer of The Hillman Group, Inc. From 1991 to 1999, Mr. Hillman was a Group Vice President for SunSource Inc.
Andrew W. Code (47)	Mr. Code has been a general partner of CHS Management Limited Partnership ("CHS Management") and a general partner of Code Hennessy & Simmons Limited Partnership ("CHS") since August 1988. Mr. Code is on the Board of SCP Pool Company.
Mark A. Dolfato (33)	Mr. Dolfato joined Code Hennessy & Simmons LLC as an Associate in 2000 and has been a Vice President since 2003.

Name and Age	Principal Occupation; Five-Year Employment; Other Directorships
Larry Wilton (58)	Mr. Wilton is the retired CEO of Compass Home Inc., a position he held from 2004 to 2005. From 1998 to 2002 Mr. Wilton was CEO of Philips Lamps NAFTA. From 1996 to 1998 Mr. Wilton was Executive Vice President of Philips Lighting United States and Canada. From 1999 to 2002 Mr. Wilton served on the Philips NV Lamps Board of Directors.
Shael J. Dolman (34)	Mr. Dolman is a Portfolio Manager at the private equity arm of OTPP. Mr. Dolman joined OTPP in 1997 after working in Commercial and Corporate Banking at a Canadian chartered bank. Mr. Dolman received his Bachelor of Arts from University of Western Ontario and his MBA from McGill University. He is a director of ALH Holding, Inc and Worldspan LP.

All directors hold office until their successors are duly elected and qualified.

Committees

The Company is a controlled company within the meaning of the American Stock Exchange ("Amex") listing standards because an affiliate of CHS owns more than 50% of the outstanding shares of the Company's common voting stock. Accordingly, the Company is exempt from the requirements of the Amex listing standards to maintain a majority of independent directors on the Company's board of directors and to have a nominating committee and a compensation committee composed entirely of independent directors.

The Company does not have a nominating committee, but it does have a compensation committee. The board of directors believes that it is not necessary to utilize a nominating committee. Director nominees for the Company are selected by the board of directors following receipt of recommendations of potential candidates from the Chairman of the Board of the Company. The board is not limited by the recommendation of the Chairman and may select other nominees. There is no charter setting forth these procedures and the board of directors has no policy regarding the consideration of any director candidates recommended by shareholders.

The current members of the audit committee are Peter Gotsch, Mark Dolfato and Shael Dolman. No member of the audit committee is designated as an "audit committee financial expert."

Code of Ethics

The Company has adopted a code of ethics which applies to, among others, its senior officers, including its Chief Executive Officer and its Chief Financial Officer, as well as every employee of the Company. The Company's code can be accessed via its website at http://www.hillmangroup.com. The Company intends to disclose amendments to or waivers from a required provision of the code on
Form 8-K.

The executive officers of the Company (including the executive officers of The Hillman Group, Inc.) are set forth below:

Executive Officers

Name and Age	Position with the Company; Five-year Employment History
Max W. Hillman (59)	President and Chief Executive Officer of The Hillman Companies, Inc., Chief Executive Officer of The Hillman Group, Inc., Cincinnati, Ohio. See page 72 for five-year employment history. Mr. Hillman is the brother of Richard P. Hillman.
Richard P. Hillman (57)	President of The Hillman Group, Inc., Cincinnati, Ohio. Mr. Hillman has held such position since 1991. Mr. Hillman is the brother of Max W. Hillman.
James P. Waters (44)	Chief Financial Officer and Secretary of The Hillman Companies, Inc., Cincinnati, Ohio and Vice President, Chief Financial Officer and Secretary of The Hillman Group, Inc., Cincinnati, Ohio. From September 1999 to November 2001, Mr. Waters was Vice President and Chief Financial Officer of The Hillman Group, Inc. From November 1997 to September 1999, Mr. Waters was Vice President of Finance for Curtis Industries, Inc., Mayfield Heights, Ohio.
George L. Heredia (47)	Senior Vice President of Engraving for The Hillman Group, Inc., Tempe, Arizona. Mr. Heredia has held various executive positions since April 2000. Prior to April 2000, Mr. Heredia has held the positions of Senior Vice President of Marketing and Senior Vice President of Operations for Axxess Technologies, Inc.
Terry R. Rowe (51)	Senior Vice President of National Account Sales for The Hillman Group, Inc., Cincinnati, Ohio. Mr. Rowe has held such position with The Hillman Group since 1992.

All executive officers hold office at the pleasure of the board of directors.

Item 11 – Executive Compensation

Compensation of Executive Officers

The following table sets forth all cash compensation paid and accrued for services rendered during the three years ended December 31, 2004, by each of the Chief Executive Officer, and the four other most highly compensated executive officers of the Company and its subsidiaries whose remuneration exceeded $100,000.

Name and Principal Position	Annual Compensation Year	Annual Compensation Salary(1)	Annual Compensation Bonus(2)	Other Annual Compen-sation	Long-Term Compensation Restricted Stock Awards $	Long-Term Compensation Securities Underlying Options #	Long-Term Compensation LTIP Payouts $	All Other Compen-sation
Max W. Hillman	2004	397,500	345,030	—	—	—	—	353,353(4)
President and CEO	2003	363,270	162,164	—	—	—	—	5,407(9)
The Hillman Companies, Inc.	2002	362,500	293,794	—	—	—	—	2,200(9)
Richard P. Hillman	2004	260,885	115,865	—	—	—	—	122,414(5)
President	2003	244,813	50,051	—	—	—	—	8,082(9)
The Hillman Group, Inc.	2002	234,423	105,990	—	—	—	—	4,735(9)
George L. Heredia	2004	220,846	72,668	—	—	—	—	57,905(6)
Senior VP of Engraving	2003	193,192	235,724(3)	—	—	—	—	6,899(9)
The Hillman Group, Inc.	2002	193,992	152,968(3)	—	—	—	—	3,644(9)
Terry R. Rowe	2004	202,846	57,126	—	—	—	—	55,895(7)
Senior VP National Accounts	2003	189,000	54,858	—	—	—	—	5,654(9)
The Hillman Group, Inc.	2002	182,000	64,715	—	—	—	—	5,226(9)
James P. Waters	2004	185,954	73,992	—	—	—	—	58,145(8)
CFO and Secretary	2003	170,838	35,738	—	—	—	—	7,427(9)
The Hillman Companies, Inc.	2002	163,269	55,845	—	—	—	—	5,419(9)

(1) Represents base salary plus other types of miscellaneous compensation.

(2) Represents earned bonus for services rendered in each year.

(3) Includes special performance and retention bonuses of $186,000 and $85,000 earned in 2003 and 2002, respectively, related to the acquisition of Axxess Technologies, Inc.

(4) Represents a discretionary management bonus paid in connection with the CHS acquisition of $345,159, 401(k) employer matching contributions of $5,694 and deferred compensation matching contributions of $2,500.

(5) Represents a discretionary management bonus paid in connection with the CHS acquisition of $113,000, 401(k) employer matching contributions of $6,884 and deferred compensation matching contributions of $2,500.

(6) Represents a discretionary management bonus paid in connection with the CHS acquisition of $48,550, 401(k) employer matching contributions of $6,856 and deferred compensation matching contributions of $2,500.

(7) Represents a discretionary management bonus paid in connection with the CHS acquisition of $49,308 and a 401(k) employer matching contributions of $6,587.

(8) Represents a discretionary management bonus paid in connection with the CHS acquisition of $49,308, 401(k) employer matching contributions of $6,337 and deferred compensation matching contributions of $2,500.

(9) Represents employer matching contributions in the Company’s 401(k) and deferred compensation plans.

Maurice P. Andrien, Jr. and Larry Wilton are entitled to receive $4,000 for each Board meeting attended and an annual Board fee of $5,000. Mr. Andrien and Mr. Wilton each received $21,000 cash compensation for the year ended December 31, 2004 for their Board of Director duties. The remaining Board of Directors were not compensated by the Company during the year ended December 31, 2004.

In addition to cash compensation, Mr. Wilton and Mr. Andrien were granted 5 shares each of Class B Common Shares. There were no other common stock options outstanding as of December 31, 2004.

Option Grants in the Last Year

The following table sets forth information with respect to the options granted by the Company during the 2004 year to the named executive officers:

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Value
Max W. Hillman					
Common Stock (1)	267,463	24.6%	$ 6.39	3/31/2004	$ 7,809,920
Class A Preferred (2)	3,244	33.9%	$ 1,000.00	3/31/2014	$ 949,499
Class A Preferred — Subsidiary (3)	2,263	33.9%	$ 1,000.00	3/31/2014	$ 629,114
Richard P. Hillman					
Common Stock (1)	66,866	6.2%	$ 6.39	3/31/2004	$ 1,952,487
Class A Preferred (2)	1,388	14.5%	$ 1,000.00	3/31/2014	$ 406,280
Class A Preferred — Subsidiary (3)	968	14.5%	$ 1,000.00	3/31/2014	$ 269,187
George L. Heredia					
Common Stock (1)	44,577	4.1%	$ 6.39	3/31/2004	$ 1,301,648
Class A Preferred (2)	715	7.5%	$ 1,000.00	3/31/2014	$ 209,390
Class A Preferred — Subsidiary (3)	497	7.5%	$ 1,000.00	3/31/2014	$ 138,138
Terry R. Rowe					
Common Stock (1)	44,577	4.1%	$ 6.39	3/31/2004	$ 1,301,648
Class A Preferred (2)	682	7.1%	$ 1,000.00	3/31/2014	$ 199,730
Class A Preferred — Subsidiary (3)	476	7.1%	$ 1,000.00	3/31/2014	$ 132,328
James P. Waters					
Common Stock (1)	44,577	4.1%	$ 6.39	3/31/2004	$ 1,301,648
Class A Preferred (2)	648	6.8%	$ 1,000.00	3/31/2014	$ 189,748
Class A Preferred — Subsidiary (3)	452	6.8%	$ 1,000.00	3/31/2014	$ 125,712

(1) Common stock options granted on March 30, 2004 under the SunSource Inc. 2001 Stock Incentive Plan. The options were issued with an exercise price below the fair market value on the grant date of $29.20 per share. The SunSource Inc. 2001 Stock Incentive Plan was terminated on March 31, 2004 in connection with the CHS acquisition.

(2) Options to purchase The Company's Class A Preferred Stock were granted on March 31, 2004 in connection with the CHS acquisition under the terms of an Executive Securities Agreement between the Company and the shareholder. The grant date value is based on an third party appraisal as of March 31, 2004.

(3) Options to purchase The Hillman Investment Company Class A Preferred Stock were granted on March 31, 2004 in connection with the CHS acquisition under the terms of an Executive Securities Agreement between the Company and the shareholder. The grant date value is based on a third party appraisal as of March 31, 2004.

Aggregated Option Exercises in Last Year and Year-End Option Values

The following table sets forth certain information regarding the options exercised by the named executives during the last year and the number and value of unexercised options held by the named executives at December 31, 2004:

Name	Number of Securities Underlying Options Exercised	Value Realized (1)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) Exercisable/	Unexercisable		Value of Unexercised In the Money Options at Fiscal Year End($) Exercisable/	Unexercisable (3)
Max W. Hillman							
Common Stock (2)	334,963	$ 7,796,519	—	—	$	—	—
Class A Preferred	—	—	—	3,244	$	—	288,680
Class A Preferred — Subsidiary	—	—	—	2,263	$	—	192,355
Richard P. Hillman							
Common Stock (2)	86,866	$ 2,024,213	—	—	$	—	—
Class A Preferred	—	—	—	1,388	$	—	123,523
Class A Preferred — Subsidiary	—	—	—	968	$	—	82,306
George L. Heredia							
Common Stock (2)	51,218	$ 1,177,093	—	—	$	—	—
Class A Preferred	—	—	—	715	$	—	63,662
Class A Preferred — Subsidiary	—	—	—	497	$	—	42,237
Terry R. Rowe							
Common Stock (2)	53,577	$ 1,241,601	—	—	$	—	—
Class A Preferred	—	—	—	682	$	—	60,725
Class A Preferred — Subsidiary	—	—	—	476	$	—	40,460
James P. Waters							
Common Stock (2)	53,577	$ 1,241,601	—	—	$	—	—
Class A Preferred	—	—	—	648	$	—	57,690
Class A Preferred — Subsidiary	—	—	—	452	$	—	38,437

(1) Represents the market value, as of the exercise date, of the options when the same were cashed out, less the aggregate option exercise price.

(2) In connection with the CHS Merger Transaction, options issued under the 1998 SunSource Equity Compensation Plan and the SunSource Inc. 2001 Stock Incentive Plan were cancelled and converted into rights to receive a pro rata share of the merger consideration or an option to purchase shares of the Company's Class A Preferred Stock and The Hillman Investment Company Class A Preferred Stock. The 1998 SunSource Equity Compensation Plan and the SunSource Inc. 2001 Stock Incentive Plan were then terminated.

(3) There is no public market for the securities underlying the Company's Class A Preferred and The Hillman Investment Company Inc. Class A Preferred Options. The value of the Preferred Options is based on dividends accrued on the underlying Preferred Stock.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

Upon a change in control of the Company's Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan"), payment would be provided for all amounts, including accrued investment earnings.

Compensation of the President and Chief Executive Officer of the Company

Max W. Hillman entered into a four-year employment agreement with the Company effective as of the merger with CHS on March 31, 2004, which term will renew on a year-to-year basis after the initial term, unless this agreement is terminated earlier or not renewed. The agreement provides for an annual base salary of $365,000, 2004 bonus compensation in accordance with performance targets established in January, 2004, and subsequent annual bonuses of up to 124% of base salary for the remainder of the term, subject to performance in accordance with performance criteria determined by the board each calendar year. During the term, Mr. Hillman will be eligible to participate in the Company's 401(k) Plan and Deferred Compensation Plan. Mr. Hillman's employment agreement contains non-compete and non-solicitation covenants for two years following termination of employment with the Company. If Mr. Hillman is terminated without cause or if he resigns with good reason in the absence of a change in control involving the Company, then the agreement requires the Company to pay Mr. Hillman his normal base salary and bonus compensation for a period of two years following the termination date. If the company should undergo a change in control after the third anniversary of the employment agreement, Mr. Hillman will receive the lump sum equivalent of one year's base compensation and 50% of his average bonus during the prior three years.

Compensation of the President of The Hillman Group, Inc.

Richard P. Hillman entered into a three-year employment agreement with the Company effective as of the merger with CHS on March 31, 2004, which term will renew on a year-to-year basis after the initial term, unless this agreement is terminated earlier or not renewed. The agreement provides for an annual base salary of $252,000, 2004 bonus compensation in accordance with performance targets established in January, 2004, and subsequent annual bonuses of up to 70% of base salary for the remainder of the term, subject to performance in accordance with performance criteria determined by the board each calendar year. During the term, Mr. Hillman will be eligible to participate in the Company's 401(k) Plan and Deferred Compensation Plan. Mr. Hillman's employment agreement contains non-compete and non-solicitation covenants for two years following termination of employment with the Company. If Mr. Hillman is terminated without cause or if he resigns with good reason in the absence of a change in control involving the Company, then the agreement requires the Company to pay Mr. Hillman his normal base salary and bonus compensation for a period of two years following the termination date. If the company should undergo a change in control after the third anniversary of the employment agreement, Mr. Hillman will receive the lump sum equivalent of one year's base compensation and 50% of his average bonus during the prior three years.

Compensation of the Chief Financial Officer of the Company

James P. Waters entered into a two-year employment agreement with the Company effective as of the merger with CHS on March 31, 2004, which term will renew on a year-to-year basis after the initial term, unless this agreement is terminated earlier or not renewed. The agreement provides for an annual base salary of $180,000, 2004 bonus compensation in accordance with performance targets established in January, 2004, and subsequent annual bonuses of up to 60% of base salary for the remainder of the term, subject to performance in accordance with performance criteria determined by the board each calendar year. During the term, Mr. Waters will be eligible to participate in the Company's 401(k) Plan and Deferred Compensation Plan. Mr. Waters' employment agreement contains non-compete and non-solicitation covenants for two years following termination of employment with the Company. If Mr. Waters is terminated without cause or if he resigns with good reason in the absence

of a change in control involving the Company, then the agreement requires the Company to pay Mr. Waters his normal base salary and bonus compensation for a period of two years following the termination date. If the company should undergo a change in control after the third anniversary of the employment agreement, Mr. Waters will receive the lump sum equivalent of one year's base compensation and 50% of his average bonus during the prior three years.

In connection with the CHS Merger, Max W. Hillman, Richard P. Hillman, James P. Waters, Terry R. Rowe and George L. Heredia entered into an Executive Securities Agreement ("ESA"). The ESA sets forth the terms under which the named executive may purchase, exchange or cancel the Company's equity securities. In addition, the ESA is the grant instrument for The Company's Class A Preferred Options and The Hillman Investment Company Class A Preferred Options ("Preferred Options"). The Preferred Options vest 20% per year over a five year period and expire on March 31, 2014. Under the terms of the ESA, if employment is terminated for other than cause the security holder has the option to put the security or vested portion of the Preferred Options back to the Company at fair market value. If terminated for cause, securities can be put back to the Company at the lower of cost or fair market value. The Company also has the option to call the securities if employment is terminated.

Item 12 – Security Ownership of Certain Beneficial Owners and Management.

The following table shows the number of shares of the Company's securities beneficially owned as determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, by each executive officer and director and all executive officers and directors as a group and persons beneficially owning more than 5% of any one class of the Company's securities. Unless otherwise set forth below, the address for each of the beneficial owners is 10590 Hamilton Ave., Cincinnati, Ohio 45231.

Name	Class A Common Stock (1)		Class B Common Stock (2)		Class C Common Stock (3)		Total Common Stock (4)		Class A Preferred Stock(5)	
5% Owners	**Shares**	**Percent**	**Shares**	**Percent**	**Shares**	**Percent**	**Shares**	**Percent**	**Shares**	**Percent**
Code Hennessy & Simmons IV LP										
10 South Wacker Dr. Suite 3175 Chicago, IL 60606	4,904.9	78.95%	—	—	—	—	4,904.9	49.05%	46,869.4	49.05%
Ontario Teachers Pension Plan										
5650 Yonge St. North York, Ontario M2M 4H5	—	—	—	—	2,787.1	100.00%	2,787.1	27.87%	26,632.3	27.87%
HarbourVest Partners VI – Direct Fund, L.P.										
One Financial Center 44th Floor Boston, MA 02111	871.0	14.02%	—	—	—	—	871.0	8.71%	8,322.6	8.71%
Directors and Executive Officers										
Max W. Hillman	166.4	2.68%	343.4	34.34%	—	—	509.8	5.10%	4,565.9	4.78%(6)
Richard P. Hillman	54.6	.88%	144.6	14.46%	—	—	199.2	1.99%	1,953.7	2.04%(7)
George L. Heredia	23.3	.38%	73.9	7.39%	—	—	97.2	.97%	1,007.8	1.05%(8)
Terry R. Rowe	23.9	.38%	70.6	7.07%	—	—	94.5	.95%	960.4	1.01%(9)
James P. Waters	23.9	.38%	67.3	6.73%	—	—	91.2	.91%	912.4	.95%(10)
All Directors and Executive Officers as a Group	407.6	6.56%	1,000.0	100.00%	—	—	1,407.6	14.08%	13,450.7	14.08%

(1) 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.

(2) Class B Common Stock has no voting rights.

(3) 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. Each share of Class C Common Stock is entitled to one vote provided that the aggregate voting power of Class C Common Stock (with respect to the election of directors) never exceeds 30%.

(4) Total of all classes of Common Stock

(5) Class A Preferred shares do not have voting rights.

(6) Includes options to purchase 3,243.7 shares of Class A Preferred stock

(7) Includes options to purchase 1,387.9 shares of Class A Preferred stock.

(8) Includes options to purchase 716.0 shares of Class A Preferred stock.

(9) Includes options to purchase 682.3 shares of Class A Preferred stock.

(10) Includes options to purchase 648.2 shares of Class A Preferred stock.

Item 13 – Certain Relationships and Related 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 Agreement and Plan of Merger, the Company was obligated to pay management fees to a subsidiary of Allied Capital for management services rendered in the amount of $1,800,000 per year, plus out of pocket expenses, for calendar years subsequent to 2001. The Company has recorded a management fee charge of $523,716, $1,800,000 and $1,800,000 on the Predecessor’s Statement of Operations for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively. 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 management fee for the year ended December 31, 2002 was paid in March 2003 and the management fee for the three months ended December 31, 2001 was paid in March 2002. The obligation to pay management fees to Allied Capital was terminated upon the payment of outstanding fees in the amount of $2,323,716 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 (“CHS”). In connection with the CHS acquisition, the Company is obligated to pay management fees to a subsidiary of CHS in the amount of $57,962 per month and to pay transaction fees to a subsidiary of OTPP in the amount of $25,640 per month, plus out of pocket expenses, for each month commencing with the closing date of the Merger Transaction. The Company has paid management and transaction fees and expenses of $805,123 to CHS and OTPP for the nine month period ended December 31, 2004.

The subordinated debt payable to Allied Capital and accrued interest thereon totaling $45,571,382 was paid in full at March 31, 2004 in connection with the CHS acquisition.

Item 14 – Principal Accounting Fees and Services.

PricewaterhouseCoopers LLP, the Company’s independent registered public accounting firm, billed the Company aggregate fees of $164,645 for the audit of the Company’s annual financial statement for the year ended December 31, 2004 and for the review of the financial statements included in the Company’s Forms 10-Q for such year and $145,000 for the audit of the Company’s annual financial statement for the year ended December 31, 2003 and for the review of the financial statements included in the Company’s Forms 10-Q for such year.

The following are aggregate fees billed to the Company by PricewaterhouseCoopers LLP during 2004 and 2003:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Audit Fees	$ 164,645	$ 145,000
Audit Related Fees	211,080	—
Tax Fees	33,150	84,296
All Other Fees	—	—
Total Fees:	$ 408,875	$ 229,296

Audit Fees

Audit fees consist of fees billed for professional services rendered for the audit of the Company’s financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings.

Audit Related Fees

Audit related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not under "Audit Fees."

Tax Fees

Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, tax audit defense, customs and duties, mergers and acquisitions, and international tax planning.

All Other Fees

All other fees consist of fees for products and services other than the services reported above. There were no all other fees incurred in 2004 and 2003.

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by PricewaterhouseCoopers LLP on a case by case basis, and any pre-approval is detailed as to the particular service or category of service and is generally subject to a specific budget. These services may include audit services, audit-related services, tax services and other related services. PricewaterhouseCoopers LLP and management are required to periodically report to the Audit Committee regarding the extent of services provided by PricewaterhouseCoopers LLP in accordance with this pre-approval policy, and the fees for the services performed to date.

PART IV

Item 15 – Exhibits and Financial Statement Schedules.

(a) Documents Filed as a Part of the Report:

1. Financial Statements.

The information concerning financial statements called for by Item 15 of Form 10-K is set forth in Part II, Item 8 of this annual report on Form 10-K.

2. Financial Statement Schedules.

The information concerning financial statement schedules called for by Item 15 of Form 10-K is set forth in Part II, Item 8 of this annual report on Form 10-K.

3. Reports on 8-K.

A Current Report on Form 8-K was filed on April 14, 2004 reporting an other event under Item 7 of Form 8-K.

A Current Report on Form 8-K was filed on February 17, 2004 reporting an other event under Item 5 of Form 8-K.

4. Exhibits, Including Those Incorporated by Reference.

The following is a list of exhibits filed as part of this annual report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

2.1 Unit Repurchase Agreement by and among The Hillman Companies, Inc., SunSub Holdings LLC and GC-Sun Holdings, L.P. dated April 13, 2002. (6) (Exhibit 10.2)

2.2 Asset Purchase Agreement between Fastenal Company and The Hillman Group, Inc. dated October 3, 2002. (7)(Exhibit 10.3)

2.3 Agreement and Plan of Merger dated as of June 18, 2001 by and among Allied Capital Corporation, Allied Capital Lock Acquisition Corporation and SunSource Inc. (4)(Exhibit 2.1)

2.4 Asset Purchase Agreement dated September 28, 2001, by and between SunSource Technology Services, LLC, and STS Operating, Inc. (5) (Exhibit 2.1)

2.5 Agreement and Plan of Merger dated as of February 14, 2004 by and among the Company, HCI Acquisition Corp. and the Common Stockholders of the Company. (2)(Exhibit 2.1)

3.1 Bylaws as adopted by the Corporation’s stockholders as of March 30, 2004. (10)(Exhibit 3.2)

3.2 Restated Certificate of Incorporation of the Company as of March 30, 2004. (10) (Exhibit 3.1)

4.1 HCI Stockholders Agreement dated March 31, 2004. (9)(Exhibit 4.1)

4.2 Amended and Restated Declaration of Trust (1)(Exhibit 4.1)

4.3 Indenture between the Company and the Bank of New York (1)(Exhibit 4.2)

4.4 Preferred Securities Guarantee (1) (Exhibit 4.3)

4.5	Rights Agreement between the Company and the Registrar and Transfer Company (1)(Exhibit 10.5)
4.6	Amendment No. 1 to the Rights Agreement dated June 18, 2001. (8)(Exhibit 4.6)
4.7	Amendment No. 2 to the Rights Agreement dated February 14, 2004. (8)(Exhibit 4.7)
4.8	Hillman Investment Company Stockholders Agreement dated March 31, 2004. (9) (Exhibit 4.2)
4.9	Registration Agreement dated March 31, 2004. (9) (Exhibit 4.3)
10.1	Credit Agreement dated as of March 31, 2004 by and among The Hillman Companies, Inc., Hillman Investment Company, The Hillman Group, Inc., Merrill Lynch Capital as Administrative Agent, Issuing Lender and Swingline Lender, JP Morgan Chase Bank as Syndication Agent, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and JP Morgan Securities as Joint Lead Arrangers and Joint Lead Bookrunners. (9) (Exhibit 10.1)
10.2	Loan Agreement dated as of March 31, 2004 by and among The Hillman Companies, Inc., Hillman Investment Company, The Hillman Group, Inc., and Allied Capital Corporation. (9) (Exhibit 10.2)
10.3	Subordination and Intercreditor Agreement dated March 31, 2004. (9) (Exhibit 10.3)
10.4	The Hillman Companies, Inc. 2004 Stock Option Plan. (9) (Exhibit 10.4)
10.5	The Hillman Companies, Inc Amended and Restated 2004 Stock Option Plan. (12) (Exhibit 10.5)
10.6	Hillman Companies Employee Securities Purchase Plan. (9) (Exhibit 10.5)
10.7	Hillman Investment Company Employee Securities Purchase Plan. (9) (Exhibit 10.6)
10.8	HCI Securities Purchase Agreement dated March 31, 2004. (9) (Exhibit 10.7)
10.9	Joinder to Securities Purchase Agreement dated March 31, 2004. (9) (Exhibit 10.8)
10.10	Hillman Investment Company Securities Purchase Agreement dated March 31, 2004. (9) (Exhibit 10.9)
10.11	Management Agreement dated March 31, 2004. (9) (Exhibit 10.10)
10.12	Employment Agreement by and between The Hillman Group, Inc. and Max W. Hillman dated March 31, 2004. (9) (Exhibit 10.11)
10.13	Executive Securities Agreement between Max W. Hillman and HCI Acquisition Corp. dated March 31, 2004. (9) (Exhibit 10.12)
10.14	Employment Agreement by and between The Hillman Group, Inc. and Richard P. Hillman dated March 31, 2004. (9) (Exhibit 10.13)
10.15	Executive Securities Purchase Agreement between HCI Acquisition Corp. and Richard P. Hillman dated March 31, 2004. (9) (Exhibit 10.14)
10.16	Employment Agreement by and between The Hillman Group, Inc. and James P. Waters dated March 31, 2004. (9) (Exhibit 10.15)

10.17 Executive Securities Agreement by and between HCI Acquisition Corp. and James P. Waters date March 31, 2004. (9) (Exhibit 10.16)

10.18 Executive Securities Agreement by and between HCI Acquisition Corp. and George L. Heredia date March 31, 2004. (12) (Exhibit 10.18)

10.19 Executive Securities Agreement by and between HCI Acquisition Corp. and Terry R. Rowe date March 31, 2004. (12) (Exhibit 10.19)

10.20 SunSource Inc. Nonqualified Deferred Compensation Plan dated as of August 1, 2000. (3)(Exhibit 10.1)

10.21 The Hillman Companies, Inc. Nonqualified Deferred Compensation Plan (amended and restated). (11) (Exhibit 10.1)

10.22 First Amendment to The Hillman Companies, Inc. Nonqualified Deferred Compensation Plan. (11) (Exhibit 10.2)

12.1 Computation of Ratio of Income to Fixed Charges. (12) (Exhibit 12.1)

21.1 Subsidiaries (As of December 31, 2004) (12) (Exhibit 21.1)

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 the Securities Exchange Act of 1934.

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

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

(1) Filed as an exhibit to Registration Statement No. 333-44733 on Form S-2.

(2) Filed as an exhibit to the Form 8-K filed February 17, 2004.

(3) Filed as an exhibit to Annual Report on Form 10-K for the year ended December 31, 2000.

(4) Filed on June 21, 2001 as an exhibit to the Current Report on Form 8-K filed on June 21, 2001.

(5) Filed as an exhibit to the Current Report on Form 8-K filed on October 15, 2001.

(6) Filed as an exhibit to Quarterly Report on Form 10-Q for the Quarter ended June 30, 2002.

(7) Filed as an exhibit to the Current Report on Form 8-K filed on October 4, 2002.

(8) Filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2003.

(9) Filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarter ended March 31, 2004.

(10) Filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2004.

(11) Filed as an exhibit to the Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004.

(12) Filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2004.

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* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 28, 2006

By: /s/ James P. Waters
James P. Waters
Title: Chief Financial Officer and Duly Authorized Officer of the Registrant
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated below.

Signature	Capacity	Date
/s/ Max W. Hillman Max W. Hillman	Principal Executive Officer and Director	March 28, 2006
/s/ Peter M. Gotsch Peter M. Gotsch	Chairman and Director	March 28, 2006
/s/ Harold J. Wilder Harold J. Wilder	Principal Accounting Officer	March 28, 2006
/s/ Andrew W. Code Andrew W. Code	Director	March 28, 2006
/s/ Mark A. Dolfato Mark A. Dolfato	Director	March 28, 2006
/s/ Larry Wilton Larry Wilton	Director	March 28, 2006
/s/ Maurice P. Andrien, Jr. Maurice P. Andrien, Jr.	Director	March 28, 2006
/s/ Shael J. Dolman Shael J. Dolman	Director	March 28, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this annual report on Form 10-K/A 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: March 28, 2006

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this annual report on Form 10-K/A 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: March 28, 2006

/s/ James P. Waters
James P. Waters
Chief Financial Officer

Exhibit 32.1

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 Annual Report on Form 10-K/A for the year ended December 31, 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: March 28, 2006

Exhibit 32.2

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 Annual Report on Form 10-K/A for the year ended December 31, 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: March 28, 2006