UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

On November 14, 2006, there were 6,217.3 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, 82,192.8 Class A Preferred Shares issued and outstanding by the Registrant and 57,344.4 Class A Preferred Shares issued and outstanding by the Hillman Investment Company and 4,217,724 Trust Preferred Securities issued and outstanding by the Hillman Group Capital Trust. The Trust Preferred Securities trade on the American Stock Exchange under symbol HLM.Pr.

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES

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Item 1.

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

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,385	$ 26,491
Restricted investments	408	167
Accounts receivable, net	57,685	41,483
Inventories, net	86,703	77,178
Deferred income taxes	4,999	5,659
Other current assets	2,436	2,848
Total current assets	155,616	153,826
Property and equipment, net	60,030	60,717
Goodwill	261,226	241,461
Other intangibles, net	169,181	160,507
Restricted investments	4,741	4,642
Deferred financing fees, net	5,299	5,712
Investment in trust common securities	3,261	3,261
Other assets	702	1,210
Total assets	$ 660,056	$ 631,336
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,273	$ 17,625
Current portion of senior term loans	2,350	2,175
Current portion of capitalized lease obligations	226	44
Junior subordinated interest payable	1,019	—
Accrued expenses:		
Salaries and wages	4,378	3,378
Pricing allowances	6,203	9,603
Income and other taxes	1,906	1,739
Interest	2,983	4,203
Deferred compensation	408	167
Other accrued expenses	9,259	10,464
Total current liabilities	52,005	49,398
Long term senior term loans	232,063	212,062
Long term capitalized lease obligations	509	55
Long term unsecured subordinated notes	49,820	49,172
Junior subordinated debentures	116,999	117,295
Mandatorily redeemable preferred stock (Note 10)	75,894	69,695
Management purchased options (Note 10)	4,509	4,087
Deferred compensation	4,741	4,642
Deferred income taxes	37,891	36,026
Accrued dividends on preferred stock	26,922	18,057
Other non-current liabilities	4,720	3,156
Total liabilities	606,073	563,645

Item 1.

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

	September 30, 2006	December 31, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY (CONTINUED)		
Common and preferred stock with put options:		
Class A Preferred stock, $.01 par, 238,889 shares authorized, 88.0 issued and outstanding	88	—
Class A Common stock, $.01 par, 23,141 shares authorized, 412.0 issued and outstanding	417	407
Class B Common stock, $.01 par, 2,500 shares authorized, 1,000.0 issued and outstanding	—	1,311
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock:		
Class A Preferred stock, $.01 par, 238,889 shares authorized, 82,104.8 issued and outstanding	1	1
Common Stock:		
Class A Common stock, $.01 par, 23,141 shares authorized, 5,805.3 issued and outstanding	—	—
Class C Common stock, $.01 par, 30,109 shares authorized, 2,787.1 issued and outstanding	—	—
Additional paid-in capital	60,750	69,594
Accumulated deficit	(6,904)	(3,654)
Accumulated other comprehensive (loss) income	(369)	32
Total stockholders' equity	53,478	65,973
Total liabilities and stockholders' equity	$ 660,056	$ 631,336

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED

(dollars in thousands)

	September 30, 2006	September 30, 2005
Net sales	$ 111,828	$ 102,593
Cost of sales (exclusive of depreciation and amortization shown separately below)	52,257	48,118
Gross profit	59,571	54,475
Operating expenses:		
Selling, general and administrative expenses	39,070	35,282
Depreciation	4,249	3,912
Amortization	1,937	1,808
Extinguishment of debt	725	—
Management and transaction fees to related party	256	255
Total operating expenses	46,237	41,257
Other income, net	332	222
Income from operations	13,666	13,440
Interest expense, net	6,540	5,457
Interest expense on mandatorily redeemable preferred stock and management purchased options	2,271	2,035
Interest expense on junior subordinated debentures	3,154	3,153
Investment income on trust common securities	(95)	(95)
Income before income taxes	1,796	2,890
Income tax provision	1,730	2,671
Net income	$ 66	$ 219

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE NINE MONTHS ENDED

(dollars in thousands)

	September 30, 2006	September 30, 2005
Net sales	$ 326,711	$ 293,127
Cost of sales (exclusive of depreciation and amortization shown separately below)	157,190	133,797
Gross profit	169,521	159,330
Operating expenses:		
Selling, general and administrative expenses	115,596	106,401
Depreciation	12,438	11,799
Amortization	5,810	5,420
Extinguishment of debt	725	—
Management and transaction fees to related party	764	788
Total operating expenses	135,333	124,408
Other income, net	651	35
Income from operations	34,839	34,957
Interest expense, net	19,198	15,361
Interest expense on mandatorily redeemable preferred stock and management purchased options	6,559	5,880
Interest expense on junior subordinated debentures	9,458	9,458
Investment income on trust common securities	(284)	(284)
(Loss) income before income taxes	(92)	4,542
Income tax provision	3,158	4,686
Net loss	$ (3,250)	$ (144)

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE NINE MONTHS ENDED
(dollars in thousands)

	September 30, 2006	September 30, 2005
Cash flows from operating activities:		
Net loss	$ (3,250)	$ (144)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	18,248	17,219
Deferred income tax provision	2,526	3,807
PIK interest on unsecured subordinated notes	648	821
Interest on mandatorily redeemable preferred stock and management purchased options	6,559	5,880
Net realized gain on sale of securities	(71)	—
Changes in operating items:		
Increase in accounts receivable, net	(16,202)	(15,925)
Increase in inventories, net	(9,525)	(15,224)
Decrease (increase) in other assets	829	(134)
Increase (decrease) in accounts payable	5,648	(1,605)
Increase in junior subordinated interest payable	1,019	—
(Decrease) increase in other accrued liabilities	(4,659)	305
Other items, net	306	945
Net cash provided by (used for) operating activities	2,076	(4,055)
Cash flows from investing activities:		
SteelWorks acquisition	(34,241)	—
Capital expenditures	(11,042)	(11,541)
Other, net	16	(109)
Net cash used for investing activities	(45,267)	(11,650)
Cash flows from financing activities:		
Borrowings of senior term loans	22,394	—
Repayments of senior term loans	(2,218)	(1,632)
Borrowings of revolving credit loans	31,091	—
Repayments of revolving credit loans	(31,091)	—
Principal payments under capitalized lease obligations	(91)	(32)
Net cash provided by (used for) financing activities	20,085	(1,664)
Net decrease in cash and cash equivalents	(23,106)	(17,369)
Cash and cash equivalents at beginning of period	26,491	29,613
Cash and cash equivalents at end of period	$ 3,385	$ 12,244

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Common Stock		Additional Paid-in Capital	Class A Preferred Stock	Accumulated Deficit	Compre-hensive Income(Loss)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Class A	Class C						
Balance at December 31, 2005	—	—	$ 69,594	$ 1	$ (3,654)		$ 32	$ 65,973
Dividends to shareholders	—	—	(8,865)	—	—		—	(8,865)
Stock-based compensation			21					21
Comprehensive income (loss):								
Net loss	—	—	—	—	(3,250)	$ (3,250)	—	(3,250)
Other comprehensive income (loss), net of tax:								
Net realized gain on investment (2)	—	—	—	—	—	(75)	(75)	(75)
Change in cumulative foreign translation adjustment (1)		—	—	—	—	(38)	(38)	(38)
Change in derivative security value (1)	—	—	—	—	—	(288)	(288)	(288)
Other comprehensive loss						(401)		
Comprehensive loss						$ (3,651)		
Balance at September 30, 2006	—	—	$ 60,750	$ 1	$ (6,904)		$ (369)	$ 53,478

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

(2) Reclassification to net loss of previously unrealized gains.

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

The accompanying financial statements include the condensed consolidated accounts of The Hillman Companies, Inc. ("Hillman" or the "Company") and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

An affiliate of Code Hennessy & Simmons LLC ("CHS") owns 49.1% of the Company's outstanding 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 outstanding common stock and 30.9% of the Company's voting common stock and HarbourVest Partners VI owns 8.7% of the Company's outstanding 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 of Directors is limited to the lesser of 30.0% or the actual percentage of voting stock held. Certain members of management own 14.1% of the Company's outstanding common stock and 4.6% of the Company's voting common stock.

The accompanying unaudited condensed consolidated financial statements present information in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, they do not include all information or footnotes required by generally accepted accounting principles for complete financial statements. Management believes the financial statements include all normal recurring accrual adjustments necessary for a fair presentation. Operating results for the nine and three month periods ended September 30, 2006 do not necessarily indicate the results that may be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report filed on Form 10-K for the year ended December 31, 2005.

Nature of Operations:

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 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. 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.

2. Summary of Significant Accounting Policies:

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 $388 and $434 as of September 30, 2006 and December 31, 2005, respectively.

Shipping and Handling:

The costs incurred to ship product to customers, including freight and handling expenses, are included in selling, general and administrative ("SG&A") expenses on the Company's statements of operations. For the nine months and three months ended September 30, 2006 and 2005 shipping and handling costs included in SG&A were $16,639,$13,922, $5,663 and $4,859, respectively.

2. 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 during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain amounts in the 2005 condensed consolidated financial statements have been reclassified to conform to the 2006 presentation.

3. Recent Accounting Pronouncements:

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." FIN 48 clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt this interpretation as required. The Company is currently evaluating the impact of this Interpretation on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement addresses how to calculate fair value measurements required or permitted under other accounting pronouncements. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. FASB Statement No. 157 is effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of this standard.

4. Acquisition:

On January 5, 2006, the Company's Hillman Group, Inc. subsidiary purchased certain assets of The SteelWorks Corporation ("SteelWorks"), a Denver, Colorado based manufacturer and distributor of metal shapes, threaded rod and metal sheet to the retail hardware and home improvement industry. The aggregate purchase price, including transaction costs of $123, was $34,364 paid in cash at closing. The accompanying condensed consolidated balance sheet at September 30, 2006 reflects the preliminary allocation of the aggregate purchase price 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:

Customer relationships	$ 11,861
Trademarks	2,624
Goodwill	19,879
Total purchase price	$ 34,364

The preliminary values assigned to customer relationships and trademarks were determined by an independent appraisal. The customer relationships have been assigned a 23 year life and the trademarks an indefinite life. The intangible assets and goodwill are deductible for income tax purposes over a 15 year life.

4. Acquisition (continued):

The following table indicates the pro forma financial statements of the Company for the nine and three months ended September 30, 2005 had the acquisition of SteelWorks been consummated on January 1, 2005. The pro forma financial statement impact for the nine months ended September 30, 2006 is not material.

	Nine Months	Three Months
Net sales	$ 313,907	$ 109,243
Net income	$ 1,293	$ 677

In connection with the acquisition, the Hillman Group, Inc. entered into a supply agreement whereby SteelWorks will be their exclusive provider of metal shapes for a period of 10 years.

5. Goodwill and Other Intangible Assets:

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 provides for the non-amortization of goodwill. Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Other intangible assets are amortized over their useful lives and are subject to impairment testing.

Intangible assets as of September 30, 2006 and December 31, 2005 consist of the following:

	Estimated Useful Life (Years)	September 30, 2006	December 31, 2005
Customer relationships	23	$ 126,651	$ 114,790
Trademarks	Indefinite	47,294	44,670
Patents	9	7,960	7,960
Non-compete agreements	4	5,742	5,742
Intangible assets, gross		187,647	173,162
Less: Accumulated amortization		18,466	12,655
Other intangibles, net		$ 169,181	$ 160,507

The Company's amortization expense for amortizable assets for the three months ended September 30, 2006 and 2005 was $1,937 and $1,808, respectively. For the nine months ended September 30, 2006 and 2005 amortization expense was $5,810 and $5,420, respectively. The Company's amortization expense for amortizable assets for the year ended December 31, 2006 is estimated to be $7,747 and for the years ending December 31, 2007, 2008, 2009, 2010, and 2011 are estimated to be $7,273, $7,037, $6,875, $6,391, and $6,391, respectively.

6. Contingencies:

Under the Company's insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of normal claims. Beginning in 1991, the Company has retained risk on certain expected losses from both asserted and unasserted claims related to worker's compensation, general liability and automobile as well as the health benefits of certain employees. Provisions for losses expected under these programs are recorded based on an analysis of historical insurance claim data and certain actuarial assumptions. As of September 30, 2006, the Company has provided insurers letters of credit aggregating $7,783 related to certain insurance programs.

6. Contingencies (continued):

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

7. Related Party Transactions:

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. The Company has recorded management and transaction fee charges and expenses from CHS and OTPP for the nine and three month periods ended September 30, 2006 and 2005 of $764, $788, $256 and $255, respectively.

8. Income Taxes:

The Company's policy is to estimate income taxes for interim periods based on estimated annual effective tax rates which are derived, in part, from expected pre-tax income. However, the income tax provision for the nine and three months ended September 30, 2006 has been computed on a discrete period basis as a result of the Company's inability to reliably estimate pre-tax income for the remainder of the year. The Company's estimated annual effective tax rate for the year ended December 31, 2006 is -4811%, which could result in significant variations in the reported tax provision in the interim periods. Accordingly, the interim tax provision for the nine and three month periods ended September 30, 2006 was calculated on a discrete period basis by multiplying the statutory income tax rate by pretax earnings adjusted for permanent book tax basis differences.

The effective income tax rate was -3432.6% and 103.2% for the nine months ended September 30, 2006 and 2005, respectively. The effective income tax rate differed from the federal statutory rate in both periods primarily as a result of nondeductible interest on mandatorily redeemable preferred stock and stock compensation expense.

9. Long Term Debt:

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 line (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").

On July 21, 2006, the Company amended and restated the Senior Credit Agreement. The Term Loan was increased by $22.4 million to $235.0 million. Proceeds of the additional Term Loan borrowings were used to pay down outstanding Revolver borrowings. The Revolver credit line remains at $40.0 million. Additionally, the LIBOR margin on the Term Loan was reduced by 25 basis points, and certain financial covenants were revised to provide additional flexibility. There were no other significant changes to the Senior Credit Agreement. The Company incurred $1,147 in financing fees in connection with the amended and restated agreement. The fees were capitalized and will be amortized over the remaining term of the Senior Credit Agreement, as amended.

9. Long Term Debt (continued):

On March 31, 2004, the Company, through its Hillman Group subsidiary, issued $47.5 million of unsecured subordinated notes to Allied Capital maturing on September 30, 2011 (“Subordinated Debt Issuance”). Interest on the Subordinated Debt Issuance was 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 was increased on a quarterly basis at the remaining 2.25% fixed rate (the “PIK Amount”).

Effective July 21, 2006, the Subordinated Debt Agreement was amended to reduce the interest rate to a fixed rate of 10.0% payable quarterly. In addition, financial covenants were revised consistent with the changes to the amended and restated Senior Credit Agreement. The reduction in the interest rate was retroactive to May 15, 2006.

Emerging Issues Task Force Issue No. 96-19 (“EITF 96-19”) provides guidance on the debtor’s accounting for modifications of a debt instrument. Under EITF 96-19, modifications to a debt instrument deemed to be substantially different require recognition as an extinguishment of debt. An exchange of debt instruments where the present value of cash flows is greater than 10% different from the present value of cash flows under the terms of the original debt instrument would be considered substantially different. The reduction in the interest rate in the amended Subordinated Debt Issuance reduces the present value of cash flows more than 10% and, accordingly, the Company recognized a loss on extinguishment of debt of $725 in the third quarter of 2006 in connection with the modification of the terms of the Subordinated Debt Issuance.

10. Common and Preferred Stock:

Common Stock:

There are 23,141 authorized shares of Class A Common Stock, 6,217.3 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 purchased by and 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 March 31, 2004 issuance.

In connection with the March 31, 2004 acquisition of the Company by an affiliate of CHS (“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 412.0 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 condensed consolidated balance sheet.

10. Common and Preferred Stock (continued):

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:

The Company has 238,889 authorized shares of Class A Preferred Stock, 82,192.8 of which are issued and outstanding and 13,450.7 of which are reserved for issuance upon the exercise of options to purchase shares of Class A Preferred Stock. Holders of Class A Preferred Stock are not entitled to any voting rights. Holders of Class A Preferred Stock are entitled to preferential dividends that shall accrue on a daily basis at the rate of 11.5% per annum of the sum of the Liquidation Value (as defined in the Certificate of Incorporation) thereof plus all accumulated and unpaid dividends thereon.

Hillman Investment Company, a subsidiary of the Company, has 166,667 authorized shares of Class A Preferred Stock, 57,344.4 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 on 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 Statement of Financial Accounting Standards No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,” (“SFAS 150”) has been classified as debt in the accompanying condensed consolidated balance sheets. Dividends on the mandatorily redeemable Class A Preferred Stock are included in interest expense on the accompanying condensed consolidated statements of operations. For the nine and three months ended September 30, 2006 and 2005, interest expense of $6,137, $5,505, $2,124 and $1,905, respectively, was recorded in the accompanying statement of operations.

2006 Equity Issuance:

On July 31, 2006, an executive of the Company purchased 88 shares of Class A Preferred Stock for $88, 62 shares of Hillman Investment Company Class A Preferred Stock for $62 and 4.396 shares of Class A Common Stock for $10. In connection with the equity purchase, the executive entered into an ESA similar in terms to the existing management shareholders ESA.

Under the terms of the ESA, the executive has the right to put the Class A Preferred Stock, the Hillman Investment Company Class A Preferred Stock and the Class A Common Stock back to the Company at fair market value if employment is terminated for other than cause. If terminated for cause, the shares can be put back to the Company for the lower of cost or the fair market value. As discussed above, the put feature embedded in the Class A Preferred Stock and the Class A Common Stock requires classification outside permanent equity. Accordingly, the Class A Preferred Stock and the Class A Common Stock will be classified between liabilities and stockholder’s equity in the accompanying condensed consolidated balance sheet.

The 62 shares of Hillman Investment Company Class A Preferred Stock are mandatorily redeemable on March 31, 2028 and, therefore will be classified as a liability in the accompanying condensed consolidated balance sheet.

10. Common and Preferred Stock (continued):

Purchased Options:

In connection with the Merger Transaction, options in the predecessor to the Company 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 has been included with the underlying security in the accompanying condensed 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 condensed 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 condensed 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.

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. For the nine and three months ended September 30, 2006 and 2005, interest expense of $422, $375, $147 and $130, respectively, was recorded in the accompanying statement of operations to recognize the increase in fair market value of the Purchased Options.

11. Stock-Based Compensation:

Effective January 1, 2006, the company adopted SFAS No. 123(R) using the modified prospective method. SFAS No. 123(R) requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost, based on the estimated number of awards that are expected to vest, will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service.

Compensation cost for the unvested portions of equity-classified awards granted prior to January 1, 2006, will be recognized in the results of operations on a straight line basis over the remaining vesting periods. Changes in fair value of unvested liability instruments during the requisite service period will be recognized as compensation cost over that service period. Changes in the fair value of vested liability instruments during the contractual term will be recognized as an adjustment to compensation cost in the period of the change in fair value.

Due to the prospective adoption of SFAS No. 123(R), results for prior periods have not been restated.

11. Stock-Based Compensation (continued):

Common Option Plan:

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 356.41 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 71.28 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.

The fair value of the option grants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield equaling 0%, risk-free interest rate of 4.7%, expected volatility assumed to be 26.8%, and expected life of 6 years.

A summary of stock option activity for the nine months ended September 30, 2006 is presented below:

	Shares	Exercise Price Per Share *	Remaining Contractual Term *	Aggregate Intrinsic Value
Outstanding at December 31, 2005	61.3	$ 1,523		
Granted	51.3	$ 2,275		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding at September 30, 2006	112.6	$ 1,866	8.51 years	$ 46
Exercisable at September 30, 2006	10.0	$ 1,000	7.71 years	$ 13

* weighted average

Compensation expense of $21 and $9 has been recognized in the accompanying condensed consolidated statements of operations for the nine and three months ended September 30, 2006, respectively. As of September 30, 2006, there was $50 of unrecognized compensation expense for unvested Common Options. The expense will be recognized as a charge to earnings over a weighted average period of 1.1 years.

In the nine months ended September 30, 2005, the Company did not recognize any stock-based compensation expense on the Common Options in accordance with APB Opinion 25. For the nine months ended September 30, 2005, compensation expense determined consistent with SFAS 123(R) would not have been material.

Preferred Options:

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. There have been no grants, forfeitures or exercise of the Preferred Options since March 31, 2004.

11. Stock-Based Compensation (continued):

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 No. 25, compensation expense was 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 increased by the amount of dividends accrued on the underlying Preferred Stock. Compensation expense was 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”).

SFAS 123(R) requires the classification of stock-based compensation awards as liabilities if the underlying security is classified as a liability. Therefore, the Preferred Options are treated as liability classified awards, and compensation expense is recognized based on the fair value of the Preferred Options at the grant date re-measured at fair value in each subsequent reporting period. The Company uses the intrinsic value method to estimate fair value of the Preferred Options at the end of each reporting period pro-rated for the portion of the service period rendered.

The intrinsic value method used to determine the value of the Preferred Options under SFAS 123(R) is unchanged from the method used under APB Opinion No. 25. As a result, the January 1, 2006 adoption of SFAS 123(R) does not change the amount of stock-based compensation recognized on the Preferred Options. For the nine and three months ended September 30, 2006 and 2005, compensation expense of $1,760, $857, $672 and $357, respectively, was recognized in the accompanying condensed consolidated statements of operations.

At September 30, 2006, the aggregate intrinsic value of the outstanding Preferred Options was $5,212, and the intrinsic value of the exercisable Preferred Options was $2,085.

Class B Shares:

The repurchase and vesting features of the Class B Common Stock triggered variable accounting treatment under FASB Interpretation No. 44, Accounting For Certain Transactions involving Stock Compensation – an interpretation of APB Opinion No. 25 (“FIN 44”). See Note 10, Common and Preferred Stock, for a more detailed description of the Class B Common Stock.

Under SFAS 123(R), the repurchase feature requires classification of the Class B Common Stock as liability awards. The Company uses the intrinsic value method to estimate fair value of the Class B Common Stock Shares at the end of each reporting period pro-rated for the portion of the service period rendered. Again, the valuation and recognition of expense under SFAS 123(R) is consistent with variable accounting treatment of APB Opinion No. 25.

There have been no grants or forfeitures of Class B Common Stock shares since the Merger Transaction. At September 30, 2006, there were 400 Class B Common shares vested with a fair value of $0.0 per share. For the nine and three month periods ended September 30, 2006 and 2005, compensation expense (income) of ($1,311), $426, ($735) and $194, respectively, was recorded in the accompanying condensed consolidated statements of operations.

12. Derivatives and Hedging:

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

On April 28, 2004, the Company entered into an Interest Rate Swap Agreement ("Swap") with a two-year term for a notional amount of $50 million. The Swap fixed the interest rate on $50 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter. The Swap expired on April 28, 2006.

On August 28, 2006, the Company entered into a new Interest Rate Swap Agreement ("New Swap") with a two-year term for a notional amount of $50 million. The New Swap fixes the interest rate at 5.375% plus applicable interest rate margin.

The New Swap was designated as a cash flow hedge and the fair value at September 30, 2006 was $(197), net of $129 in taxes. The Swap was reported on the condensed consolidated balance sheet in other non-current liabilities with a related deferred charge recorded as a component of other comprehensive income in shareholders' equity.

Item 2.

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

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

General

The Hillman Companies, Inc. ("Hillman" or the "Company") is one of the largest providers of 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 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 ("LNS"). 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.

An affiliate of Code Hennessy & Simmons LLC ("CHS") owns 49.1% of the Company's outstanding 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 outstanding common stock and 30.9% of the Company's voting common stock and HarbourVest Partners VI owns 8.7% of the Company's outstanding 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 of Directors is limited to the lesser of 30.0% or the actual percentage of voting stock held. Certain members of management own 14.1% of the Company's outstanding common stock and 4.6% of the Company's voting common stock.

Financing Arrangements

On March 31, 2004, the Company, through its Hillman Group subsidiary, refinanced its revolving credit and senior term loans with a Senior Credit Agreement (the "Senior Credit Agreement") consisting of a $40.0 million revolving credit line (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 are 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.

On July 21, 2006, the Company amended and restated the Senior Credit Agreement. The Term Loan was increased by $22.4 million to $235.0 million. Proceeds of the additional Term Loan borrowings were used to pay down outstanding Revolver borrowings. The Revolver credit line remains at $40.0 million. Additionally, the LIBOR margin on the Term Loan was reduced by 25 basis points and certain financial covenants were revised to provide additional flexibility. There were no other significant changes to the Senior Credit Agreement. The Company incurred $1,147 in financing fees in connection with amended and restated agreement. The fees were capitalized and will be amortized over the remaining term of the Senior Credit Agreement, as amended.

On March 31, 2004, the Company, through its Hillman Group subsidiary, issued $47.5 million of unsecured subordinated notes to Allied Capital maturing on September 30, 2011 (“Subordinated Debt Issuance”). Interest on the Subordinated Debt Issuance was 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 was 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.

Effective July 21, 2006, the Subordinated Debt Agreement was amended to reduce the interest rate to a fixed rate of 10.0% payable quarterly. In addition, financial covenants were revised consistent with the changes to the amended and restated Senior Credit Agreement. The reduction in the interest rate was retroactive to May 15, 2006.

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 fixed the interest rate on $50.0 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter. The Swap expired on April 28, 2006.

On August 28, 2006, the Company entered into a new Interest Rate Swap Agreement (“New Swap”) with a two-year term for a notional amount of $50 million. The New Swap fixes the interest rate at 5.375% plus applicable interest rate margin.

Acquisition

On January 5, 2006, the Company’s Hillman Group, Inc. subsidiary purchased certain assets of The SteelWorks Corporation (“SteelWorks”), a Denver, Colorado based manufacturer and distributor of metal shapes, threaded rod and metal sheet to the retail hardware and home improvement industry. Annual revenues of the SteelWorks customer base acquired are approximately $31 million. The aggregate purchase price was $34.3 million paid in cash at closing. In connection with the acquisition, the Hillman Group, Inc. entered into a supply agreement whereby SteelWorks will be their exclusive provider of metal shapes for a period of 10 years.

Results of Operations

Sales and Profitability for each of the Three Month Periods Ended September 30,

	(dollars in thousands)			
	2006		2005	
	Amount	% of Total	Amount	% of Total
Net sales	$ 111,828	100.0%	$ 102,593	100.0%
Cost of sales (exclusive of depreciation and amortization shown separately below)	52,257	46.7%	48,118	46.9%
Gross profit	59,571	53.3%	54,475	53.1%
Operating expenses:				
Selling	19,144	17.1%	17,774	17.3%
Warehouse & delivery	14,804	13.2%	12,208	11.9%
General & administrative	5,175	4.6%	4,748	4.6%
Stock compensation expense	(53)	0.0%	552	0.5%
Total SG&A	39,070	34.9%	35,282	34.4%
Depreciation	4,249	3.8%	3,912	3.8%
Amortization	1,937	1.7%	1,808	1.8%
Extinguishment of debt	725	0.6%	—	0.0%
Management and transaction fees	256	0.2%	255	0.2%
Total operating expenses	46,237	41.3%	41,257	40.2%
Other income, net	332	0.3%	222	0.2%
Income from operations	13,666	12.2%	13,440	13.1%
Interest expense, net	6,540	5.8%	5,457	5.3%
Interest expense on mandatorily redeemable preferred stock & management purchased options	2,271	2.0%	2,035	2.0%
Interest expense on junior subordinated notes	3,154	2.8%	3,153	3.1%
Investment income on trust common securities	(95)	-0.1%	(95)	-0.1%
Income before income taxes	1,796	1.6%	2,890	2.8%

Three Months Ended September 30, 2006 and 2005

Net sales increased $9.2 million, or 9.0%, in the third quarter of 2006 to $111.8 million from $102.6 million in the third quarter of 2005. Sales of threaded rod products to the newly acquired SteelWorks accounts represented $7.0 million of the $9.2 million increase.

Sales of the remaining Company products, excluding sales to SteelWorks' accounts, were $2.2 million of the total $9.2 million sales increase in the third quarter of 2006. Sales of engraving products increased $1.2 million in the third quarter as a result of increased tag machine placements and a higher sales rate per existing machine. The franchise and independent ("F&I") accounts increased sales in the third quarter by $0.8 million, primarily through sales of fastener products. Other sales, including national, regional, warehouse, commercial industrial, Mexican, and Canadian accounts, were up $0.2 million to $59.6 million in the third quarter of 2006 from $59.4 million in the same period of 2005.

The Company's gross profit was 53.3% in the third quarter of 2006 compared to 53.1% in the third quarter of 2005. In the third quarter of 2006, the lower margin sales from SteelWorks and commercial industrial accounts had a negative impact of 2.1% on the Company's gross profit. The 2005 gross profit percentage was also negatively affected by lower margin sales to the newly acquired commercial industrial accounts and by over $2.0 million of sales of fastener promotional products at lower gross profit than the Company average. The gross profit percentage rate in the third quarter of 2006 benefited from the implementation of price increases across all product lines. These price increases were used to offset the higher product costs passed on from our vendors as a result of increased prices for commodities such as plastics, aluminum, copper, zinc, and steel used in the manufacture of sign materials, fasteners, and keys.

The Company's condensed consolidated selling, general and administrative expenses ("SG&A") increased $3.8 million or 10.8% from $35.3 million in the third quarter of 2005 to $39.1 million in the third quarter of 2006. Selling expenses increased $1.3 million or 7.3% primarily as a result of an increase in service and display costs at the increasing number of new national account stores. Warehouse and delivery expenses increased $2.6 million, or 21.3%, primarily as a result of higher fuel costs which increased freight together with an increase in labor and shipping supplies due to the increased sales volume. General and administrative expenses increased by $0.5 million in the third quarter of 2006 compared to the same prior year period. This increase was primarily the result of new SteelWorks transition service fees and higher medical claims costs in the 2006 period compared to the 2005 period. The Company recorded a stock compensation gain of $0.1 million in the third quarter of 2006 compared to a charge of $0.6 million in the same prior year period as a result of a decrease in the fair market value of stock underlying the options issued.

Depreciation expense of $4.2 million in the third quarter of 2006 was slightly more than depreciation of $3.9 million in the third quarter of 2005.

Amortization expense of $1.9 million in the third quarter of 2006 was slightly more than the amortization of $1.8 million in the same quarter of 2005. The increase in amortization was the result of the acquisition of additional intangible assets from the SteelWorks purchase in January 2006.

The Company recorded a charge for extinguishment of debt of $0.7 million in the third quarter of 2006. This charge reflects the write-off of previously deferred financing fees from the Subordinated Debt Issuance as amended on July 21, 2006.

The Company recorded management and transaction fees of $0.3 million for the third quarter of 2006 and 2005. 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 Ontario Teacher's Pension Plan for transaction services rendered in the amount of twenty-six thousand dollars per month, plus out of pocket expenses, for each month commencing after March 31, 2004.

Income from operations for the three months ended September 30, 2006 was $13.7 million, an increase of $0.3 million from the same period of the prior year.

The Company's condensed consolidated operating profit margin from operations (income from operations as a percentage of net sales) decreased from 13.1% in the third quarter of 2005 to 12.2% in the same period of 2006. The operating profit margin in the third quarter of 2006 was reduced by an increase in the warehouse and delivery portion of SG&A expense together with the additional cost of the charge for extinguishment of debt associated with the amendment of the Subordinated Debt Issuance.

Interest expense, net, increased $1.1 million to $6.5 million in the third quarter of 2006 from $5.4 million in the same period of 2005. The increase in interest expense was the result of an increased LIBOR borrowing rate on the Term B Loan and additional borrowings under the senior credit facility to fund the January 5, 2006 SteelWorks acquisition.

Interest expense on the mandatorily redeemable preferred stock and management purchased options was $2.3 million in the third quarter of 2006, an increase of $0.3 million from $2.0 million in the third quarter of 2005. Interest payable on the mandatorily redeemable preferred stock and management purchased options is cumulative and therefore interest expense will continue to increase over time.

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 quarters ended September 30, 2006 and 2005, the Company paid $3.1 million in interest 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 quarters ended September 30, 2006 and 2005, the Company paid $0.1 million interest on the Junior Subordinated Debentures, which is equivalent to the amounts received by the Company as investment income.

The Company recorded an income tax provision of $1.7 million on pre-tax income of $1.8 million in the third quarter of 2006 compared to an income tax provision of $2.7 million on pre-tax income of $2.9 million in the third quarter of 2005. As discussed in Note 8 of the notes to condensed consolidated financial statements, the 2006 provision for income taxes was calculated on a discrete period basis while the 2005 income tax provision was based on the estimated annual effective rate. As a result, the effective income tax rate of 96.3% for the three months ended September 30, 2006 was higher than the 92.4% rate for the comparable period in 2005. The effective income tax rates differed from the statutory income tax rates in both periods primarily as a result of nondeductible interest on the mandatorily redeemable preferred stock and stock compensation expense.

Results of Operations

Sales and Profitability for each of the Nine Month Periods Ended September 30,

	(dollars in thousands)			
	2006		2005	
	Amount	% of Total	Amount	% of Total
Net sales	$ 326,711	100.0%	$ 293,127	100.0%
Cost of sales (exclusive of depreciation and amortization shown separately below)	157,190	48.1%	133,797	45.6%
Gross profit	169,521	51.9%	159,330	54.4%
Operating expenses:				
Selling	57,340	17.6%	54,247	18.5%
Warehouse & delivery	41,838	12.8%	35,804	12.2%
General & administrative	15,947	4.9%	15,066	5.1%
Stock compensation expense	471	0.1%	1,284	0.4%
Total SG&A	115,596	35.4%	106,401	36.3%
Depreciation	12,438	3.8%	11,799	4.0%
Amortization	5,810	1.8%	5,420	1.8%
Extinguishment of debt	725	0.2%	—	0.0%
Management and transaction fees	764	0.2%	788	0.3%
Total operating expenses	135,333	41.4%	124,408	42.4%
Other income, net	651	0.2%	35	0.0%
Income from operations	34,839	10.7%	34,957	11.9%
Interest expense, net	19,198	5.9%	15,361	5.2%
Interest expense on mandatorily redeemable preferred stock & management purchased options	6,559	2.0%	5,880	2.0%
Interest expense on junior subordinated notes	9,458	2.9%	9,458	3.2%
Investment income on trust common securities	(284)	-0.1%	(284)	-0.1%
(Loss) income before income taxes	(92)	0.0%	4,542	1.5%

Nine Months Ended September 30, 2006 and 2005

Net sales increased $33.6 million, or 11.5%, in the first nine months of 2006 to $326.7 million from $293.1 million in the first nine months of 2005. Sales of threaded rod products to the newly acquired SteelWorks accounts represented $21.6 million of the $33.6 million increase.

Sales of the remaining Company products, excluding sales to SteelWorks' accounts, were $12.0 million of the total $33.6 million sales increase in the first nine months of 2006. Sales to national accounts represented $5.2 million of the remaining $12.0 million total sales increase primarily as a result of increased fastener sales to Lowe's and increased sales of keys and LNS to Lowe's and Home Depot. Sales of engraving products increased $3.1 million as a result of increased tag machine placements and a higher sales rate per existing machine. Sales to commercial industrial accounts were $2.2 million more in the first nine months of 2006 compared to the same prior year period. Sales to franchise and independent ("F&I") accounts increased $1.6 million in the first nine months of 2006, primarily through sales of fastener products. Other sales, including regional accounts, warehouse, Mexican, and Canadian accounts, were down $0.1 million to $40.6 million in the first nine months of 2006 from $40.7 million in the same period of 2005.

The Company's gross profit was 51.9% in the first nine months of 2006 compared to 54.4% in the first nine months of 2005. The gross profit decrease of 2.5% was the result of the unfavorable combination of new sales generated from the SteelWorks acquisition and the new commercial industrial account at margins significantly less than the prior year together with higher costs for our products and a change in the Company's customer sales mix. The lower margin sales from SteelWorks and commercial industrial accounts had a negative impact of 2.1% on the Company's gross profit. The remaining gross profit decrease was the result of higher product costs from our vendors passing on increased prices for commodities such as plastics, aluminum, copper, zinc, and steel used in the manufacture of sign materials, fasteners, and keys. The gross profit percentage rate for the first nine months of 2006 started to benefit from the third quarter implementation of price increases across all product lines. These price increases were used to offset the higher product costs passed on from our vendors earlier this year. In addition, the gross profit also decreased from a change in customer mix resulting from increased sales to the lower gross profit customers in national and regional accounts.

The Company's condensed consolidated selling, general and administrative expenses ("SG&A") increased $9.2 million or 8.6% from $106.4 million in the first nine months of 2005 to $115.6 million in the first nine months of 2006. Selling expenses increased $3.1 million or 5.7% primarily as a result of an increase in service and display costs at the increasing number of new national account stores. Warehouse and delivery expenses increased $6.0 million or 16.8% primarily as a result of increased freight, labor, and shipping supplies on the increased sales volume. General and administrative expenses increased by $0.9 million in the first nine months of 2006 compared to the same prior year period. This increase was primarily the result of higher accounting and professional fees and new SteelWorks transition service fees in the 2006 period compared to the 2005 period. The Company recorded a stock compensation charge of $0.5 million in the first nine months of 2006 which was less than the charge of $1.3 million in the same prior year period as a result of a decrease in the fair market value of stock underlying the options issued.

Depreciation expense of $12.4 million in the first nine months of 2006 was slightly more than depreciation of $11.8 million in the first nine months of 2005.

Amortization expense of $5.8 million in the first nine months of 2006 was $0.4 million more than the amortization of $5.4 million in the same period of 2005. The increase in amortization was the result of the acquisition of additional intangible assets from the SteelWorks purchase in January 2006.

The Company recorded a charge for extinguishment of debt of $0.7 million in the first nine months of 2006. This charge reflects the write-off of previously deferred financing fees from the Subordinated Debt Issuance as amended on July 21, 2006.

The Company recorded management and transaction fees of $0.8 million for the first nine months of 2006 and for the first nine months of 2005. 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 Ontario Teacher's Pension Plan for transaction services rendered in the amount of twenty-six thousand dollars per month, plus out of pocket expenses, for each month commencing after March 31, 2004.

Income from operations for the nine months ended September 30, 2006 was $34.8 million, a decrease of $0.2 million from the same period of the prior year.

The Company's condensed consolidated operating profit margin from operations (income from operations as a percentage of net sales) decreased from 11.9% in the first nine months of 2005 to 10.7% in the same period of 2006. The operating profit margin benefited from the reduction of SG&A expense together with depreciation and amortization as a percentage of sales, but this benefit was completely offset by the decrease in gross profit as a percentage of sales.

Interest expense, net, increased $3.8 million to $19.2 million in the first nine months of 2006 from $15.4 million in the same period of 2005. The increase in interest expense was the result of an increased LIBOR borrowing rate on the Term B Loan and additional borrowings under the senior credit facility to fund the January 5, 2006 SteelWorks acquisition.

Interest expense on the mandatorily redeemable preferred stock and management purchased options was $6.6 million in the first nine months of 2006, an increase of $0.7 million from $5.9 million in the first nine months of 2005. Interest payable on the mandatorily redeemable preferred stock and management purchased options is cumulative and therefore interest expense will continue to increase over time.

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 nine months ended September 30, 2006 and 2005, the Company paid $9.2 million in interest 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 nine months ended September 30, 2006 and 2005, the Company paid $0.3 million interest on the Junior Subordinated Debentures, which is equivalent to the amounts received by the Company as investment income.

The Company recorded an income tax provision of $3.2 million on a pre-tax loss of $0.1 million in the first nine months of 2006 compared to an income tax provision of $4.7 million on pre-tax income of $4.5 million 2005. As discussed in Note 8 of the notes to condensed consolidated financial statements, the 2006 interim provision for income taxes was calculated on a discrete period basis while the 2005 income tax provision was based on the estimated annual effective rate. As a result, the effective income tax rate of -3432.6% for the nine months ended September 30, 2006 was significantly different than the 103.2% rate for the comparable period in 2005. The effective income tax rates differed from the statutory income tax rates in both periods primarily as a result of nondeductible interest on the mandatorily redeemable preferred stock and stock compensation expense.

Cash Flows

The statements of cash flows reflect the changes in cash and cash equivalents for the nine months ended September 30, 2006 and 2005 by classifying transactions into three major categories: operating, investing and financing activities.

Operating Activities

The Company's main source of liquidity is cash generated from routine operating activities represented by changes in inventories, accounts receivable, accounts

payable, and other assets & liabilities plus the net income or loss adjusted for non-cash charges for depreciation, amortization, deferred taxes, PIK interest, interest on mandatorily redeemable preferred stock and management purchased options.

Cash provided by operating activities was $2.1 million in the first nine months of 2006 compared to cash used of $4.1 million for the same period of 2005. Operating cash outflows have historically been higher in the first two fiscal quarters as selling volume and inventory levels generally increase as the Company approaches the stronger spring and summer selling seasons. The cash collections have historically improved in the third quarter following the spring and summer selling seasons. The seasonal working capital impact was less in the first nine months of 2006 compared to the same period in 2005. This was the result of a greater than normal inventory build in 2005 when the Company increased its stock of product sourced from overseas in anticipation of potential congestion at the West Coast ports. As a result, cash used for the seasonal inventory build was $5.7 million lower in the first nine months of 2006. The increase in accounts payable of $5.6 million in the first nine months of 2006 provided $7.3 million more cash than the comparable period in 2005. The increase in accounts receivable of $16.2 million in the first nine months of 2006 used $0.3 million more cash than in 2005.

Investing Activities

Net cash used for investing activities was $45.3 million for the first nine months of 2006 compared to $11.7 million for the same prior year period. The SteelWorks acquisition for $34.2 million in January 2006 was the primary reason for the increase in investing activities from the prior year.

The principal recurring investing activities are property additions primarily for key duplicating machines. Net property additions for the first nine months of 2006 were $11.0 million compared to $11.5 million in the comparable prior year period. The $0.5 million decrease in capital expenditures in the first nine months of 2006 compared to the prior year period was primarily due to a decrease of $1.5 million in expenditures for leasehold improvements. The 2005 expenditures for leasehold improvements included $1.6 million related to the expansion of the Cincinnati office location and the relocation and build out of the Tempe office location. The amount of expenditures for key duplicating machines decreased slightly to $6.5 million in the first nine months of 2006 compared to $6.9 million in 2005. These reductions were partially offset by an increase in expenditures of $1.4 million for plant equipment and computer equipment & software primarily used for operational enhancements.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2006 was $20.1 million compared to net cash used of $1.7 million for the comparable period in 2005. The current year period includes $20.2 million in cash provided by additional borrowings on the senior term loans compared to repayments of $1.6 million in the prior year period. The Company’s cash balances, rather than revolver or senior term loan borrowings, were used to fund the seasonal increase in working capital requirements for the first nine months of 2005.

Liquidity and Capital Resources

The Company’s working capital position (defined as current assets less current liabilities) of $103.6 million at September 30, 2006 represents a decrease of $0.8 million from the December 31, 2005 level of $104.4 million. The primary factor for this decrease in working capital was the use of approximately $27.0 million in cash together with borrowings of approximately $7.2 million from the revolving credit facility for the acquisition of SteelWorks. The resulting reduction in working capital was offset by the seasonal increase in inventories and accounts receivable of $25.7 million. The Company’s current ratio (defined as current assets divided by current liabilities) decreased to 2.99x at September 30, 2006 from 3.11x at December 31, 2005.

The Company's contractual obligations in thousands of dollars as of September 30, 2006 are summarized below:

		Payments Due			
Contractual Obligations	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Junior Subordinated Debentures (1)	$ 116,999	$ —	$ —	$ —	$ 116,999
Senior Term Loans	234,413	2,350	4,700	227,363	—
Unsecured Subordinated Notes	49,820	—	—	—	49,820
Interest Payments (2)	105,481	24,823	49,046	31,612	—
Operating Leases	48,307	8,837	10,332	7,955	21,183
Mandatorily Redeemable Preferred Stock	75,894	—	—	—	75,894
Management Purchased Options	4,509	—	—	—	4,509
Accrued Stock Based Compensation on Preferred Options	3,322	—	—	—	3,322
Deferred Compensation Obligations	5,149	408	816	816	3,109
Capital Lease Obligations	735	226	408	59	42
Other Obligations	4,854	3,654	800	154	246
Total Contractual Cash Obligations	$ 649,483	$ 40,298	$ 66,102	$ 267,959	$ 275,124

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

(2) Interest payments for Senior Term Loans and Unsecured Subordinated Notes. Interest payments on the variable rate Senior Term Loans were calculated using actual interest rates through September 30, 2006 and a LIBOR rate of 5.5% plus applicable margin of 3.0% thereafter.

All of the obligations noted above are reflected on the Company's condensed consolidated balance sheet as of September 30, 2006 except for the operating leases and interest payments.

The Company had approximately $235.1 million of outstanding debt under its collateralized credit facilities at September 30, 2006, consisting of $234.4 million in a term loan and $0.7 million in capitalized lease obligations. The term loan consisted of a $234.4 million Term B Loan (the "Term Loan B") currently at a three (3) month LIBOR rate plus margin of 8.50%. The capitalized lease obligations were at various interest rates.

As of September 30, 2006, the Company had $32.2 million available under its $40.0 million revolving credit facility. Availability under the revolving credit facility was reduced by outstanding letters of credit of $7.8 million.

As of September 30, 2006, the Company had purchase commitments of $0.2 million for marine cargo contracts and $0.4 million for a new advanced planning and scheduling system.

Prior to the amendment to the Subordinated Debt Agreement on July 21, 2006, interest on the $47.5 million of unsecured subordinated notes issued to Allied Capital on March 31, 2004 was 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 was 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 September 30, 2011 for the Subordinated Debt Issuance. Effective July 21, 2006, the Subordinated Debt Agreement was amended to reduce the interest rate to a fixed rate of 10.0% payable on a quarterly basis. As of September 30, 2006, the outstanding Subordinated Debt Issuance including the PIK Amounts was $49.8 million.

The Senior Credit and Subordinated Debt Agreements, among other provisions, contain financial covenants requiring the maintenance of specific leverage and interest coverage ratios and levels of financial position, restrict the incurrence of additional debt and the sale of assets, and permit acquisitions with the consent of the lenders. The Company was in compliance with all provisions of the Senior Credit and Subordinated Debt Agreements as of September 30, 2006.

Critical Accounting Policies and Estimates

Significant accounting policies and estimates are summarized in the footnotes to the condensed consolidated financial statements. Some accounting policies require management to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, known trends in our industry, terms of existing contracts and other information from outside sources, as appropriate. Management believes these estimates and assumptions are reasonable based on the facts and circumstances as of September 30, 2006, however, actual results may differ from these estimates under different assumptions and circumstances.

We identified our critical accounting policies in Management's Discussion and Analysis of Financial Condition and Results of Operations found in our Annual Report on Form 10-K for the year ended December 31, 2005. We believe there have been no changes in these critical accounting policies. We have summarized our critical accounting policies either in the notes to the condensed consolidated financial statements or below:

Stock-Based Compensation:

Effective January 1, 2006, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-Based Payment, ("SFAS No. 123(R)") using the modified prospective method. SFAS No. 123(R) requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost, based on the estimated number of awards that are expected to vest, will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service.

Compensation cost for the unvested portions of equity-classified awards granted prior to January 1, 2006, will be recognized in the results of operations on a straight line basis over the remaining vesting periods. Changes in fair value of unvested liability instruments during the requisite service period will be recognized as compensation cost over that service period. Changes in the fair value of vested liability instruments during the contractual term will be recognized as an adjustment to compensation cost in the period of the change in fair value.

Due to the prospective adoption of SFAS No. 123(R), results for prior periods have not been restated.

See Note 11, Stock-Based Compensation, of the notes to condensed consolidated financial statements for further discussion of stock-based compensation and SFAS No. 123(R).

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 reserves are established based on historical rates of returns and allowances. The reserves are adjusted quarterly based on actual experience.

Accounts Receivable and Allowance for Doubtful Accounts:

The Company establishes an 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 $388 as of September 30, 2006 and $434 as of December 31, 2005.

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 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 $4,480 as of September 30, 2006 and $3,630 as of December 31, 2005.

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.

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 $35.0 million.

The Company self insures its group health claims up to an annual stop loss limit of $175 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.

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 years prior to 2004 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 produced cost increases for certain of our fastener products which exceeded the prevailing rate of inflation in the latter part of 2003 and throughout most of 2004. The fastener prices from our foreign suppliers were stabilized during 2005. However, in the early part of 2006, increases in costs for commodities such as copper, zinc, aluminum, and steel had an unfavorable impact on the cost of key and threaded rod prices from our domestic suppliers. Additionally, the increases in the cost of diesel fuel have contributed to transportation rate increases. 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. The Company was able to recover most of the 2003 and 2004 fastener cost increases by raising prices to its customers. The Company also increased prices in the third quarter of 2006 on the effected product lines to recover most of the cost increases incurred to date.

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 quarterly 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2005. 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 report and the risk factors referenced above; 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 report might not occur or be materially different from those discussed.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to the impact of interest rate changes as borrowings under the Senior Credit Facility bear interest at variable interest rates. It is the Company's policy to enter into interest rate transactions only to the extent considered necessary to meet objectives.

On April 28, 2004, the Company entered into an Interest Rate Swap Agreement ("Swap") with a two-year term for a notional amount of $50 million. The Swap fixed the interest rate on $50 million of the Senior Term Loan at a rate of 1.17% plus the applicable interest rate margin for the first three months of the Swap with incremental increases ranging from 28 to 47 basis points in each successive quarter. This Swap was in effect during the first and second quarters of this year until its expiration on April 28, 2006.

On August 28, 2006, the Company entered into a new Interest Rate Swap Agreement ("New Swap") with a two-year term for a notional amount of $50 million. The New Swap fixes the interest rate at 5.375% plus applicable interest rate margin.

Based on Hillman's exposure to variable rate borrowings at September 30, 2006, 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 $1.8 million.

The Company is exposed to foreign exchange rate changes of the Canadian and Mexican currencies as it impacts the $2.1 million net asset value of its Canadian and Mexican subsidiaries as of September 30, 2006. Management considers the Company's exposure to foreign currency translation gains or losses to be minimal.

Item 4.

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 effective, as of the end of the period ended September 30, 2006, 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.

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 September 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The discussion below relates to procedures implemented during the first six months of 2006.

Prior Material Weaknesses and Remediation

A material weakness is a significant deficiency, or combination of significant 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. At June 30, 2006, the Company concluded that the material weaknesses described below existed:

(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 generally accepted accounting principles ("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 and June 30, 2004, the three and six months ended September 30, 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 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 had determined that each of the above control deficiencies represented a material weakness.

Remediation of Material Weaknesses

During the six month period ended June 30, 2006, the Company implemented controls and enhanced procedures to address the material weaknesses described above. The new controls and procedures include the following:

- Increased training and resources in the income tax accounting area. Effective January 2006, the Company retained a nationally recognized tax and accounting firm to review all of the quarterly and annual income tax accounting.
- Expanded review procedures and controls related to unique and specialized transactions. Again, the Company has retained a nationally recognized tax and accounting firm to review the tax accounting including the accounting for specialized transactions. In addition, the Company has retained an independent consultant to review specialized accounting transactions including the adoption of new accounting pronouncements and the accounting for purchase business combinations.
- Designed and implemented new review procedures and controls related to income tax accounting. The Company worked with outside consultants to develop and implement a monthly and quarterly income tax accounting control matrix.
- Increased review procedures and controls related to sales and marketing initiatives as well as sales contracts and agreements.
- Revised the disclosure committee charter to include improved review and monitoring controls over financial reporting. In addition, the Company expanded membership of the committee and increased the frequency of disclosure committee meetings. Disclosure committee members have been given new tools, including a web based accounting research tool to keep current on accounting and financial reporting developments.

The Company tested the effectiveness of the newly implemented controls and found them to be effective and have concluded that, as of September 30, 2006, the material weaknesses described above have been remediated. The Company’s management has concluded that the condensed consolidated financial statements included in this quarterly report fairly state, in all material respects, the Company’s financial condition, results of operations and cash flows for the periods presented in conformity with GAAP.

PART II
OTHER INFORMATION

Item 1. – Legal Proceedings.

From time to time, we become involved in ordinary, routine or regulatory legal proceedings incidental to the business. As of the date of filing, we were not a party to any material legal proceeding.

Item 1A. – Risk Factors.

There have been no material changes to the risks related to the Company.

Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds.

On July 31, 2006, the Company sold 88 shares of Class A Preferred Stock for $88,000, 62 shares of Hillman Investment Company Class A Preferred Stock for $62,000 and 4.396 shares of Class A Common Stock for $10,000 to an executive of the Company. These shares were sold in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 3. – Defaults Upon Senior Securities.

Not Applicable

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

Not Applicable

Item 5. – Other Information.

Not Applicable

Item 6. – Exhibits.

a) Exhibits, including those incorporated by reference.

10.1 * Executive Securities Agreement by and between The Hillman Companies, Inc., Hillman Investment Company and James M. Honerkamp dated July 31, 2006.

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 of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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* Filed herewith.

SIGNATURES

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

THE HILLMAN COMPANIES, INC.

/s/ James P. Waters	/s/ Harold J. Wilder
James P. Waters	Harold J. Wilder
Vice President — Finance	Controller
(Chief Financial Officer)	(Chief Accounting Officer)

DATE: November 14, 2006

Exhibit 10.1

EXECUTIVE SECURITIES AGREEMENT

THIS EXECUTIVE SECURITIES AGREEMENT (this "Agreement") is made as of July 31, 2006, by and among The Hillman Companies, Inc., a Delaware corporation (the "Company"), Hillman Investment Company, a Delaware corporation ("Invesco") and James M. Honerkamp ("Executive"). Certain capitalized terms used herein are defined in Section 5 hereof.

WHEREAS, the Company and Executive desire to enter into an agreement pursuant to which Executive will purchase from the Company, and the Company will sell to Executive, 88.000 shares of Class A Preferred Stock, par value $0.01 per share of the Company (the "Preferred Stock") and 4.396 shares of the Class A Common Stock, par value $0.01 per share of the Company (the "Common Stock").

WHEREAS, the Company and Executive desire to enter into an agreement pursuant to which Executive will purchase from Invesco, and Invesco will sell to Executive 62.000 shares of Class A Preferred Stock, par value $0.01 per share of Invesco (the "Invesco Preferred Stock"). All Preferred Stock, Common Stock and Invesco Preferred Stock are referred to herein as "Executive Securities."

WHEREAS, the parties hereto desire to enter into this Agreement for purposes, among others, of (i) assuring continuity in the management and ownership of the Company and (ii) limiting the manner and terms by which the Executive Securities may be transferred.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. Purchase and Sale of Executive Securities.

(a) Purchased Equity.

(i) Upon execution of this Agreement, Executive will purchase, and the Company will sell, 88.000 shares of Preferred Stock at a price of $1,000 per share. The Company will deliver to Executive a copy of the certificate(s) representing such Preferred Stock, and Executive will deliver to the Company a cashier's or certified check or wire transfer of immediately available funds in an aggregate amount equal to $88,000 as payment for such Preferred Stock.

(ii) Upon execution of this Agreement, Executive will purchase, and the Company will sell, 4.396 shares of Common Stock at a price of $2,275 per share. The Company will deliver to Executive a copy of the certificate(s) representing such Common Stock, and Executive will deliver to the Company a cashier's or certified check or wire transfer of immediately available funds in an aggregate amount equal to $10,000 as payment for such Common Stock.

(iii) Upon execution of this Agreement, Executive will purchase, and Invesco will sell, 62.000 shares of Invesco Preferred Stock at a price of $1,000 per share. The Company will deliver to Executive a copy of the certificate(s) representing such Invesco Preferred Stock, and Executive will deliver to the Company a cashier's or certified check or wire transfer of immediately available funds in an aggregate amount equal to $62,000 as payment for such Invesco Preferred Stock.

(iv) The shares of Common Stock, Preferred Stock and Invesco Preferred Stock issued to Executive pursuant to this Section 1(a) are collectively referred to hereafter as the "Purchased Equity."

(b) Possession of Stock Certificates. Until released upon the occurrence of a Sale of the Company or a Public Offering as provided below, all certificates evidencing Executive Securities shall be held by the Company for the benefit of Executive and the other holder(s) of Executive Securities. Upon the occurrence of a Sale of the Company, the Company will return the certificates for the Executive Securities to the record holders thereof. Upon the occurrence of a Public Offering, the Company will return to the record holders thereof certificates representing the Executive Securities (other than with respect to any Executive Securities that remain unvested).

(c) Closing. The closing of the transactions contemplated by Section 1(a) (the "Closing") shall take place at the offices of Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois at 10:00 a.m. on the date hereof, or at such other place or on such other date as may be mutually agreeable to the Company, Invesco and Executive.

(d) Representations and Warranties. Executive represents and warrants that:

(i) the Executive Securities to be acquired by Executive pursuant to this Agreement shall be acquired for the Executive's own account and not with a view to, or intention of, distribution thereof in violation of the Securities Act, or any applicable state securities laws, and the Executive Securities shall not be disposed of in contravention of the Securities Act or any applicable state securities laws;

(ii) Executive is an executive officer of the Company or a Subsidiary thereof, is sophisticated in financial matters and is able to evaluate the risks and benefits of the investment in the Executive Securities;

(iii) Executive is able to bear the economic risk of his or her investment in the Executive Securities for an indefinite period of time. Executive understands that the Executive Securities have not been registered under the Securities Act and, therefore, cannot be sold, and in certain circumstances, transferred, unless subsequently registered under the Securities Act or an exemption from such registration is available;

(iv) Executive has had an opportunity to ask questions and receive answers concerning the terms and conditions of the offering of the Executive Securities and has

had full access to such other information concerning the Company as he or she has requested; and

(v) this Agreement constitutes the legal, valid and binding obligation of Executive, enforceable in accordance with its terms, and the execution, delivery and performance of this Agreement by Executive does not and shall not conflict with, violate or cause a breach of any agreement, contract or instrument to which the Executive is a party or any judgment, order or decree to which the Executive is subject.

(vi) Executive is an accredited investor under the Securities Act.

(vii) Executive is a resident of the State of Ohio.

(e) No Employment Obligation. As an inducement to the Company to issue the Executive Securities to Executive hereunder, and as a condition thereto, Executive acknowledges and agrees that:

(i) neither the issuance of the Executive Securities to Executive hereunder nor any provision contained herein shall entitle Executive to remain in the employment of the Company or any of its Subsidiaries or affect the right of the Company or any of its Subsidiaries to terminate Executive's employment at any time; and

(ii) neither the Company nor its Subsidiaries shall have any duty or obligation to disclose to Executive, and Executive shall have no right to be advised of, any information regarding the Company or its Subsidiaries (except in connection with a determination of the Fair Market Value of the Executive Securities) at any time prior to, upon or in connection with the repurchase of the Executive Securities upon the termination of Executive's employment with the Company or any of its Subsidiaries or as otherwise provided hereunder.

(f) Stock Powers. At the Closing, (i) Executive shall execute in blank ten stock transfer powers in the form of Exhibit A attached hereto (the "Stock Powers") with respect to the Common Stock, the Preferred Stock and the Invesco Preferred Stock represented by certificates and shall deliver such Stock Powers to the Company and Invesco, respectively. The Stock Powers shall authorize the Company or Invesco, as applicable, to assign, transfer and deliver the Executive Securities represented by certificates to the appropriate acquirer thereof pursuant to Section 3 below or Section 6 of the Stockholders Agreement and under no other circumstances and (ii) Executive's spouse shall execute the consent in the form of Exhibit B attached hereto.

2. Restrictions on Transfer of Executive Securities; Restriction on Conversion of Common Stock.

(a) Transfer of Executive Securities. The holders of Executive Securities shall not sell, transfer, assign, pledge or otherwise dispose of (a "Transfer") any interest in any Executive Securities, except pursuant to (i) the provisions of Sections 5 and 6 of the Stockholders

Agreement, (ii) the provisions of Section 3 of the Invesco Stockholders Agreement, (iii) a Sale of the Company, (iv) the provisions of Section 2(b) hereof or (v) the provisions of Section 3 hereof.

(b) Certain Permitted Transfers. The restrictions set forth in Section 2(a) shall not apply with respect to any Transfer of Executive Securities made (i) pursuant to applicable laws of descent and distribution or to such Person's legal guardian in case of any mental incapacity or among such Person's Family Group, or (ii) at such time as the Investor Group sells Common Stock in a Public Sale, but in the case of this clause (ii) only an amount (the "Transfer Amount") equal to the number of shares of Common Stock issued hereunder and owned by Executive multiplied by a fraction (the "Transfer Fraction"), the numerator of which is the number of shares of Common Stock sold by the Investor Group in such Public Sale and the denominator of which is the total number of shares of Common Stock held by the Investor Group prior to the Public Sale; provided that, if at the time of a Public Sale by the Investor Group, Executive chooses not to Transfer the Transfer Amount, Executive shall retain the right to Transfer an amount of shares of Common Stock at a future date equal to the number of shares of Common Stock issued hereunder and owned by Executive at such future date multiplied by the Transfer Franction; provided further that, the restrictions contained in this Section 2 will continue to be applicable to the Executive Securities after any Transfer of the type referred to in clause (i) and the transferees of such Executive Securities will agree in writing to be bound by the provisions of this Agreement. Any transferee of Executive Securities pursuant to a transfer in accordance with the provisions of this Section 2(b) is herein referred to as a "Permitted Transferee." Upon the transfer of Executive Securities pursuant to this Section 2(b), the transferring Executive will deliver a written notice (a "Transfer Notice") to the Company. In the case of a Transfer pursuant to clause (i) hereof, the Transfer Notice will disclose in reasonable detail the identity of the Permitted Transferee(s).

(c) Termination of Restrictions. The restrictions set forth in Sections 2(a) and 2(b) above will continue with respect to each of the Executive Securities until the earlier of (i) the date on which such Executive Securities have been transferred in a Public Sale as permitted by this Section 2 or (ii) the consummation of a Sale of the Company.

(d) Legends. The certificates representing the Executive Securities will bear a legend in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED AS OF JULY 31, 2006, HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER, CERTAIN REPURCHASE OPTIONS AND CERTAIN OTHER AGREEMENTS SET FORTH IN AN EXECUTIVE SECURITIES AGREEMENT BETWEEN THE COMPANY AND AN EXECUTIVE OF THE COMPANY DATED AS OF

JULY 31, 2006. A COPY OF SUCH AGREEMENT MAY BE OBTAINED BY THE HOLDER HEREOF AT THE COMPANY'S PRINCIPAL PLACE OF BUSINESS WITHOUT CHARGE."

3. Repurchase of Executive Securities.

(a) Repurchase of Purchased Equity.

(i) If Executive's employment terminates due to termination by the Company or any of its Subsidiaries with Cause, then the Company, Invesco (in the case of Executive Securities of Invesco) and the Investor Group shall have the right to repurchase Executive's Purchased Equity at a price per share of Purchased Equity equal to the lesser of the Fair Market Value and the Original Cost thereof.

(ii) Upon a resignation by Executive without Good Reason, Executive shall have the right to require the Company or Invesco (in the case of Executive Securities of Invesco) to repurchase his Purchased Equity (a "Purchased Equity Put"), or if Executive does not exercise the Purchased Equity Put in accordance with the terms hereof, the Company, Invesco (in the case of Executive Securities of Invesco) and the Investor Group shall have the right to repurchase Executive's Purchased Equity, in either case, at a price per share of Purchased Equity equal to the Fair Market Value thereof; provided that after the closing of the Purchased Equity Put with Executive (including delivery of all the Executive Securities by Executive), the Company, Invesco (in the case of Executive Securities of Invesco) or the Investor Group shall be permitted to postpone payment of the amount owed in connection with the Purchased Equity Put exercised pursuant to this Section 3(a)(ii) for up to 2 years from the date of such resignation.

(iii) If Executive's employment terminates due to (A) termination by the Company or any of its Subsidiaries without Cause, (B) death or Disability, (C) Retirement or (D) resignation by Executive for Good Reason, then Executive shall have a Purchased Equity Put, or if Executive does not exercise the Purchased Equity Put in accordance with the terms hereof, the Company, Invesco (in the case of Executive Securities of Invesco) and the Investor Group shall have a right to repurchase Executive's Purchased Equity, in either case, at a price per share of Purchased Equity equal to the Fair Market Value.

(b) Put Option Procedures.

(i) In the event that Executive becomes entitled to exercise a Put Option pursuant to thisSection 3 (a "Put Event"), Executive (or his personal representative, if Executive is deceased or incompetent) may, at his or her discretion, exercise all (but not less than all) of the Put Options then exercisable for all (but not less than all) of the Executive Securities subject to the Put Options by delivering written notice (the "Put Notice") to the Company specifying the number of Executive Securities to be

repurchased by the Company within 40 days following the occurrence of the Put Event (the "Put Option Exercise Period").

(ii) Upon the delivery of the Put Notice and subject to the provisions herein and in the Put Notice, the Company or Invesco (in the case of Executive Securities of Invesco), as the case may be, shall, in accordance with the terms hereof promptly determine the purchase price for the Executive Securities (the "Put Price"), and, within 20 days after the determination of the Put Price, shall purchase and Executive shall sell the number of the Executive Securities specified in the Put Notice at a mutually agreeable time and place.

(iii) Notwithstanding any provision herein to the contrary and subject to Section 3(d) hereof, the maximum amount that the Company or Invesco collectively shall be required to pay during each calendar year in connection with the Put Options held by Executive and any other executives party to an Executive Securities Agreement with the Company and/or Invesco (collectively, the "Executive Securityholders") is $5,000,000 (the "Put Option Cap"). In the event that the aggregate purchase price for the Put Options exercised by the Executive Securityholders in any calendar year exceeds the Put Option Cap, the amount of such excess shall be applied to the Put Option Cap for the next calendar year or succeeding years.

(iv) The Company and Invesco will be entitled to receive customary representations and warranties from the sellers regarding such sale and to require that all sellers' signatures be guaranteed.

(c) Repurchase Option Procedures.

(i) Repurchase Option Procedure for the Company. With respect to any repurchase option other than a Put Option (which shall be governed by the procedures set forth in Section 3(b)) and subject to Executive's prior right to exercise a Put Option upon the occurrence of a Put Event, the Company or Invesco (in the case of Executive Securities of Invesco) may elect to repurchase all or any portion of the Executive Securities subject to repurchase as provided herein (the "Available Securities") of Executive whose employment with the Company or any of its Subsidiaries has terminated (the "Termination") as described in Section 3(a) (the "Repurchase Option") by delivery of written notice (a "Repurchase Notice") to the holders of such Executive Securities within 120 days after the date of the Termination (the "Repurchase Notice Period") if a Put Event has not occurred, or if a Put Event has occurred, within 120 days following the expiration of the Put Option Exercise Period. The Repurchase Notice shall set forth the aggregate consideration to be paid for such Available Securities and the time (not to be later than 20 days after such notice) and place for the closing of the transaction.

(ii) Repurchase Option Procedure for Investor Group. If for any reason the Company or Invesco (in the case of Executive Securities of Invesco) does not elect to purchase all of the Available Securities, the Investor Group shall be entitled to exercise

the Repurchase Option for all or any portion of the Available Securities. As soon as practicable after the Company or Invesco (in the case of Executive Securities of Invesco) has determined that it will not purchase all of the Available Securities, but in any event within 80 days after the Termination if a Put Event has not occurred, or if a Put Event has occurred, within 80 days following the expiration of the Put Option Exercise Period, the Company or Invesco (in the case of Executive Securities of Invesco) shall give written notice (the "Option Notice") to each member of the Investor Group setting forth the number of Available Securities and the purchase price for the Available Securities. The members of the Investor Group may elect to purchase all or any portion of the Available Securities by giving written notice to the Company or Invesco (in the case of Executive Securities of Invesco) within 30 days after the Option Notice has been delivered to such member of the Investor Group by the Company or Invesco (in the case of Executive Securities of Invesco). If the members of the Investor Group elect to purchase an aggregate amount of Available Securities in excess of the amount of Available Securities specified in the Option Notice, the Available Securities shall be allocated among the members of the Investor Group based on the amount of such type or types of Stockholder Shares (as defined in the Stockholders Agreement) owned by each member of the Investor Group on the date of the Option Notice and the type of Available Securities. Any member of the Investor Group may condition his, her or its election to purchase such Available Securities on the election of one or more other members of the Investor Group to purchase Available Securities. As soon as practicable, and in any event within ten days after the expiration of the 30-day period set forth above, the Company or Invesco (in the case of Executive Securities of Invesco) shall deliver a notice to the holders of such Available Securities setting forth the aggregate consideration to be paid by the respective members of the Investor Group for such Available Securities and the time (not to be later than 20 days after such notice) and place for the closing of the transaction. At the time the Company or Invesco (in the case of Executive Securities of Invesco) delivers such notice to the holders of such Available Securities, the Company or Invesco (in the case of Executive Securities of Invesco) shall also deliver written notice to each member of the Investor Group setting forth the amount of securities such member is entitled to purchase, the aggregate purchase price and the time and place of the closing of the transaction.

(iii) Representations and Warranties; Signatures. The Company, Invesco (in the case of Executive Securities of Invesco) and the Investor Group, as the case may be, will be entitled to receive customary representations and warranties from the sellers regarding such sale and to require that all sellers' signatures be guaranteed.

(iv) Revocation. Notwithstanding anything to the contrary contained in this Agreement, if in connection with a Repurchase Option the holder of Executive Securities delivers the notice of disagreement described in the definition of Fair Market Value, or if the Fair Market Value of the Executive Securities is determined to be an amount more than 10% greater than the repurchase price for Executive Securities originally determined by the Board, each of the Company, Invesco (in the case of Executive Securities of Invesco) and each member of the Investor Group who has exercised its, their or his

Repurchase Option shall have the right to revoke its, their or his exercise of the Repurchase Option, as the case may be, for all or any portion of the Executive Securities elected to be repurchased by it, them or him by delivering notice of such revocation in writing to the holder of the Executive Securities during (A) the thirty-day period beginning on the date the Company, Invesco (in the case of Executive Securities of Invesco) and the relevant members of the Investor Group receive Executive's written notice of disagreement or (B) the thirty-day period beginning on the date the Company, Executive, Invesco (in the case of Executive Securities of Invesco) and the relevant members of the Investor Group are given written notice that the Fair Market Value of the Executive Securities was finally determined to be an amount more than 10% greater than the repurchase price for such Executive Securities originally determined by the Board. The closing of the transaction shall be postponed until the expiration of the thirty-day period described in the preceding sentence and shall in any event be postponed until the Fair Market Value of the Executive Securities is finally determined pursuant to the procedure described in the definition of Fair Market Value.

(d) Manner of Payment. The Company, Invesco and/or a member of the Investor Group, as applicable, shall pay for the Executive Securities to be repurchased pursuant to the Repurchase Option or a Put Option by delivery of a cashier's check or wire transfer of funds. Alternatively, the Company or Invesco (in the case of Executive Securities of Invesco) may pay the purchase price for the Executive Securities to be repurchased pursuant to the Repurchase Option or a Put Option by offsetting against any indebtedness or obligations for advanced or borrowed funds owed by Executive to the Company or Invesco. Notwithstanding anything to the contrary contained in this Agreement, all repurchases of Executive Securities by the Company or Invesco shall be subject to applicable federal and state laws and to restrictions contained in the Company's and its Subsidiaries' debt financing arrangements. If any such laws or restrictions prohibit the repurchase of Executive Securities hereunder which the Company or Invesco is otherwise entitled to make, the time periods provided in this Section 3 shall be suspended, and the Company or Invesco may make such repurchases as soon as it is permitted to do so under such laws or restrictions. Alternatively, if and to the extent any such laws or restrictions prohibit the repurchase of Executive Securities hereunder for cash, the Company or Invesco (in the case of Executive Securities of Invesco) may, at its sole option, repurchase such Executive Securities, in which case the amount of the purchase price which is not able to be paid in cash shall be paid for by the issuance of a subordinated promissory note, which, subject to the approval of the senior and senior subordinated lender(s) of the Company and its Subsidiaries, shall be payable as soon as the Company or Invesco is permitted to pay such note under such laws or restrictions and shall bear interest (payable annually) at a floating rate per annum equal to the prime or base rate of interest (as established and publicly announced in The Wall Street Journal).

(e) Termination of Certain Repurchase Options. The Repurchase Options and Put Options set forth in thisSection 3 shall terminate with respect to the Executive Securities upon (i) the date on which such Executive Securities have been transferred in a Public Sale as permitted by Section 2 or (ii) consummation of a Sale of the Company.

4. Transfer. Prior to transferring any Executive Securities (other than in a Public Sale, a Sale of the Company,Section 3 hereof, Section 5 of the Stockholders Agreement and Section 3 of the Invesco Stockholders Agreement) to any Person, the transferring Executive will cause the prospective transferee to be bound by this Agreement and to execute and deliver to the Company a counterpart to this Agreement. Any Transfer or attempted Transfer of any Executive Securities in violation of any provision of this Agreement shall be void, and the Company shall not record such Transfer on its books or treat any purported transferee of such Executive Securities as the owner of such units for any purpose.

5. Definitions.

"Affiliate" means with respect to any Person, any other Person controlling, controlled by, or under common control with such first Person and in the case of a Person which is a partnership, any partner of that Person.

"Board" means the Board of Directors of the Company.

"Cause" means (i) the willful failure to substantially perform duties required in connection with Executive's employment commensurate with position, other than due to Disability, (ii) a willful act which constitutes gross misconduct or fraud and which is injurious to the Company or its Subsidiaries; (iii) conviction of, or plea of guilty or no context to, a felony; or (iv) any material breach of confidentiality, noncompete or non-solicitation agreements with the Company or any of its Subsidiaries which is not cured within 10 days after written notice from the Company.

"CHS" means Code Hennessy & Simmons IV LP, a Delaware limited partnership and any Affiliate thereof.

"Class B Common Stock" means the Company's Class B Common Stock, par value $0.01 per share.

"Class C Common Stock" means the Company's Class C Common Stock, par value $0.01 per share.

"Disability " means Executive's inability to carry out effectively his duties and obligations to the Company or any of its Subsidiaries or to participate effectively and actively in the management of the Company or any of its Subsidiaries for a period of more than 26 weeks in any 12-month period as a result of any mental or physical disability or incapacity as defined in the Americans with Disabilities Act or as otherwise determined in the reasonable good faith judgment of the Board.

"Executive Securities" shall mean the Purchased Equity. Executive Securities will continue to be Executive Securities in the hands of any holder other than Executive (except for the Company, Invesco and other Stockholders, and except for transferees in a Sale of the Company), and except as otherwise provided herein, each such other holder of Executive

Securities will succeed to all rights and obligations attributable to Executive as a holder of Executive Securities hereunder. Executive Securities will also include the Company's and Invesco's securities issued with respect to Executive Securities by way of a stock split or stock dividend and securities into which such shares of stock or rights to acquire stock may be changed by reason of a recapitalization, reorganization, merger, consolidation or any other change in the structure or capitalization of the Company, including but not limited to debt or shares of common stock and/or preferred stock and/or options of any corporate successor to the business of the Company or Invesco, whether issued in connection with a public offering of securities of such entity or otherwise.

"Fair Market Value" of any Executive Securities means the composite closing price of the sales of such Executive Securities on the securities exchanges on which such Executive Securities may at the time be listed (as reported in The Wall Street Journal), or, if there have been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if such Executive Securities are not so listed, the closing price (or last price, if applicable) of sales of such Executive Securities on The Nasdaq Stock Market (as reported in The Wall Street Journal), or if such Executive Securities are not quoted in The Nasdaq Stock Market but are traded over-the-counter, the average of the highest bid and lowest asked prices on such day in the over-the-counter market as reported by the National Quotation Bureau Incorporated, or any similar successor organization, in each such case averaged over a period of 21 days consisting of the day as of which the Fair Market Value is being determined and the 20 consecutive business days prior to such day. If at any time such Executive Securities are not listed on any securities exchange, quoted in The Nasdaq Stock Market, or quoted in the over-the-counter market, the "Fair Market Value" of such Executive Securities shall mean the fair market value of such Executive Securities as determined by the Board reasonably and in good faith on an enterprise basis, taking into account all relevant factors determinative of value (including the lack of liquidity of such Executive Securities due to the Company's status as a privately held corporation, but without regard to any discounts for minority interests), using valuation techniques then prevailing in the securities industry (e.g., discounted cash flows and/or comparable companies) and assuming full disclosure of all relevant information and a reasonable period of time for effectuating such sale; provided that upon Executive's request the Board shall provide Executive with reasonable supporting information regarding the Board's determination of the Fair Market Value; and further provided that if Executive disagrees with the Board's determination of the Fair Market Value, then Executive shall provide notice of his disagreement to the Company and the Investor Group within thirty days after the Board provides notice to Executive of its determination, in which case the "Fair Market Value" shall be determined by an investment banking firm agreed upon by the Company and Executive, which firm shall submit to the Company and Executive a report within 30 days of its engagement setting forth such determination. If the parties are unable to agree on an investment banking firm within 20 days after Executive provides notice to the Board of his disagreement, the Company and Executive shall each select an investment bank of recognized national standing and such two investment banking firms shall select a third investment banking firm. Such third investment banking firm shall render a determination within 30 days of its engagement. The determination of such firm will be final and binding upon all parties. If an

investment banking firm is to make the Fair Market Value determination hereunder, Executive, on the one hand, and the Company, on the other hand, shall submit in writing their respective estimates of the Fair Market Value at the time the investment banking firm is requested to make such determination, and such investment banking firm's determination of the Fair Market Value shall not be higher than the highest estimate nor lower than the lowest estimate as submitted by the Company and Executive. The fees, costs and expenses of the investment banking firm shall be allocated between the Company, on the one hand, and Executive, on the other hand, in the same proportion that the amount by which such party's estimate of the Fair Market Value so submitted to the investment banking differs from the Fair Market Value (as finally determined by the investment banking firm) bears to the amount of the difference between such party's estimate of the Fair Market Value and the other party's estimate of the Fair Market Value. If the Company, Invesco (in the case of Executive Securities of Invesco) or the Investor Group exercise their revocation rights under Section 3(c)(iv), then the expenses of the investment banking firm shall be borne by the Company in all cases. The Company may require that the investment banking firm keep confidential any non-public information received as a result of this paragraph pursuant to reasonable confidentiality arrangements. Regardless of when a transaction based on a Fair Market Value valuation is executed, the Fair Market Value shall be determined as of the date of the Termination of Executive's employment with the Company or any of its Subsidiaries. Notwithstanding the foregoing, Executive shall not have any appraisal right hereunder if a similar appraisal right has been exercised by an employee of any the Company or its Subsidiaries within the six months preceding the day as of which Fair Market Value is being determined hereunder, and Fair Market Value has been determined pursuant to such exercise of such appraisal right.

"Family Group" means (i) a Person's spouse and descendants (whether natural or adopted), (ii) any trust solely for the benefit of the Person and/or any of the Person's spouse and/or descendants and (iii) any entity wholly owned by the Person.

"Good Reason" means Executive's termination of his employment with the Company and its Subsidiaries due to (i) any material diminution in Executive's position, authority or duties with the Company or its Subsidiaries; (ii) the Company or any of its Subsidiaries reassigning Executive to work at a location that is more than seventy-five (75) miles from his current work location or (iii) the failure of the Company and its Subsidiaries to pay Executive's compensation or bonuses or to provide benefit as agreed by the Company or its Subsidiaries and Executive or, as to benefits, as generally made available to employees in Executive's position with the Company or its Subsidiaries, which is not cured within ten (10) days after written notice from Executive. Executive's resignation for Good Reason must be delivered within thirty (30) days after the occurrence of the event giving rise to the resignation.

"Invesco Stockholders Agreement" means that certain Stockholders Agreement dated as March 31, 2004 by and among Invesco and certain stockholders of Invesco, as amended.

"Investor Common Stock" means any Common Stock, Class B Common Stock and Class C Common Stock issued to or held by the Investor Group.

"Investor Group" means those persons set forth on Schedule A to this Agreement.

"Original Cost" with respect to (i) shares of Preferred Stock and Invesco Preferred Stock shall be equal to $1,000 per share and (ii) shares of Common Stock shall be equal to $2,275 per share (in each case as adjusted for stock splits, stock dividends or other recapitalizations occurring after the date hereof).

"Person" means an individual, a partnership, a corporation, an association, a limited liability company, a joint stock company, a trust, a joint venture, an unincorporated organization or any other entity (including, without limitation, any governmental entity or any department, agency or political subdivision thereof).

"Public Offering" means an underwritten initial public offering and sale, registered under the Securities Act, of shares of the Company's Common Stock.

"Public Sale" means any sale of Executive Securities (i) to the public pursuant to an offering registered under the Securities Act or (ii) to the public through a broker, dealer or market maker pursuant to the provisions of Rule 144 (or any similar provision then in effect) adopted under the Securities Act (other than Rule 144(k) prior to a Public Offering).

"Put Option" means the Purchased Equity Put.

"Registration Agreement" means the Registration Agreement dated as March 31, 2004 by and among the Company and certain Stockholders of the Company.

"Retire" or "Retirement" means Executive's retirement from employment with the Company or any of its Subsidiaries at any time after he reaches age 61.

"Sale of the Company" means any transaction or series of transactions pursuant to which any Person(s) or a group of related Persons (other than the Investor Group and their Affiliates) in the aggregate acquire(s) (i) capital stock of the Company possessing the voting power (other than voting rights accruing only in the event of a default, breach or event of noncompliance) to elect a majority of the Board (whether by merger, consolidation, reorganization, combination, sale or transfer of the Company's capital stock, shareholder or voting agreement, proxy, power of attorney or otherwise) or (ii) all or substantially all of the Company's assets determined on a consolidated basis; provided, that a Sale of the Company shall not include a Public Offering.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Stockholder" means any Person, other than the Company, who is a party to the Stockholders Agreement dated as of March 31, 2004.

"Stockholders Agreement" means that certain Stockholders Agreement dated as March 31, 2004 by and among the Company and certain stockholders of the Company, as amended from time to time in accordance with its terms.

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

6. Miscellaneous.

(a) Amendment and Waiver. The provisions of this Agreement may be amended and waived only with the prior written consent of the Company, the holders of a majority of the Investor Common Stock then outstanding, Executive and, for so long as Ontario Teachers’ Pension Plan Board, an Ontario corporation (“Teachers”), owns Stockholder Shares and shares of Invesco Preferred with an aggregate Original Cost (as defined in the Stockholders Agreement) to Teachers of at least $25,000,000, Teachers. The failure of any party to enforce any of the provisions of this Agreement will in no way be construed as a waiver of such provisions and will not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

(b) Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

(c) Agreement. Except as otherwise expressly set forth herein, in the Stockholders Agreement or Registration Agreement, this Agreement, those documents expressly referred to herein (including the Stockholders Agreement) and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

(d) Successors and Assigns. Except as otherwise provided herein, this Agreement will bind and inure to the benefit of and be enforceable by the Company and its successors and

assigns, Invesco and its successors and assigns, and the Investor Group and their respective successors and assigns, so long as they hold shares of Investor Common Stock.

(e) Third Party Beneficiaries. The members of the Investor Group are intended to be third-party beneficiaries of this entire Agreement and the rights and obligations of the parties hereto. It is understood and agreed by the parties hereto that this Agreement shall be enforceable by the holders of a majority of the Investor Common Stock then outstanding in accordance with this Agreement's terms as though such holders of Investor Common Stock were a party to every provision hereof. Except as expressly provided herein, no other third party beneficiaries are intended by the parties hereto to be beneficiaries hereof.

(f) Counterparts; Facsimile Signature. This Agreement may be executed in separate counterparts each of which will be an original and all of which taken together shall constitute one and the same agreement. This Agreement may be executed by facsimile signature.

(g) Remedies. Each of Company, Invesco, the Investor Group and Executive shall be entitled to enforce its rights under this Agreement specifically to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that each of the Company, Invesco, the Investor Group (acting by a majority vote of the Investor Common Stock) and Executive may in its sole discretion apply to any court of competent jurisdiction for specific performance and/or injunctive relief (without posting a bond or other security) in order to enforce or prevent any violation of the provisions of this Agreement.

(h) Notices. Any notice provided for in this Agreement must be in writing and must be either personally delivered, sent via facsimile, sent by first class mail (postage prepaid and return receipt requested) or sent by reputable overnight courier service (charges prepaid) to the Company, Invesco and Executive at the addresses set forth below and to any member of the Investor Group at the address set forth on Schedule A attached hereto, or subsequent holder of Executive Securities subject to this Agreement, at such address as is indicated in the Company's records, or at such address or to the attention of such other Person as the recipient party has specified by prior written notice to the sending party. Notices will be deemed to have been given hereunder when delivered personally, when confirmed if sent by facsimile, three days after deposit in the U.S. mail and one day after deposit with a reputable overnight courier service.

If to the Company:

The Hillman Companies, Inc.
c/o Code Hennessy & Simmons LLC
10 South Wacker Drive, Suite 3175
Chicago, IL 60606
Facsimile: (312) 876-3854
Attn: Peter M. Gotsch

with copies to:

Code Hennessy & Simmons IV LP
c/o Code Hennessy & Simmons LLC
10 South Wacker Drive, Suite 3175
Chicago, IL 60606
Facsimile: (312) 876-3854
Attn: Peter M. Gotsch

and

Kirkland & Ellis LLP
200 East Randolph Drive
Chicago, IL 60601
Facsimile: (312) 861-2200
Attn: Stephen L. Ritchie, P.C. and Michael H. Weed

If to Invesco:

Hillman Investment Company
c/o Code Hennessy & Simmons LLC
10 South Wacker Drive, Suite 3175
Chicago, IL 60606
Facsimile: (312) 876-3854
Attn: Peter M. Gotsch

with copies to:

Code Hennessy & Simmons IV LP
c/o Code Hennessy & Simmons LLC
10 South Wacker Drive, Suite 3175
Chicago, IL 60606
Facsimile: (312) 876-3854
Attn: Peter M. Gotsch

and

Kirkland & Ellis LLP
200 East Randolph Drive
Chicago, IL 60601
Facsimile: (312) 861-2200
Attn: Stephen L. Ritchie, P.C. and Michael H. Weed

If to the Executive:

James M. Honerkamp
c/o The Hillman Companies, Inc.
10590 Hamilton Avenue
Cincinnati, OH 45231

with a copy to:

James M. Honerkamp
1217 Restwood Drive
Loveland, OH 45140

(i) Governing Law. The corporate law of the State of Delaware shall govern all issues and questions concerning the relative rights and obligations of the Company, Invesco and their respective Stockholders. All other issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement and the exhibits hereto shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

(j) MUTUAL WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, EACH PARTY TO THIS AGREEMENT HEREBY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE BETWEEN OR AMONG ANY OF THE PARTIES HERETO, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY AND/OR THE RELATIONSHIP ESTABLISHED AMONG THE PARTIES HEREUNDER.

(k) Business Days. If any time period for giving notice or taking action hereunder expires on a day which is a Saturday, Sunday or holiday in the state in which the Company's chief executive office is located, the time period shall be automatically extended to the business day immediately following such Saturday, Sunday or holiday.

(l) Indemnification and Reimbursement of Payments on Behalf of Executive. The Company and its Subsidiaries shall be entitled to deduct or withhold from any amounts owing from the Company or any of its Subsidiaries to Executive any federal, state, local or foreign

withholding taxes, excise taxes, or employment taxes ("Taxes") imposed with respect to Executive's compensation or other payments from the Company or any of its Subsidiaries or Executive's ownership interest in the Company and Invesco, including, without limitation, wages, bonuses, dividends, the receipt or exercise of equity options and/or the receipt or vesting of restricted equity. In the event the Company or any of its Subsidiaries does not make such deductions or withholdings, Executive shall indemnify the Company and its Subsidiaries for any amounts paid with respect to any such Taxes, together with any interest, penalties and related expenses thereto.

(m) Adjustments of Numbers. All numbers set forth herein that refer to per share prices or amounts will be appropriately adjusted to reflect stock splits, stock dividends, combinations of stock and other recapitalizations affecting the subject class of equity.

(n) Deemed Transfer of Executive Securities. If the Company (and/or the Investor Group or any other Person acquiring securities) shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Executive Securities to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the Person from whom such Executive Securities are to be repurchased shall no longer have any rights as a holder of such Executive Securities (other than the right to receive payment of such consideration in accordance with this Agreement) and such Executive Securities shall be deemed purchased in accordance with the applicable provisions hereof and the Company (and/or the Investor Group and/or any other Person acquiring securities) shall be deemed the owner and holder of such Executive Securities, whether or not the certificates therefor have been delivered as required by this Agreement.

(o) No Pledge or Security Interest. The purpose of the Company's retention of Executive's certificates is solely to facilitate the repurchase provisions set forth in Section 3 herein and Section 6 of the Stockholders Agreement and does not constitute a pledge by Executive of, or the granting of a security interest in, the underlying equity.

(p) Rights Granted to Investors and their Affiliates. Any rights granted to an Investor and its Affiliates hereunder may also be exercised (in whole or in part) by their designees.

(q) Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Executive Securities Agreement on the day and year first above written.

COMPANY:	**THE HILLMAN COMPANIES, INC.**
	By: ______________________
	Its: ______________________
INVESCO:	**HILLMAN INVESTMENT COMPANY**
	By: ______________________
	Its: ______________________
EXECUTIVE:	______________________
	James M. Honerkamp

SCHEDULE A

Code Hennessy & Simmons IV LP
10 South Wacker Drive
Suite 3175
Chicago, IL 60606
Attention: Peter M. Gotsch

CHS Associates IV
10 South Wacker Drive
Suite 3175
Chicago, IL 60606

Ontario Teachers' Pension Plan Board
5650 Yonge Street
Toronto, Ontario M2M4H5
Attention: Shael Dolman

EXHIBIT A

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, __________ ("Executive") does hereby sell, assign and transfer unto____________________, a __________, (a) ___ shares of Common Stock of The Hillman Companies, Inc., a Delaware corporation (the "Company"), standing in the undersigned's name on the books of the Company, represented by Certificate Nos. ___ herewith, (b) ___ shares of Preferred Stock of the Company, standing in the undersigned's name on the books of the Company, represented by Certificate Nos. ___ herewith, , and (c) ___ shares of Class A Preferred Stock, par value $0.01 per share, of Hillman Investment Company, a Delaware corporation ("Invesco"), pursuant to, and limited to the terms of, Section 1(g) of the Executive Securities Agreement dated ___ ___, 2006 between Executive, the Company and Invesco, and for such purpose only does hereby irrevocably constitute and appoint each principal of Code Hennessy & Simmons IV LP (acting alone or with one or more other such principals) as attorney to transfer said shares of stock on the books of the Company or Invesco, as applicable, with full power of substitution in the premises.

Dated: ___ ___, 2006

____
James M. Honerkamp

EXHIBIT B

SPOUSAL CONSENT

The undersigned spouse of Executive hereby acknowledges that I have read the foregoing Executive Securities Agreement and the Stockholders Agreements and Registration Agreement referred to therein, each executed by Executive and dated as of the date hereof, and that I understand their contents. I am aware that the foregoing Executive Securities Agreement, Stockholders Agreements and Registration Agreement provide for the repurchase of my spouse's securities and certain options to acquire securities under certain circumstances and/or impose other restrictions on such securities and certain options to acquire securities (including, without limitation, the transfer restriction thereof). I agree that my spouse's interest in these securities and certain options to acquire securities is subject to these restrictions and any interest that I may have in such securities and certain options to acquire securities shall be irrevocably bound by these agreements and further, that my community property interest, if any, shall be similarly bound by these agreements.

Spouse's Signature: ______________________
Date: July 31, 2006

Witness' Signature: ______________________
Date: July 31, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Max W. Hillman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hillman Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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: November 14, 2006

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, James P. Waters, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hillman Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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: November 14, 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, (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: November 14, 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, (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: November 14, 2006