

**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 26, 2020

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13293

**The Hillman Companies, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

10590 Hamilton Avenue

Cincinnati, Ohio

(Address of principal executive offices)

23-2874736

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

45231

(Zip Code)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

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

On October 26, 2020, 5,000 shares of the Registrant's common stock were issued and outstanding and 4,217,724 Trust Preferred Securities were issued and outstanding by the Hillman Group Capital Trust. The Trust Preferred Securities trade on the NYSE Amex under symbol HLM.Pr.

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**THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
(dollars in thousands, except per share amounts)

	September 26, 2020	December 28, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32,936	\$ 19,973
Accounts receivable, net of allowances of \$1,617 (\$1,891 - 2019)	148,354	88,374
Inventories, net	338,191	323,496
Other current assets	23,946	8,828
Total current assets	543,427	440,671
Property and equipment, net of accumulated depreciation of \$225,253 (\$179,791 - 2019)	182,937	205,160
Goodwill	817,781	819,077
Other intangibles, net of accumulated amortization of \$275,972 (\$232,060 - 2019)	839,322	882,430
Operating lease right of use assets	78,546	81,613
Deferred tax asset	1,514	702
Other assets	11,154	11,557
Total assets	<u>\$ 2,474,681</u>	<u>\$ 2,441,210</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 166,771	\$ 125,042
Current portion of debt and capital leases	11,423	11,358
Current portion of operating lease liabilities	12,235	11,459
Accrued expenses:		
Salaries and wages	27,011	12,937
Pricing allowances	8,664	6,553
Income and other taxes	6,824	5,248
Interest	17,583	14,726
Other accrued expenses	29,704	21,545
Total current liabilities	280,215	208,868
Long term debt	1,562,428	1,584,289
Deferred tax liabilities	187,938	196,437
Operating lease liabilities	70,474	73,227
Other non-current liabilities	32,524	33,287
Total liabilities	<u>\$ 2,133,579</u>	<u>\$ 2,096,108</u>
Commitments and contingencies (Note 6)		
Stockholder's Equity:		
Preferred stock, \$0.01 par, 5,000 shares authorized, none issued or outstanding at September 26, 2020 and December 28, 2019	—	—
Common stock, \$0.01 par, 5,000 shares authorized, issued and outstanding at September 26, 2020 and December 28, 2019	—	—
Additional paid-in capital	557,177	553,359
Accumulated deficit	(179,535)	(176,217)
Accumulated other comprehensive loss	(36,540)	(32,040)
Total stockholder's equity	341,102	345,102
Total liabilities and stockholder's equity	<u>\$ 2,474,681</u>	<u>\$ 2,441,210</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**  
**(dollars in thousands)**

	Thirteen Weeks Ended September 26, 2020	Thirteen Weeks Ended September 28, 2019	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
Net sales	\$ 398,680	\$ 317,277	\$ 1,041,226	\$ 929,564
Cost of sales (exclusive of depreciation and amortization shown separately below)	227,481	176,586	590,294	523,816
Selling, general and administrative expenses	107,333	99,329	292,056	288,047
Depreciation	15,926	16,269	50,673	48,740
Amortization	14,883	14,665	44,596	44,114
Management fees to related party	130	140	451	396
Other (income) expense	(2,175)	335	(2,120)	5,687
Income from operations	35,102	9,953	65,276	18,764
Interest expense, net	20,688	24,882	67,746	77,509
Interest expense on junior subordinated debentures	3,219	3,152	9,555	9,456
(Gain) loss on mark-to-market adjustment of interest rate swap	(773)	315	1,169	3,217
Investment income on trust common securities	(94)	(95)	(283)	(284)
Income (loss) before income taxes	12,062	(18,301)	(12,911)	(71,134)
Income tax (benefit) expense	1,400	(3,775)	(9,593)	(1,844)
Net income (loss)	\$ 10,662	\$ (14,526)	\$ (3,318)	\$ (69,290)
Net income (loss) from above	\$ 10,662	\$ (14,526)	\$ (3,318)	\$ (69,290)
Other comprehensive income (loss):				
Foreign currency translation adjustments	3,070	(1,705)	(4,500)	3,621
Total other comprehensive income (loss)	3,070	(1,705)	(4,500)	3,621
Comprehensive income (loss)	\$ 13,732	\$ (16,231)	\$ (7,818)	\$ (65,669)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
Cash flows from operating activities:		
Net loss	\$ (3,318)	\$ (69,290)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	95,269	92,854
Deferred income taxes	(9,182)	(2,522)
Deferred financing and original issue discount amortization	2,805	2,779
Stock-based compensation expense	3,818	1,906
Asset impairment	210	6,896
Gain on disposal of property and equipment	(23)	(123)
Change in fair value of contingent consideration	(1,300)	—
Other non-cash interest and change in value of interest rate swap	1,245	3,217
Changes in operating items:		
Accounts receivable	(60,470)	(4,707)
Inventories	(16,793)	(13,232)
Other assets	(15,276)	2,212
Accounts payable	42,201	4,508
Other accrued liabilities	28,402	10,369
Net cash provided by operating activities	67,588	34,867
Cash flows from investing activities:		
Acquisition of business, net of cash received	(800)	(6,135)
Capital expenditures	(29,182)	(41,097)
Proceeds from sale of property and equipment	—	9,929
Net cash used in investing activities	(29,982)	(37,303)
Cash flows from financing activities:		
Repayments of senior term loans	(7,956)	(7,956)
Borrowings on revolving credit loans	78,000	27,500
Repayments of revolving credit loans	(94,000)	(32,700)
Principal payments under finance and capitalized lease obligations	(624)	(484)
Proceeds from sale of Holdco stock	—	750
Net cash used by financing activities	(24,580)	(12,890)
Effect of exchange rate changes on cash	(63)	34
Net increase (decrease) in cash and cash equivalents	12,963	(15,292)
Cash and cash equivalents at beginning of period	19,973	28,234
Cash and cash equivalents at end of period	\$ 32,936	\$ 12,942
Supplemental disclosure of cash flow information:		
Interest paid on junior subordinated debentures, net	\$ 9,272	\$ 9,172
Interest paid	59,147	77,340
Income taxes paid	475	700

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Common Stock	Additional Paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
<b>Thirty-nine weeks ended September 26, 2020</b>					
Balance at December 28, 2019	\$ —	\$ 553,359	\$ (176,217)	\$ (32,040)	\$ 345,102
Net loss	—	—	(9,751)	—	(9,751)
Stock-based compensation	—	1,145	—	—	1,145
Change in cumulative foreign currency translation adjustment	—	—	—	(11,213)	(11,213)
Balance at March 28, 2020	—	554,504	(185,968)	(43,253)	325,283
Net loss	—	—	(4,229)	—	(4,229)
Stock-based compensation	—	1,525	—	—	1,525
Change in cumulative foreign currency translation adjustment	—	—	—	3,643	3,643
Balance at June 27, 2020	—	556,029	(190,197)	(39,610)	326,222
Net income	—	—	10,662	—	10,662
Stock-based compensation	—	1,148	—	—	1,148
Change in cumulative foreign currency translation adjustment	—	—	—	3,070	3,070
Balance at September 26, 2020	<u>\$ —</u>	<u>\$ 557,177</u>	<u>\$ (179,535)</u>	<u>\$ (36,540)</u>	<u>\$ 341,102</u>
<b>Thirty-nine weeks ended September 28, 2019</b>					
Balance at December 29, 2018	\$ —	\$ 549,528	\$ (72,831)	\$ (37,590)	\$ 439,107
Net loss	—	—	(35,268)	—	(35,268)
Stock-based compensation	—	361	—	—	361
Change in cumulative foreign currency translation adjustment	—	—	—	2,779	2,779
Balance at March 30, 2019	—	549,889	(108,099)	(34,811)	406,979
Net loss	—	—	(19,496)	—	(19,496)
Stock-based compensation	—	301	—	—	301
Change in cumulative foreign currency translation adjustment	—	—	—	2,547	2,547
Balance at June 29, 2019	—	550,190	(127,595)	(32,264)	390,331
Net loss	—	—	(14,526)	—	(14,526)
Stock-based compensation	—	1,244	—	—	1,244
Dividend to Holdco	—	750	—	—	750
Change in cumulative foreign currency translation adjustment	—	—	—	(1,705)	(1,705)
Balance at September 28, 2019	<u>\$ —</u>	<u>\$ 552,184</u>	<u>\$ (142,121)</u>	<u>\$ (33,969)</u>	<u>\$ 376,094</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

**1. Basis of Presentation:**

The accompanying unaudited financial statements include the condensed consolidated accounts of The Hillman Companies, Inc. and its wholly-owned subsidiaries (collectively "Hillman" or the "Company") for the thirty-nine weeks ended September 26, 2020. Unless the context requires otherwise, references to "Hillman," "we," "us," "our," or "our Company" refer to The Hillman Companies, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Hillman Companies, Inc. is a wholly-owned subsidiary of HMAN Intermediate II Holdings Corp., and a wholly-owned subsidiary of HMAN Group Holdings Inc. ("Holdco").

The accompanying unaudited condensed consolidated financial statements present information in accordance with accounting principles generally accepted in the United States 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 U.S. generally accepted accounting principles for complete financial statements. Operating results for the thirty-nine weeks ended September 26, 2020 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 28, 2019.

**2. Summary of Significant Accounting Policies:**

The significant accounting policies should be read in conjunction with the significant accounting policies included in the Form 10-K for the year ended December 28, 2019.

**Use of Estimates in the Preparation of Financial Statements:**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses for the reporting periods. Actual results may differ from these estimates.

The extent to which COVID-19 impacts the Company's business and financial results will depend on numerous evolving factors including, but not limited to: the magnitude and duration of COVID-19, the extent to which it will impact worldwide macroeconomic conditions including interest rates, employment rates and health insurance coverage, the speed of the anticipated recovery, and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts COVID-19 as of September 26, 2020 and through the date of this report. The accounting matters assessed included, but were not limited to the carrying value of the goodwill and other long-lived assets. While there was not a material impact to the Company's consolidated financial statements as of and for the quarter ended September 26, 2020, the Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to the Company's consolidated financial statements in future reporting periods.

**Reclassifications:**

The Company reclassified the mark-to-market adjustment of our interest rate swap from other income/expense to its own line on the income statement below income from operations. The reclassifications had no impact on the prior periods' statement of financial position, net loss, cash flows, or stockholder's equity.

**Revenue Recognition:**

Revenue is recognized when control of goods or services is transferred to our customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

The Company offers a variety of sales incentives to its customers primarily in the form of discounts and rebates. Discounts are recognized in the consolidated financial statements at the date of the related sale. Rebates are based on the revenue to date and the contractual rebate percentage to be paid. A portion of the cost of the rebate is allocated to each underlying sales transaction. Discounts and rebates are included in the determination of net sales.

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

The Company also establishes reserves for customer returns and allowances. The reserve is established based on historical rates of returns and allowances. The reserve is adjusted quarterly based on actual experience. Returns and allowances are included in the determination of net sales.

The following table displays our disaggregated revenue by product category:

<b>Thirteen weeks ended September 26, 2020</b>				
	<b>Fastening, Hardware, and Personal Protective Solutions</b>	<b>Consumer Connected Solutions</b>	<b>Canada</b>	<b>Total Revenue</b>
Fastening and Hardware	\$ 202,876	\$ —	\$ 38,383	\$ 241,259
Personal Protective	97,431	—	12	97,443
Keys and Key Accessories	—	44,974	790	45,764
Engraving	—	14,205	2	14,207
Resharp	—	7	—	7
Consolidated	<u>\$ 300,307</u>	<u>\$ 59,186</u>	<u>\$ 39,187</u>	<u>\$ 398,680</u>

<b>Thirteen weeks ended September 28, 2019</b>				
	<b>Fastening, Hardware, and Personal Protective Solutions</b>	<b>Consumer Connected Solutions</b>	<b>Canada</b>	<b>Total Revenue</b>
Fastening and Hardware	\$ 163,860	\$ —	\$ 31,362	\$ 195,222
Personal Protective	59,087	—	—	59,087
Keys and Key Accessories	—	49,230	1,170	50,400
Engraving	—	12,556	1	12,557
Resharp	—	11	—	11
Consolidated	<u>\$ 222,947</u>	<u>\$ 61,797</u>	<u>\$ 32,533</u>	<u>\$ 317,277</u>

<b>Thirty-nine weeks ended September 26, 2020</b>				
	<b>Fastening, Hardware, and Personal Protective Solutions</b>	<b>Consumer Connected Solutions</b>	<b>Canada</b>	<b>Total Revenue</b>
Fastening and Hardware	\$ 543,832	\$ —	\$ 98,430	\$ 642,262
Personal Protective	239,151	—	78	239,229
Keys and Key Accessories	—	119,001	2,039	121,040
Engraving	—	38,666	5	38,671
Resharp	—	24	—	24
Consolidated	<u>\$ 782,983</u>	<u>\$ 157,691</u>	<u>\$ 100,552</u>	<u>\$ 1,041,226</u>

<b>Thirty-nine weeks ended September 28, 2019</b>				
	<b>Fastening, Hardware, and Personal Protective Solutions</b>	<b>Consumer Connected Solutions</b>	<b>Canada</b>	<b>Total Revenue</b>
Fastening and Hardware	\$ 465,524	\$ —	\$ 96,248	\$ 561,772
Personal Protective	185,430	—	—	185,430
Keys and Key Accessories	—	139,718	2,983	142,701
Engraving	—	39,646	4	39,650
Resharp	—	11	—	11
Consolidated	<u>\$ 650,954</u>	<u>\$ 179,375</u>	<u>\$ 99,235</u>	<u>\$ 929,564</u>



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

The following table disaggregates our revenue by geographic location:

Thirteen weeks ended September 26, 2020				
	Fastening, Hardware, and Personal Protective Solutions	Consumer Connected Solutions	Canada	Total Revenue
United States	\$ 295,689	\$ 58,566	\$ —	\$ 354,255
Canada	2,292	620	39,187	42,099
Mexico	2,326	—	—	2,326
Consolidated	<u>\$ 300,307</u>	<u>\$ 59,186</u>	<u>\$ 39,187</u>	<u>\$ 398,680</u>

Thirteen weeks ended September 28, 2019				
	Fastening, Hardware, and Personal Protective Solutions	Consumer Connected Solutions	Canada	Total Revenue
United States	\$ 218,585	\$ 61,241	\$ —	\$ 279,826
Canada	1,622	556	32,533	34,711
Mexico	2,740	—	—	2,740
Consolidated	<u>\$ 222,947</u>	<u>\$ 61,797</u>	<u>\$ 32,533</u>	<u>\$ 317,277</u>

Thirty-nine weeks ended September 26, 2020				
	Fastening, Hardware, and Personal Protective Solutions	Consumer Connected Solutions	Canada	Total Revenue
United States	\$ 771,064	\$ 156,249	\$ —	\$ 927,313
Canada	4,833	1,442	100,552	106,827
Mexico	7,086	—	—	7,086
Consolidated	<u>\$ 782,983</u>	<u>\$ 157,691</u>	<u>\$ 100,552</u>	<u>\$ 1,041,226</u>

Thirty-nine weeks ended September 28, 2019				
	Fastening, Hardware, and Personal Protective Solutions	Consumer Connected Solutions	Canada	Total Revenue
United States	\$ 638,322	\$ 178,028	\$ —	\$ 816,350
Canada	4,045	1,347	99,235	104,627
Mexico	8,587	—	—	8,587
Consolidated	<u>\$ 650,954</u>	<u>\$ 179,375</u>	<u>\$ 99,235</u>	<u>\$ 929,564</u>

Our revenue by geography is allocated based on the location of our sales operations. Our Fastening, Hardware, and Personal Protective Solutions segment contains sales of Big Time Products ("Big Time") personal protective equipment into Canada. Our Consumer Connected Solutions segment contains sales of MinuteKey into Canada.

Fastening, Hardware, and Personal Protective Solutions revenues consist primarily of the delivery of fasteners, anchors, specialty fastening products, and personal protective equipment such as gloves and eye-wear as well as in-store merchandising services for the related product category.

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

Consumer Connected Solutions revenues consist primarily of sales of keys and identification tags through self service key duplication and engraving kiosks. It also includes our associate-assisted key duplication systems and key accessories.

Canada revenues consist primarily of the delivery to Canadian customers of fasteners and related hardware items, threaded rod, keys, key duplicating systems, accessories, personal protective equipment, and identification items as well as in-store merchandising services for the related product category.

The Company's performance obligations under its arrangements with customers are providing products, in-store merchandising services, and access to key duplicating and engraving equipment. Generally, the price of the merchandising services and the access to the key duplicating and engraving equipment is included in the price of the related products. Control of products is transferred at the point in time when the customer accepts the goods. The Company's obligation to provide in-store service and access to key duplicating and engraving equipment is satisfied when control of the related products is transferred. Therefore, the entire amount of consideration related to the sale of products, in-store merchandising services, and access to key duplicating and engraving equipment is recognized upon the customer's acceptance of the products. The revenues for all performance obligations are recognized upon the customer's acceptance of the products.

The costs to obtain a contract are insignificant, and generally contract terms do not extend beyond one year. Therefore, these costs are expensed as incurred. Freight and shipping costs and the cost of our in-store merchandising services teams are recognized in selling, general, and administrative expense when control over products is transferred to the customer.

**3. Recent Accounting Pronouncements:**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted this ASU in the first quarter of fiscal 2020, and it did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* which provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is currently evaluating contracts and the optional expedients provided by the new standard.

**4. Acquisitions**

On February 19, 2020, the Company acquired the assets of Instafob LLC ("Instafob") for a cash payment of \$800 and a total purchase price of \$2,618, which includes \$1,818 in contingent and non-contingent considerations that remains payable to the seller. The financial results of Instafob reside within the Company's Consumer Connected Solutions segment and have been determined to be immaterial for purposes of additional disclosure.

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

**5. Goodwill and Other Intangible Assets:**

Goodwill amounts by reportable segment are summarized as follows:

	Goodwill at December 28, 2019	Acquisitions	Dispositions	Adjustments	Other <sup>(1)</sup>	Goodwill at September 26, 2020
Fastening, Hardware, and Personal Protection	\$ 567,847	\$ —	\$ —	\$ —	\$ (604)	\$ 567,243
Consumer Connected Solutions	222,096	—	—	—	—	222,096
Canada	29,134	—	—	—	(692)	28,442
Total	<u>\$ 819,077</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,296)</u>	<u>\$ 817,781</u>

(1) The "Other" change to goodwill relates to adjustments resulting from fluctuations in foreign currency exchange rates for the Canada and Mexico reporting units.

Other intangibles, net, as of September 26, 2020 and December 28, 2019 consist of the following:

	Estimated Useful Life (Years)	September 26, 2020	December 28, 2019
Customer relationships	13 - 20	\$ 939,908	\$ 941,305
Trademarks - Indefinite	Indefinite	85,262	85,517
Trademarks - Other	7 - 15	26,400	26,700
Technology and patents	7 - 12	63,724	60,968
Intangible assets, gross		<u>1,115,294</u>	<u>1,114,490</u>
Less: Accumulated amortization		275,972	232,060
Other intangibles, net		<u>\$ 839,322</u>	<u>\$ 882,430</u>

The amortization expense for amortizable assets, including the adjustments resulting from fluctuations in foreign currency exchange rates for the thirteen and thirty-nine weeks ended September 26, 2020 was \$14,883 and \$44,596, respectively. Amortization expense for the thirteen and thirty-nine weeks ended September 28, 2019 was \$4,665 and \$44,114, respectively.

The Company tests goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter. Impairment is also tested when events or changes in circumstances indicate that the carrying values of the assets may be greater than their fair values. During the thirteen and thirty-nine weeks ended September 26, 2020 and the thirteen and thirty-nine weeks ended September 28, 2019, the Company did not identify any triggering events that would result in an impairment analysis outside of the annual assessment.

**6. Commitments and Contingencies:**

The Company self-insures its product liability, automotive, workers' compensation, and general liability losses up to \$250 per occurrence. Catastrophic coverage has been purchased from third party insurers for occurrences in excess of \$250 up to \$60,000. The two risk areas involving the most significant accounting estimates are workers' compensation and automotive liability. Actuarial valuations performed by the Company's outside risk insurance expert were used by the Company's management to form the basis for workers' compensation and automotive liability loss reserves. The actuary contemplated the Company's specific loss history, actual claims reported, and industry trends among statistical and other factors to estimate the range of reserves required. Risk insurance reserves are comprised of specific reserves for individual claims and additional amounts expected for development of these claims, as well as for incurred but not yet reported claims. The Company believes that the liability of approximately \$2,221 recorded for such risks is adequate as of September 26, 2020.

As of September 26, 2020, the Company has provided certain vendors and insurers letters of credit aggregating \$9,401 related to our product purchases and insurance coverage for product liability, workers' compensation, and general liability.

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The Company self-insures group health claims up to an annual stop loss limit of \$250 per participant. Historical group insurance loss experience forms the basis for the recognition of group health insurance reserves. Provisions for losses expected under these programs are recorded based on an analysis of historical insurance claim data and certain actuarial assumptions. The Company believes that the liability of approximately \$2,530 recorded for such risks is adequate as of September 26, 2020.

On June 3, 2019, The Hillman Group, Inc. ("Hillman Group") filed a complaint for patent infringement against KeyMe, LLC ("KeyMe"), a provider of self-service key duplication kiosks, in the United States District Court for the Eastern District of Texas (Marshall Division). The case was assigned Civil Action No. 2:19-cv-0209. Hillman Group's complaint alleges that KeyMe's self-named and "Locksmith in a Box" key duplication kiosks infringe U.S. Patent Nos. 8,979,446 and 9,914,179, which are assigned to Hillman Group, and seeks damages and injunctive relief against KeyMe. After the United States Patent and Trademark Office issued U.S. Patent No. 10,400,474 to Hillman Group on September 3, 2019, Hillman Group filed a motion the same day to amend its initial complaint to add the new patent to the litigation. The Texas court granted the motion on September 13, 2019. KeyMe filed two motions in the case on July 25, 2019, the first seeking to dismiss Hillman Group's complaint under Rule 12(b)(3) of the Federal Rules of Civil Procedure for improper venue, or in the alternative, to move the case from Marshall, Texas to the Southern District of New York. KeyMe's second motion seeks to transfer the venue of the case from Texas to New York under 28 U.S.C. § 1404. Subsequently, Hillman Group filed a motion on September 4, 2019 to disqualify KeyMe's counsel Cooley LLP from the litigation due to Cooley's concurrent and prior representation of Hillman Group and predecessor-in-interest MinuteKey Holdings, Inc ("MinuteKey"). Hillman Group served its initial infringement contentions for the patents-in-suit on KeyMe on September 6, 2019, and KeyMe served its initial invalidity and unenforceability contentions for the patents-in-suit on Hillman Group on November 15, 2019. The parties filed a joint claim construction statement with the Court on January 31, 2020, setting forth the disputed constructions of terms and phrases recited in the asserted claims of the patents-in-suit. On February 14, 2020, the Court granted Hillman Group's motion to disqualify Cooley LLP, and denied KeyMe's pending venue-related motion to dismiss and motion to transfer without prejudice to refile. The case was stayed until March 30, 2020 to permit KeyMe to retain new legal counsel. The parties filed a joint status report on March 25, 2020, and on March 27, 2020, the Texas Court set a new case schedule with a trial in early December 2020. On April 14, 2020, KeyMe re-filed a single motion to dismiss for improper venue, or in the alternative, to transfer the case to the Southern District of New York. As of September 26, 2020, the Texas Court has not ruled on the venue motion; an oral hearing was set to be held before the Court on September 30, 2020. The Texas Court conducted a claim construction hearing in Marshall, TX, on June 23, 2020 to construe various disputed claim terms of the three patents-in-suit, and issued a claim construction order on July 2, 2020. On August 31, 2020, KeyMe filed two motions for partial summary judgment on portions of the case, and also filed a motion objecting to portions of the testimony of one of Hillman's experts. As of September 26, 2020, those motions remain pending before the Texas Court. On September 9, 2020, the parties conducted a mediation before Ret. District Judge David Folsom of the U.S. District Court of the Eastern District of Texas. Though substantive discussion took place, no agreement on resolution of the litigation was reached. The parties are currently scheduled to hold a final pretrial conference before the Texas Court on November 9, 2020, with a jury trial set to begin on December 7, 2020.

On August 16, 2019, KeyMe filed a complaint for patent infringement against Hillman Group in the United States District Court for the District of Delaware. KeyMe alleges that Hillman's KeyKrafter key duplication machines and MinuteKey self-service key duplication kiosks infringe KeyMe's U.S. Patent No. 8,682,468 when those machines are used in conjunction with Hillman's KeyHero system. KeyMe seeks damages and injunctive relief against Hillman Group. Hillman Group filed an answer to KeyMe's complaint on October 23, 2019, and asserted counterclaims seeking declaratory judgments of invalidity and noninfringement of U.S. Patent No. 8,682,468. On May 4, 2020, the Delaware Court entered a scheduling order setting trial for November 2021. KeyMe served its initial infringement contentions on June 11, 2020, with Hillman serving its initial invalidity contentions on July 16, 2020. As of September 26, 2020, claim construction briefing is underway, with a claim construction hearing scheduled before the Delaware Court on November 23, 2020.

Management and legal counsel for the Company are of the opinion that KeyMe's claim is without merit and the Company should prevail in defending the suit. The Company is unable to estimate the possible loss or range of loss at this early stage in the case.

On March 2, 2020, Hillman Group filed a second complaint for patent infringement against KeyMe in the United States District Court for the Eastern District of Texas (Marshall Division), alleging that KeyMe's key duplication kiosks infringe Hillman Group's U.S. Patent No. 10,577,830. The case was assigned Civil Action No. 2:20-cv-0070. Hillman Group added a second patent to the case, U.S. Patent No. 10,628,813, upon that patent's issuance on April 21, 2020. KeyMe filed a motion to consolidate the two Texas patent cases involving KeyMe and Hillman Group on April 14, 2020. In addition, on April 30, 2020, KeyMe filed a substantially identical motion to dismiss the case for improper venue, or in the alternative, to transfer the case to the Southern District of New York. As of September 26, 2020, the Texas Court has yet to rule on either motion; an oral hearing on both motions was set before the Texas Court for September 30, 2020. Hillman Group served its initial infringement contentions for both patents-in-suit on May 4, 2020, with KeyMe serving its initial invalidity contentions on June 29, 2020. The Texas Court issued a case schedule on June 2, 2020, setting trial for June 2021. Upon issuance of U.S. Patent No. 10,737,336 to Hillman Group on August 10, 2020, Hillman Group moved for leave of Court to add that patent to the case; KeyMe opposed the motion. As of September 26, 2020, the addition of the '336 patent is still before the Texas Court. A claim construction

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hearing is set before the Texas Court in January, 2021. Hillman Group served its initial infringement contentions for both patents-in-suit on May 4, 2020. The Texas Court issued a case schedule on June 2, 2020, setting trial for June 2021.

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

#### **7. Related Party Transactions**

The Company has recorded aggregate management fee charges and expenses from CCMP Capital Advisors, LLC ("CCMP"), Oak Hill Capital Partners III, L.P., Oak Hill Capital Management Partners III, L.P. and OHCP III HC RO, L.P. (collectively, "Oak Hill Funds") of \$130 and \$451 for the thirteen and thirty-nine weeks ended September 26, 2020, respectively, and \$140 and \$396 for the thirteen and thirty-nine weeks ended September 28, 2019, respectively.

Gregory Mann and Gabrielle Mann are employed by Hillman. The Company leases an industrial warehouse and office facility from companies under the control of the Manns. The rental expense for the lease of this facility was \$88 and \$263 for the thirteen and thirty-nine weeks ended September 26, 2020, respectively, and was \$7 and \$262 the thirteen and thirty-nine weeks ended September 28, 2019, respectively.

The Company recorded proceeds from the sale of Holdco stock to members of management and the Board of Directors of \$750 for the thirteen and thirty-nine weeks ended September 28, 2019. There were no sales for the thirteen and thirty-nine weeks ended September 26, 2020.

#### **8. Income Taxes:**

Accounting Standards Codification 740 ("ASC 740") requires companies to apply their estimated annual effective tax rate on a year-to-date basis in each interim period. These rates are derived, in part, from expected annual pre-tax income or loss. In the thirteen and thirty-nine weeks ended September 26, 2020 and the thirteen and thirty-nine weeks ended September 28, 2019, the Company applied an estimated annual effective tax rate to the interim period pre-tax loss to calculate the income tax benefit or provision.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. The CARES Act provides a stimulus package intended to address the impact of the COVID-19 pandemic on the American economy and provides tax relief for businesses. The Company analyzed the available stimulus provisions and has recognized certain benefits including the deferral of payroll taxes, accelerated Alternative Minimum Tax income tax refunds, and increased business interest deductions.

For the thirteen and thirty-nine weeks ended September 26, 2020, the effective income tax rates were 1.6% and 74.3%, respectively. The Company recorded an income tax (benefit) expense for the thirteen and thirty-nine weeks ended September 26, 2020 of \$1,400 and \$(9,593), respectively. The effective tax rate for the thirteen weeks ended September 26, 2020 was the result of favorable interest deductions from the CARES Act as well as non-deductible expenses, state and foreign taxes. The effective tax rate for the thirty-nine weeks ended September 26, 2020 is primarily attributable to the increased business interest deduction afforded by the CARES Act. The CARES Act provides the Company a benefit for increased business interest deductions for 2019 and 2020. The Company discretely recorded a \$6,700 income tax benefit for the period ended March 28, 2020 related to the increased business interest provision for 2019. The Company is expecting to utilize a portion of prior year interest limitation carryforwards in the 2020 period resulting in favorable impacts to the effective tax rate. The utilization of the interest carryforwards is primarily the result of the increased business interest deduction afforded by the CARES Act as well as the impact of the Company's increasing operational income on the interest limitation. The remaining differences to the effective tax rate for the thirty-nine weeks ended September 26, 2020 are due to non-deductible expenses and state and foreign income taxes.

For the thirteen and thirty-nine weeks ended September 28, 2019, the effective income tax rate was 20.6% and 2.6%, respectively. The Company recorded an income tax benefit for the thirteen and thirty-nine weeks ended September 28, 2019 of \$(3,775) and \$(1,844), respectively. The effective tax rate for the thirteen and thirty-nine weeks ended September 28, 2019 was

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primarily the result of the IRC Section 163(j) interest limitation. Consistent with prior periods, the primary impact of the effective tax rate differential for the thirteen weeks ended September 28, 2019 was due to the Company recording a valuation allowance on its interest limitation carryforward. In addition to the interest limitation, the effective income tax rate differed from the federal statutory tax rate for the thirty-nine weeks ended September 28, 2019 due to certain non-deductible expenses, and state and foreign income taxes.

**9. Restructuring**

*Canada Restructuring*

During 2018, the Company initiated plans to restructure the operations of the Canada segment. The restructuring seeks to streamline operations in the greater Toronto area by consolidating facilities, exiting certain lines of business, and rationalizing stock keeping units (“SKUs”). The intended result of the Canada restructuring will be a more streamlined and scalable operation focused on delivering optimal service and a broad offering of products across the Company’s core categories. The Company expects to incur increased restructuring related charges and capital expenditures in our Canada segment over the next year as plans are finalized and implemented. The following is a summary of the charges incurred:

	<b>Thirteen Weeks Ended September 26, 2020</b>	<b>Thirteen Weeks Ended September 28, 2019</b>	<b>Thirty-nine Weeks Ended September 26, 2020</b>	<b>Thirty-nine Weeks Ended September 28, 2019</b>
Facility consolidation <sup>(1)</sup>				
Labor expense (income)	\$ 19	\$ 451	\$ 396	\$ 962
Inventory valuation adjustments	47	446	47	446
Consulting and legal fees	63	57	114	173
Other expense	51	541	713	1,037
Rent and related charges	434	85	1,523	265
Severance	37	—	569	—
Exit of certain lines of business <sup>(2)</sup>				
Inventory valuation adjustments	—	285	—	294
Gain on disposal of assets	—	(61)	—	(458)
Severance	—	—	—	—
Other expense	—	70	—	392
Total	<u>\$ 651</u>	<u>\$ 1,874</u>	<u>\$ 3,362</u>	<u>\$ 3,111</u>

- (1) Facility consolidation includes labor expense related to organizing inventory and equipment in preparation for the facility consolidation, consulting and legal fees related to the project, and other expenses. These expenses were included in SG&A on the Condensed Consolidated Statement of Comprehensive Loss.
- (2) As part of the restructuring, the Company is exiting a manufacturing business line. Related charges included gains and losses on disposals of assets, and other expenses, which were included other income and expense, and SG&A on the Condensed Consolidated Statement of Comprehensive Loss, respectively.

The following represents the roll forward of Canada restructuring reserves for the current period:

	<b>Balance at December 28, 2019</b>	<b>Impact to Earnings</b>	<b>Cash Paid</b>	<b>Balance at September 26, 2020</b>
Severance and related	\$ 1,121	569	(680)	\$ 1,010

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*United States Restructuring*

During fiscal 2019, the Company began implementing a plan to restructure the management and operations within the United States to achieve synergies and cost savings associated with the Company's acquisition activities. This restructuring includes management realignment, integration of sales and operating functions, and strategic review of the Company's product offerings. This plan was finalized during the fourth quarter of fiscal 2019. The Company expects to incur restructuring charges in the Fastening, Hardware, and Personal Protective Solutions segment and in the Consumer Connected Solutions segment during fiscal 2020 as the plans are implemented. Charges incurred include:

	Thirteen Weeks Ended September 26, 2020	Thirteen Weeks Ended September 28, 2019	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
Inventory valuation adjustments	\$ 1,568	\$ —	\$ 1,568	\$ —
Severance	237	—	1,117	—
Other	382	—	382	—
Total	<u>\$ 2,187</u>	<u>\$ —</u>	<u>\$ 3,067</u>	<u>\$ —</u>

The following represents the roll forward of United States restructuring reserves for the current period:

	Balance at December 28, 2019	Impact to Earnings	Cash Paid	Balance at September 26, 2020
Severance and related	\$ 3,286	1,117	(3,224)	\$ 1,179

**10. Long Term Debt:**

The following table summarizes the Company's debt:

	September 26, 2020	December 28, 2019
Revolving loans	\$ 97,000	\$ 113,000
Senior term loan, due 2025	1,039,696	1,047,653
6.375% Senior Notes, due 2022	330,000	330,000
11.6% Junior Subordinated Debentures - Preferred	105,443	105,443
Junior Subordinated Debentures - Common	3,261	3,261
Capital & finance leases	2,035	2,275
	<u>1,577,435</u>	<u>1,601,632</u>
Unamortized premium on 11.6% Junior Subordinated Debentures	14,984	16,110
Unamortized discount on Senior term loan	(6,908)	(8,040)
Current portion of long term debt, capital leases and finance leases	(11,423)	(11,358)
Deferred financing fees	(11,660)	(14,055)
Total long term debt, net	<u>\$ 1,562,428</u>	<u>\$ 1,584,289</u>

As of September 26, 2020, there was \$1,039,696 outstanding under the 2018 Term Loan. As of September 26, 2020, the Company had \$97,000 outstanding under the ABL Revolver along with \$19,401 of letters of credit. The Company has approximately \$133,599 of available borrowings under the ABL Revolver as a source of liquidity.

Additional information with respect to the fair value of the Company's fixed rate senior notes and junior subordinated debentures is included in Note 13 - Fair Value Measurements.

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**11. Leases**

*Lessee*

The Company determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. The Company leases certain distribution center locations, vehicles, forklifts, computer equipment, and its corporate headquarters with expiration dates through 2032. Certain lease arrangements include escalating rent payments and options to extend the lease term. Expected lease terms include these options to extend or terminate the lease when it is reasonably certain the Company will exercise the option. The Company's leasing arrangements do not contain material residual value guarantees nor material restrictive covenants.

The components of operating and finance lease cost for the thirteen and thirty-nine weeks ended September 26, 2020 and thirteen and thirty-nine weeks ended September 28, 2019 were as follows:

	<b>Thirteen Weeks Ended September 26, 2020</b>	<b>Thirty-nine Weeks Ended September 26, 2020</b>	<b>Thirteen Weeks Ended September 28, 2019</b>	<b>Thirty-nine Weeks Ended September 28, 2019</b>
Operating lease cost	\$ 4,989	\$ 14,283	\$ 5,101	\$ 14,399
Short term lease costs	633	1,682	668	2,644
Variable lease costs	104	775	720	1,795
Finance lease cost:				
Amortization of right of use assets	206	608	190	425
Interest on lease liabilities	34	106	35	78

Rent expense totaled \$5,726 and \$6,489 in the thirteen weeks ended September 26, 2020 and thirteen weeks ended September 28, 2019, respectively. Rent expense totaled \$16,740 and \$18,838 in the thirty-nine weeks ended September 26, 2020 and thirty-nine weeks ended September 28, 2019, respectively. Rent expense includes operating lease cost as well as expense for non-lease components such as common area maintenance, real estate taxes, real estate insurance, variable costs related to our leased vehicles and also short-term rental expenses.

The implicit rate is not determinable in most of the Company's leases, as such management uses the Company's incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The weighted average remaining lease terms and discount rates for all of our operating and finance leases were as follows as of September 26, 2020 and December 28, 2019:

	<b>September 26, 2020</b>		<b>December 28, 2019</b>	
	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
Weighted average remaining lease term	7.36	2.81	7.88	3.46
Weighted average discount rate	8.24 %	6.84 %	7.81 %	6.49 %



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Supplemental balance sheet information related to the Company's finance leases was as follows as of September 26, 2020 and December 28, 2019:

	September 26, 2020	December 28, 2019
Finance lease assets, net, included in property plant and equipment	\$ 1,902	\$ 2,101
Current portion of long-term debt	814	749
Long-term debt, less current portion	1,221	1,526
Total principal payable on finance leases	<u>2,035</u>	<u>2,275</u>

Supplemental cash flow information related to the Company's operating leases was as follows for the thirty-nine weeks ended September 26, 2020 and thirty-nine weeks ended September 28, 2019:

	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	\$ 13,821	\$ 13,872
Operating cash outflow from finance leases	106	66
Financing cash outflow from finance leases	624	484

Maturities of our lease liabilities for all operating and finance leases are as follows as of September 26, 2020:

	Operating Leases	Finance Leases
Less than one year	\$ 18,428	\$ 932
1 to 2 years	15,845	692
2 to 3 years	13,846	414
3 to 4 years	13,019	211
4 to 5 years	12,080	—
After 5 years	37,814	—
Total future minimum rental commitments	111,032	2,249
Less - amounts representing interest	(28,323)	(214)
Present value of lease liabilities	<u>\$ 82,709</u>	<u>\$ 2,035</u>

As of December 28, 2019, maturities of our lease liabilities for all operating and finance leases were expected to be as follows:

	Operating Leases	Finance Leases
Less than one year	\$ 17,525	\$ 873
1 to 2 years	15,956	712
2 to 3 years	13,925	456
3 to 4 years	12,045	383
4 to 5 years	11,716	127
After 5 years	43,591	—
Total future minimum rental commitments	114,758	2,551
Less - amounts representing interest	(30,072)	(276)
Present value of lease liabilities	<u>84,686</u>	<u>2,275</u>

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*Lessor*

The Company has certain arrangements for key duplication equipment under which we are the lessor. These leases meet the criteria for operating lease classification. Lease income associated with these leases is not material.

**12. Derivatives and Hedging:**

The Company uses derivative financial instruments to manage our exposures to (1) interest rate fluctuations on our floating rate senior debt and (2) fluctuations in foreign currency exchange rates. The Company measures those instruments at fair value and recognizes 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.

**Interest Rate Swap Agreements**

On January 8, 2018, the Company entered into a forward Interest Rate Swap Agreement ("2018 Swap 1") with three-year terms for notional amounts of \$90,000. The forward start date of the 2018 Swap was September 30, 2018 and the termination date is June 30, 2021. The 2018 Swap 1 has a determined interest rate of 2.3% plus the applicable interest rate margin of 4.0% for an effective rate of 6.3%.

On November 8, 2018, the Company entered into another new forward Interest Rate Swap Agreement ("2018 Swap 2") with three-year terms for \$60,000 notional amount. The forward start date of the 2018 Swap 2 was November 30, 2018 and the termination date is November 30, 2022. The 2018 Swap 2 has determined interest rate of 3.1% plus the applicable interest rate margin of 4.0% for an effective rate of 7.1%.

The fair value of the 2018 Swap 1 was \$1,022 as of September 26, 2020 and it was reported on the Condensed Consolidated Balance Sheets within other accrued expenses. The fair value of the 2018 Swap 2 was \$3,740 as of September 26, 2020 and it was reported on the Condensed Consolidated Balance Sheets within other non-current liabilities. An increase in other expense was recorded in the Statement of Comprehensive Loss for the unfavorable change of \$1,170 in fair value since December 28, 2019.

The fair value of 2018 Swaps was \$3,592 as of December 28, 2019 and they were reported on the Consolidated Balance Sheets in other non-current liabilities.

The Company's interest rate swap agreements do not qualify for hedge accounting treatment because they did not meet the provisions specified in ASC 815, Derivatives and Hedging ("ASC 815"). Accordingly, the gain or loss on these derivatives was recognized in current earnings.

The Company does not enter into derivative transactions for speculative purposes and, therefore, holds no derivative instruments for trading purposes.

Additional information with respect to the fair value of derivative instruments is included in Note 13 - Fair Value Measurements.

**13. Fair Value Measurements:**

The Company uses the accounting guidance that applies to all assets and liabilities that are being measured and reported on a fair value basis. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The following tables set forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis during the period, by level, within the fair value hierarchy:

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	As of September 26, 2020			
	Level 1	Level 2	Level 3	Total
Trading securities	\$ 1,609	\$ —	\$ —	\$ 1,609
Interest rate swaps	—	(4,762)	—	(4,762)
Contingent consideration payable	—	—	(18,418)	(18,418)
	As of December 28, 2019			
	Level 1	Level 2	Level 3	Total
Trading securities	\$ 1,911	\$ —	\$ —	\$ 1,911
Interest rate swaps	—	(3,592)	—	(3,592)
Contingent consideration payable	—	—	(18,100)	(18,100)

Trading securities are valued using quoted prices on an active exchange. Trading securities represent assets held in a Rabbi Trust to fund deferred compensation liabilities and are included as other assets on the accompanying Condensed Consolidated Balance Sheets.

The Company utilizes interest rate swap contracts to manage our targeted mix of fixed and floating rate debt, and these contracts are valued using observable benchmark rates at commonly quoted intervals for the full term of the swap contracts. As of September 26, 2020, the 2018 Swap 1 was recorded within other accrued expenses and the 2018 Swap 2 was recorded within other non-current liabilities on the accompanying Condensed Consolidated Balance Sheets. As of December 28, 2019, both the 2018 Swap 1 and 2018 Swap 2 were recorded within other non-current liabilities on the accompanying Condensed Consolidated Balance Sheets.

The contingent consideration represents future potential earn-out payments related to the Resharp acquisition in fiscal 2019 and the Instafob acquisition in the first quarter of 2020. The estimated fair value of the contingent earn-outs was determined using a Monte Carlo analysis examining the frequency and mean value of the resulting earn-out payments. The resulting value captures the risk associated with the form of the payout structure. The risk neutral method is applied, resulting in a value that captures the risk associated with the form of the payout structure and the projection risk. The carrying amount of the liability may fluctuate significantly and actual amounts paid may be materially different from the estimated value of the liability. As of September 26, 2020, the total contingent consideration was recorded as \$2,035 of other accrued expenses and \$16,383 in other non-current liabilities on the Condensed Consolidated Balance Sheets. As of December 28, 2019, the total contingent consideration was recorded as \$275 of other accrued expenses and \$15,825 in other non-current liabilities on the Condensed Consolidated Balance Sheets. This change in value was determined by using a simulation model of the Monte Carlo analysis that included updated projections applicable to the liability valuation as of September 26, 2020. The \$1,300 decrease in the contingent consideration liability as of September 26, 2020 compared to as of December 28, 2019 related to the Resharp contingent consideration liability and was recorded within other income on the Condensed Consolidated Statements of Comprehensive Income (Loss) during the thirty-nine weeks ended September 26, 2020. There were no material changes to the Resharp contingent consideration liability in the thirteen weeks ended September 26, 2020. There were no material adjustments to the Instafob contingent consideration for the thirteen and thirty-nine weeks ended September 26, 2020.

The fair value of the Company's fixed rate senior notes and junior subordinated debentures as of September 26, 2020 and December 28, 2019 were determined by utilizing current trading prices obtained from indicative market data. As a result, the fair value measurements of the Company's senior term notes and debentures are considered to be Level 2.

	September 26, 2020		December 28, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
6.375% Senior Notes	\$ 328,055	\$ 314,325	\$ 327,222	\$ 305,250
Junior Subordinated Debentures	123,688	121,821	124,814	148,731

Cash, accounts receivable, accounts payable, and accrued liabilities are reflected in the Condensed Consolidated Financial Statements at book value, which approximates fair value, due to the short-term nature of these instruments. The carrying

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

amount of the long-term debt under the revolving credit facility approximates the fair value at September 26, 2020 and December 28, 2019 as the interest rate is variable and approximates current market rates. The Company also believes the carrying amount of the long-term debt under the senior term loan approximates the fair value at September 26, 2020 and December 28, 2019 because, while subject to a minimum LIBOR floor rate, the interest rate approximates current market rates of debt with similar terms and comparable credit risk.

**14. Segment Reporting:**

The Company's segment reporting structure uses the Company's management reporting structure as the foundation for how the Company manages its business. The Company periodically evaluates its segment reporting structure in accordance with ASC 350-20-55 and has concluded that it has three reportable segments as of September 26, 2020: Fastening, Hardware, and Personal Protective Solutions, Consumer Connected Solutions, and Canada. The Company evaluates the performance of its segments based on revenue and income (loss) from operations, and does not include segment assets nor non-operating income/expense items for management reporting purposes.

The table below presents revenues and income (loss) from operations for our reportable segments for the thirteen and thirty-nine weeks ended September 26, 2020 and thirteen and thirty-nine weeks ended September 28, 2019.

	Thirteen Weeks Ended September 26, 2020	Thirteen Weeks Ended September 28, 2019	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
<b>Revenues</b>				
Fastening, Hardware, and Personal Protective Solutions	\$ 300,307	\$ 222,947	\$ 782,983	\$ 650,954
Consumer Connected Solutions	59,186	61,797	157,691	179,375
Canada	39,187	32,533	100,552	99,235
Total revenues	<u>\$ 398,680</u>	<u>\$ 317,277</u>	<u>\$ 1,041,226</u>	<u>\$ 929,564</u>
<b>Segment income (loss) from operations</b>				
Fastening, Hardware, and Personal Protective Solutions	\$ 30,107	\$ 8,000	\$ 63,383	\$ 16,361
Consumer Connected Solutions	3,046	4,243	4,432	3,859
Canada	1,949	(2,290)	(2,539)	(1,456)
Total income from operations	<u>\$ 35,102</u>	<u>\$ 9,953</u>	<u>\$ 65,276</u>	<u>\$ 18,764</u>

**Item 2.**

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

The following discussion provides information which the Company's 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 accompanying notes in addition to the consolidated statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 28, 2019.

***Forward-Looking Statements***

Certain disclosures related to acquisitions, 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, as amended. 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 the caption "Risk Factors" set forth in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 28, 2019. 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 our behalf are expressly qualified in their entirety by the cautionary statements included in this report and the risks and uncertainties discussed under the caption "Risk Factors" set forth in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 28, 2019; they should not be regarded as a representation by the Company or any other individual. We undertake no obligation to update publicly 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.

***General***

The Hillman Companies, Inc. and its wholly-owned subsidiaries (collectively, "Hillman" or "Company") are one of the largest providers of hardware-related products and related merchandising services to retail markets in North America. Our principal business is operated through the wholly-owned subsidiary, The Hillman Group, Inc. and its wholly-owned subsidiaries (collectively, "Hillman Group"). Hillman Group sells its products to hardware stores, home centers, mass merchants, pet supply stores, and other retail outlets principally in the United States, Canada, Mexico, Latin America, and the Caribbean. Product lines include thousands of small parts such as fasteners and related hardware items; threaded rod and metal shapes; keys, key duplication systems, and accessories; builder's hardware; personal protective equipment; and identification items, such as tags and letters, numbers, and signs. We support our product sales with services that include design and installation of merchandising systems and maintenance of appropriate in-store inventory levels.

***Current Economic Conditions***

Our business is impacted by general economic conditions in the North American and international markets, particularly the U.S. and Canadian retail markets including hardware stores, home centers, mass merchants, and other retailers.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China, and has since spread to a number of other countries, including the United States and Canada. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Efforts to contain the spread of COVID-19 intensified during our fiscal 2020 second quarter and remained in effect throughout our third quarter. Most states and municipalities within the U.S. enacted temporary closures of businesses, issued quarantine orders and took other restrictive measures in response to the COVID-19 pandemic. Within the United States and Canada, our business has been designated an essential business, which allows us to continue to serve customers that remain open.

While all of our operations are located in North America, we participate in a global supply chain, and the existence of a worldwide pandemic and the reactions of governments around the world in response to COVID-19 to regulate the flow of labor and products began to impact our business in March 2020. If we need to close any of our facilities or a critical number of our employees become too ill to work, our distribution network could be materially adversely affected in a rapid manner. Similarly, if our customers experience adverse business consequences due to COVID-19, demand for our products could also be materially adversely affected in a rapid manner. The Company continues to experience customer demand both during the thirteen and thirty-nine weeks ended September 26, 2020 and during the subsequent period. Our teams continue to monitor demand disruption and there can be no assurance as to the level of demand that will prevail through the remainder of fiscal 2020. A large portion of our customers continue to operate and sell our products, with some customers reducing operations or restricting some access to portions of the retail space. The magnitude of the financial impact on our quarterly and annual results is dependent on the duration of the COVID-19 pandemic and how quickly the U.S. and Canada economies resume normal operations.

An extended period of global supply chain, workforce availability, and economic disruption could materially affect the Company's business, the results of operations, financial condition, access to sources of liquidity, and the carrying value of goodwill and intangible assets. While a triggering event did not occur during the thirteen and thirty-nine weeks ended September 26, 2020, a prolonged COVID-19 pandemic could negatively impact net sales growth, change key assumptions and other global and regional macroeconomic factors that could result in future impairment charges for goodwill, indefinite-lived intangible assets and definite lived intangible assets. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot predict the extent to which our business, results of operations, financial condition, or liquidity will ultimately be impacted.

We are exposed to the risk of unfavorable changes in foreign currency exchange rates for the U.S. dollar versus local currency of our suppliers located primarily in China and Taiwan. We purchase a significant variety of our products for resale from multiple vendors located in China and Taiwan. The purchase price of these products is routinely negotiated in U.S. dollar amounts rather than the local currency of the vendors and our suppliers' profit margins decrease when the U.S. dollar declines in value relative to the local currency. This puts pressure on our suppliers to increase prices to us. The U.S. dollar increased in value relative to the CNY by approximately 5.7% in 2018, increased by 1.7% in 2019, and declined by 2.5% during the thirty-nine weeks ended September 26, 2020. The U.S. dollar increased in value relative to the Taiwan dollar by approximately 3.3% in 2018, declined by 0.2% in 2019, and declined by 4.0% during the thirty-nine weeks ended September 26, 2020.

In addition, the negotiated purchase price of our products may be dependent upon market fluctuations in the cost of raw materials such as steel, zinc, and nickel used by our vendors in their manufacturing processes. The final purchase cost of our products may also be dependent upon inflation or deflation in the local economies of vendors in China and Taiwan that could impact the cost of labor used in the manufacturing of our products. We identify the directional impact of changes in our product cost, but the quantification of each of these variable impacts cannot be measured as to the individual impact on our product cost with a sufficient level of precision.

We are also exposed to risk of unfavorable changes in the Canadian dollar exchange rate versus the U.S. dollar. Our sales in Canada are denominated in Canadian dollars while a majority of the products are sourced in U.S. dollars. A weakening of the Canadian dollar versus the U.S. dollar results in lower sales in terms of U.S. dollars while the cost of sales remains unchanged. We have a practice of hedging some of our Canadian subsidiary's purchases denominated in U.S. dollars. The U.S. dollar increased in value relative to the Canadian dollar by approximately 8.7% in 2018, declined by 4.1% in 2019, and increased by 2.4% during the thirty-nine weeks ended September 26, 2020. We may take pricing action, when warranted, in an attempt to offset a portion of product cost increases. The ability of our operating divisions to institute price increases and seek price concessions, as appropriate, is dependent on competitive market conditions.

## ***Results of Operations***

The following analysis of results of operations includes a brief discussion of the factors that affected our operating results and a comparative analysis of the thirteen weeks ended September 26, 2020 and the thirteen weeks ended September 28, 2019.

**Thirteen weeks ended September 26, 2020 vs the Thirteen weeks ended September 28, 2019**

(dollars in thousands)	Thirteen Weeks Ended September 26, 2020		Thirteen Weeks Ended September 28, 2019	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 398,680	100.0 %	\$ 317,277	100.0 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	227,481	57.1 %	176,586	55.7 %
Selling, general and administrative expenses	107,333	26.9 %	99,329	31.3 %
Depreciation	15,926	4.0 %	16,269	5.1 %
Amortization	14,883	3.7 %	14,665	4.6 %
Other (income) expense	(2,045)	(0.5)%	475	0.1 %
Income from operations	35,102	8.8 %	9,953	3.1 %
Interest expense, net of investment income	23,813	6.0 %	27,939	8.8 %
Mark-to-market adjustment of interest rate swap	(773)	(0.2)%	315	0.1 %
Income (loss) before income taxes	12,062	3.0 %	(18,301)	(5.8)%
Income tax expense (benefit)	1,400	0.4 %	(3,775)	(1.2)%
Net income (loss)	\$ 10,662	2.7 %	\$ (14,526)	(4.6)%

**Net Sales**

Net sales for the third quarter of 2020 were \$398.7 million, an increase of approximately \$81.4 million compared to net sales of \$317.3 million for the third quarter of 2019. Sales of personal protective equipment increased by \$38.3 million due to high demand for gloves and face masks. Construction fastener products sales increased \$11.8 million driven by strong sales with big box retailers and traditional hardware stores. Additionally, we saw strong demand for core fasteners, which increased \$9.0 million, rods shapes and sheets, which increased \$4.1 million, and strong sales across our other fastening and hardware categories. Sales in Canada increased \$6.7 million primarily driven by strong demand with big box retailers as restrictions related to COVID-19 were lifted. These increases were offset by a decrease of \$4.3 million in key sales. Key sales were negatively impacted by restricted access to key duplicating kiosks and retail key duplication services as a result of COVID-19. As the economy has started to reopen, our service team has worked closely with our customers to restore access to key machines.

**Cost of Sales**

Our cost of sales was \$227.5 million, or 57.1% of net sales, in the third quarter of 2020, an increase of approximately \$50.9 million compared to \$176.6 million, or 55.7% of net sales, in the third quarter of 2019. The increase of 1.4% in cost of sales, expressed as a percent of net sales, in the third quarter of 2020 compared to the third quarter of 2019 was primarily due to a higher mix of construction fastener products and personal protective equipment and a lower mix of keys.

**Expenses**

Selling, general, and administrative ("SG&A") expenses were approximately \$107.3 million in the thirteen weeks ended September 26, 2020, an increase of approximately \$8.0 million, compared to \$99.3 million in the thirteen weeks ended September 28, 2019. The following changes in underlying trends impacted the change in operating expenses:

- Selling expense was \$39.4 million in the third quarter of 2020, an increase of \$0.2 million compared to \$39.2 million in the third quarter of 2019. The increase in selling expense was primarily due to increased variable and incentive compensation partially offset by lower marketing, travel and entertainment expense in the third quarter of 2020.
- Warehouse and delivery expenses were \$43.9 million in the third quarter of 2020, an increase of \$7.8 million compared to \$36.1 million in the third quarter of 2019. The additional expense was primarily due higher variable and incentive compensation and freight expense related to increased sales. Additionally, we incurred \$1.0 million of increased labor driven by premium pay offered to warehouse workers during the COVID-19 pandemic along with additional supplies and personal protective equipment for our facilities.
- General and administrative (“G&A”) expenses were \$24.0 million in the third quarter of 2020, which was consistent with the \$24.0 million in the third quarter of 2019. In the third quarter of 2020 we incurred higher incentive compensation and legal fees which were offset by lower acquisition and integration expense.

Depreciation expense was \$15.9 million in the third quarter of 2020 compared to depreciation expense of \$16.3 million in the third quarter of 2019. Amortization expense was \$14.9 million in the third quarter of 2020 which was comparable to the third quarter of 2019.

Other income was \$2.0 million in the third quarter of 2020 compared to other expense of \$0.5 million in the third quarter of 2019. In the third quarter of 2020 other income consisted primarily of \$1.8 million in cash received from the Canadian government as a part of the Canada Emergency Wage Subsidy program for relief during the second quarter shutdown in Canada during the COVID-19 outbreak. We also recorded exchange rate gains of \$0.3 million in the third quarter of 2020. Other expense in the third quarter of 2019 was comprised primarily \$0.3 million of exchange rate gains.

**Thirty-nine weeks ended September 26, 2020 vs the Thirty-nine weeks ended September 28, 2019**

(dollars in thousands)	Thirty-nine Weeks Ended September 26, 2020		Thirty-nine Weeks Ended September 28, 2019	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,041,226	100.0 %	\$ 929,564	100.0 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	590,294	56.7 %	523,816	56.4 %
Selling, general and administrative expenses	292,056	28.0 %	288,047	31.0 %
Depreciation	50,673	4.9 %	48,740	5.2 %
Amortization	44,596	4.3 %	44,114	4.7 %
Other (income) expense	(1,669)	(0.2)%	6,083	0.7 %
Income from operations	65,276	6.3 %	18,764	2.0 %
Interest expense, net of investment income	77,018	7.4 %	86,681	9.3 %
Mark-to-market adjustment of interest rate swap	1,169	0.1 %	3,217	0.3 %
Loss before income taxes	(12,911)	(1.2)%	(71,134)	(7.7)%
Income tax benefit	(9,593)	(0.9)%	(1,844)	(0.2)%
Net loss	\$ (3,318)	(0.3)%	\$ (69,290)	(7.5)%

**Net Sales**

Net sales for the thirty-nine weeks ended September 26, 2020 were \$1,041.2 million, an increase of approximately \$111.7 million compared to net sales of \$929.6 million for the thirty-nine weeks ended September 28, 2019. Sales of personal protective equipment increased by \$53.7 million due to high demand for gloves and face masks. Construction fastener products sales increased \$41.2 million driven by strong sales with big box retailers and traditional hardware stores. Additionally, we saw strong demand for core fasteners, which increased \$13.9 million, builders hardware, which increased \$7.3 million, rods shapes and sheets, which increased \$5.9 million, and strong sales across our other fastening and hardware categories. Finally, sales in



Canada increased \$1.3 million, primarily due to strong demand with big box retailers as restrictions related to COVID-19 were lifted. These increases were offset by a decrease of \$20.7 million in key sales in the United States. Key sales were negatively impacted by restricted access to key duplicating kiosks and retail key duplication services as a result of COVID-19. As the economy has started to reopen, our service team has worked closely with our customers to restore access to key machines.

#### **Cost of Sales**

Our cost of sales was \$590.3, or 56.7% of net sales, in the thirty-nine weeks ended September 26, 2020, an increase of approximately \$66.5 compared to \$523.8, or 56.4% of net sales, in the thirty-nine weeks ended September 28, 2019. The increase of 0.3% in cost of sales, expressed as a percent of net sales, in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019 was primarily due to a higher mix of construction fastener products and personal protective solutions offset by sourcing savings. Additionally, in the thirty-nine weeks ended September 28, 2019, net sales was reduced by \$6.1 million for payments made to customers associated with the new product line roll outs for construction fastener products and builders hardware.

#### **Expenses**

Selling, general, and administrative ("SG&A") expenses were approximately \$292.1 million in the thirty-nine weeks ended September 26, 2020, an increase of approximately \$4.0 million, compared to \$288.0 million in the thirty-nine weeks ended September 28, 2019. The following changes in underlying trends impacted the change in operating expenses:

- Selling expense was \$111.4 million in the thirty-nine weeks ended September 26, 2020, a decrease of \$8.0 million compared to \$119.4 million in the thirty-nine weeks ended September 28, 2019. The decrease in selling expense was primarily due to lower marketing and travel and entertainment expense in the thirty-nine weeks ended September 26, 2020. Additionally, we had lower compensation cost as a result of the restructuring in our U.S. operations that began in the fourth quarter of 2019.
- Warehouse and delivery expenses were \$118.6 million in the thirty-nine weeks ended September 26, 2020, an increase of \$12.2 million compared to \$106.4 million in the thirty-nine weeks ended September 28, 2019. The additional expense was primarily due to higher variable compensation and freight expenses related to increased sales. The remaining increase was due to \$2.6 million of increased labor driven by premium pay offered to warehouse workers during the COVID-19 outbreak along with additional supplies and personal protective equipment for our facilities.
- General and administrative ("G&A") expenses were \$62.0 million in the thirty-nine weeks ended September 26, 2020, a decrease of \$0.3 million compared to \$62.3 million in the thirty-nine weeks ended September 28, 2019. The decrease was primarily due to decreased acquisition and integration expense. The decrease was partially offset by increased incentive compensation expense and increased legal fees (see Note 6 - Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements for additional information).

Depreciation expense was \$50.7 million in the thirty-nine weeks ended September 26, 2020 compared to depreciation expense of \$48.7 million in the thirty-nine weeks ended September 28, 2019. The increase was primarily driven by our investment in key duplication machines and merchandising racks.

Amortization expense was \$44.6 million in the thirty-nine weeks ended September 26, 2020 which was comparable to the thirty-nine weeks ended September 28, 2019.

Other income was \$1.7 million in the thirty-nine weeks ended September 26, 2020 compared to other expense of \$6.1 million in the thirty-nine weeks ended September 28, 2019. In the thirty-nine weeks ended September 26, 2020 other income consisted primarily of \$1.8 million in cash received from the Canadian government as part of the Canada Emergency Wage Subsidy program for relief during the second quarter shutdown in Canada during the COVID-19 outbreak. Additionally, we recorded a \$1.3 million gain on the revaluation of the contingent consideration associated with the acquisition of Resharp, see Note 13 - Fair Value Measurements of the Notes to the Condensed Consolidated Financial Statements for additional information. These gains were partially offset by exchange rate losses of \$1.4 million. Other expense in the thirty-nine weeks ended September 28, 2019 consisted of an impairment charge of \$6.9 million related to the loss on the disposal of our FastKey self-service key duplicating kiosks. These losses were offset by a gain the sale of machinery and equipment of \$0.4 million (see Note 9 - Restructuring of the Notes to the Condensed Consolidated Financial statements for additional information) and exchange rate gains of \$0.5 million.

## Results of Operations – Operating Segments

The following tables provides supplemental information regarding our net sales and profitability by operating segment for the thirteen and thirty-nine weeks ended September 26, 2020 and the thirteen and thirty-nine weeks ended September 28, 2019 (dollars in thousands):

### Fastening, Hardware, and Personal Protective Solutions

	Thirteen Weeks Ended September 26, 2020	Thirteen Weeks Ended September 28, 2019	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
<i>Fastening, Hardware, and Personal Protective Solutions</i>				
Revenues	\$ 300,307	\$ 222,947	\$ 782,983	\$ 650,954
Segment income from operations	30,107	8,000	63,383	16,361

### Thirteen weeks ended September 26, 2020 vs the Thirteen weeks ended September 28, 2019

#### Net Sales

Net sales for our Fastening, Hardware, and Personal Protective Solutions operating segment increased by \$77.4 million in thirteen weeks ended September 26, 2020 to \$300.3 million as compared to \$222.9 million in the thirteen weeks ended September 28, 2019. The increase was primarily due to sales of personal protective equipment which increased by \$38.3 million due to high demand for gloves and face masks. Construction fastener products sales increased \$11.8 million driven by strong sales with big box retailers and traditional hardware stores. Additionally, we saw strong demand for core fasteners, which increased \$9.0 million, rods shapes and sheets, which increased \$4.1 million, and strong sales across our other fastening and hardware categories. The remaining increase in net sales was driven by price increases initiated throughout the second quarter of 2019 to offset the impact of tariffs.

#### Income from Operations

Income from operations of our Fastening, Hardware, and Personal Protective Solutions operating segment increased by approximately \$22.1 million in the thirteen weeks ended September 26, 2020 to \$30.1 million as compared to \$8.0 million in the thirteen weeks ended September 28, 2019. The increase was driven by the increase in sales partially offset by increased cost of goods sold and warehouse expenses.

- Driven primarily by the increased sales, cost of good sold increased by approximately \$47.0 million in the thirteen weeks ended September 26, 2020 to \$181.3 million as compared to \$134.3 million in the thirteen weeks ended September 28, 2019. Cost of sales as a percentage of net sales was 60.4% in the thirteen weeks ended September 26, 2020, an increase of 0.2% from 60.2% in the thirteen weeks ended September 28, 2019. The increase in cost of sales as a percentage of net sales was primarily driven the higher mix of sales of construction fastener products and personal protective products in the thirteen weeks ended September 26, 2020.
- Warehouse expense increased \$7.9 million in the thirteen weeks ended September 26, 2020 compared to the thirteen weeks ended September 28, 2019. The additional expense was primarily due to increased labor driven by premium pay offered to warehouse workers during the COVID-19 pandemic along with additional supplies and personal protective equipment for our facilities. The remaining increase was primarily due to higher variable compensation and freight expenses related to increased sales.

### Thirty-nine weeks ended September 26, 2020 vs the Thirty-nine weeks ended September 28, 2019

#### Net Sales

Net sales for our Fastening, Hardware, and Personal Protective Solutions operating segment increased by \$132.0 million in thirty-nine weeks ended September 26, 2020 to \$783.0 million as compared to \$651.0 million in the thirty-nine weeks ended September 28, 2019. Sales of personal protective equipment increased by \$53.7 million due to high demand for gloves and face masks. Construction fastener products sales increased \$41.2 million driven by strong sales with big box retailers and traditional hardware stores. Additionally, we saw strong demand for core fasteners, which increased \$13.9 million, builders hardware, which increased \$7.3 million, rods shapes and sheets, which increased \$5.9 million, and strong sales across our other fastening and hardware categories. The remaining increase in net sales was driven by price increases initiated throughout the second quarter of 2019 to offset the impact of tariffs.

#### Income from Operations

Income from operations of our Fastening, Hardware, and Personal Protective Solutions operating segment increased by approximately \$47.0 million in the thirty-nine weeks ended September 26, 2020 to \$63.4 million as compared to \$16.4 million in the thirty-nine weeks ended September 28, 2019. The increase was driven by the increase in sales along with lower selling and general and administrative expenses.

- Driven primarily by the increased sales, cost of good sold increased by approximately \$72.8 million in the thirty-nine weeks ended September 26, 2020 to \$473.0 million as compared to \$400.2 million in the thirteen weeks ended September 28, 2019. Cost of sales as a percentage of net sales was 60.4% in the thirty-nine weeks ended September 26, 2020, a decrease of 1.1% from 61.5% in the thirteen weeks ended September 28, 2019. The decrease in cost of sales as a percentage of net sales was primarily driven \$6.1 million for payments made to customers in the thirty-nine weeks ended September 28, 2019 associated with the new product line roll outs for construction fastener products and builders hardware combined with sourcing savings. This was partially offset by a higher mix of construction fastener products and personal protective solutions.
- Warehouse expense increased \$12.0 million in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019. The additional expense was primarily due to increased labor driven by premium pay offered to warehouse workers during the COVID-19 pandemic along with additional supplies and personal protective equipment for our facilities. The remaining increase was primarily due to higher variable and incentive compensation expense related to increased sales.
- General and administrative (“G&A”) expenses decreased \$3.2 million in the thirty-nine weeks ended September 26, 2020. The decrease was primarily due to decreased integration expenses for acquisitions completed in 2018 partially offset by increased incentive compensation in the thirty-nine weeks ended September 26, 2020.
- Depreciation expense increased \$2.0 million in the thirty-nine weeks ended September 26, 2020 due to our merchandising racks.

#### *Consumer Connected Solutions*

	<b>Thirteen Weeks Ended September 26, 2020</b>	<b>Thirteen Weeks Ended September 28, 2019</b>	<b>Thirty-nine Weeks Ended September 26, 2020</b>	<b>Thirty-nine Weeks Ended September 28, 2019</b>
<i>Consumer Connected Solutions</i>				
Revenues	\$ 59,186	\$ 61,797	\$ 157,691	\$ 179,375
Segment income from operations	3,046	4,243	4,432	3,859

### Thirteen weeks ended September 26, 2020 vs the Thirteen weeks ended September 28, 2019

#### Net Sales

Net sales in our Consumer Connected Solutions operating segment decreased by \$2.6 million in the thirteen weeks ended September 26, 2020 to \$59.2 million as compared to \$61.8 million in the thirteen weeks ended September 28, 2019. The lower sales were primarily due to a decrease of \$4.3 million in keys sales partially offset by an increase of \$1.6 million in engraving

sales. Key sales were negatively impacted by restricted access to retail key duplication services as a result of COVID-19. As the economy has started to reopen, our service team has worked closely with our customers to restore access to key duplicating services.

#### **Income from Operations**

Income from operations of our Consumer Connected Solutions operating segment decreased by approximately \$1.2 million in the thirteen weeks ended September 26, 2020 to \$3.0 million as compared to \$4.2 million in the thirteen weeks ended September 28, 2019. The decreased sales were partially offset by lower depreciation expense. Depreciation expense decreased \$1.0 million due to certain key machines and other assets becoming fully depreciated.

#### **Thirty-nine weeks ended September 26, 2020 vs the Thirty-nine weeks ended September 28, 2019**

##### **Net Sales**

Net sales in our Consumer Connected Solutions operating segment decreased \$21.7 million in thirty-nine weeks ended September 26, 2020 to \$157.7 million as compared to \$179.4 million in the thirty-nine weeks ended September 28, 2019. The lower sales were primarily due to decreases of \$20.7 million and \$1.0 million in key and engraving sales, respectively. Key and engraving sales were negatively impacted by reduced retail foot traffic and restricted access to key duplicating and engraving kiosks along with retail key duplication services as a result of COVID-19. As the economy has started to reopen, our service team has worked closely with our customers to restore access to key duplicating and engraving kiosks.

#### **Income from Operations**

Income from operations of our Consumer Connected Solutions operating segment increased by approximately \$0.6 million in the thirty-nine weeks ended September 26, 2020 to income of \$4.4 million as compared to \$3.9 million in the thirty-nine weeks ended September 28, 2019. The decreased sales were offset by decreases in cost of good sold, selling, warehouse expenses, and other income and expense. These decreases were partially offset by increased general and administrative expense.

- Driven primarily by the decreased sales, cost of good sold decreased by approximately \$7.4 million in the thirty-nine weeks ended September 26, 2020 to \$50.5 million as compared to \$57.9 million in the thirty-nine weeks ended September 28, 2019. Cost of sales as a percentage of net sales was 32.0% in the thirty-nine weeks ended September 26, 2020, a decrease of 0.3% from 32.3% in the thirty-nine weeks ended September 28, 2019. The decrease in cost of sales as a percentage of net sales was primarily driven by a higher mix of self service key sales.
- Selling expense decreased \$6.5 million in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019. The decrease was primarily due to lower sales commissions for kiosk sales and reduced travel and compensation expense.
- Warehouse expense decreased \$1.6 million in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019. The decrease was primarily due to lower freight and shipping expenses driven by lower sales volume.
- General and administrative expense increased by \$2.8 million primarily due to increased legal fees associated with our ongoing litigation with KeyMe (see Note 6 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information).
- Other income increased by \$8.0 million in the thirty-nine weeks ended September 26, 2020 compared to the thirty-nine weeks ended September 28, 2019. Other income was \$1.3 million in the thirty-nine weeks ended September 26, 2020 and was driven by revaluation of the contingent consideration associated with the acquisition of Resharp, see Note 13 - Fair Value Measurements of the Notes to the Condensed Consolidated Financial Statements for additional information. In the thirty-nine weeks ended September 28, 2019 other expense was comprised primarily of an impairment charge of \$6.9 million related to the loss on the disposal of our FastKey self-service key duplicating kiosks and related assets.

## Canada

	Thirteen Weeks Ended September 26, 2020	Thirteen Weeks Ended September 28, 2019	Thirty-nine Weeks Ended September 26, 2020	Thirty-nine Weeks Ended September 28, 2019
<i>Canada</i>				
Revenues	\$ 39,187	\$ 32,533	\$ 100,552	\$ 99,235
Segment income (loss) from operations	1,949	(2,290)	(2,539)	(1,456)

### Thirteen weeks ended September 26, 2020 vs the Thirteen weeks ended September 28, 2019

#### Net Sales

Net sales in our Canada operating segment increased by \$6.7 million in the thirteen weeks ended September 26, 2020 to \$39.2 million as compared to \$32.5 million in the thirteen weeks ended September 28, 2019. The increase was primarily due to strong demand with big box retailers.

#### Income from Operations

Income from operations of our Canada operating segment increased by approximately \$4.2 million in the thirteen weeks ended September 26, 2020 to \$1.9 million as compared to a loss of \$2.3 million in the thirteen weeks ended September 28, 2019. The increase in sales was partially offset by increased cost of good sold. In the third quarter of 2020 other income consisted primarily of \$1.8 million in cash received from the Canadian government as a part of the Canada Emergency Wage Subsidy program for relief during the second quarter shutdown in Canada during the COVID-19 outbreak.

### Thirty-nine weeks ended September 26, 2020 vs the Thirty-nine weeks ended September 28, 2019

#### Net Sales

Net sales in our Canada operating segment increased by \$1.3 million in the thirty-nine weeks ended September 26, 2020 to \$100.6 million as compared to \$99.2 million in the thirty-nine weeks ended September 28, 2019. The increase was primarily due to strong demand with big box retailers as restrictions related to COVID-19 were lifted. Hardware stores in Ontario, Canada were closed to in store shopping for a portion of the second quarter leading to lower sales during that period.

#### Income from Operations

Income from operations of our Canada operating segment decreased by approximately \$1.1 million in the thirty-nine weeks ended September 26, 2020 to a loss of \$2.5 million as compared to a loss of \$1.5 million in the thirty-nine weeks ended September 28, 2019. The decrease was driven by increased warehouse expense. We incurred additional warehouse expense of \$0.5 million in 2020 related to restructuring activities in our Canada segment (see Note 9 - Restructuring of the Notes to the Condensed Consolidated Financial Statements for additional information). The remaining decrease was primarily due to higher variable compensation and freight expenses related to increased sales.

#### Income Taxes

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. The CARES Act provides a substantial stimulus and assistance package intended to address the impact of the COVID-19 pandemic, and among other things, provides tax relief for businesses. The Company has analyzed the available benefits provided with the CARES Act and intends to utilize the 50% limitation of Adjusted Taxable Income for Section 163(j), the payroll tax deferrals, and the accelerated refund from prior year alternative minimum tax credits.

In the thirteen weeks ended September 26, 2020, we recorded an income tax provision of \$1.4 million on pre-tax income of \$12.1 million. In the thirty-nine weeks ended September 26, 2020, we recorded an income tax benefit of \$9.6 million on a pre-

tax loss of \$12.9 million. The effective income tax rate was 11.6% and 74.3% for the thirteen and thirty-nine weeks ended September 26, 2020, respectively.

In the thirteen weeks ended September 28, 2019, we recorded an income tax benefit of \$3.8 million on a pre-tax loss of \$18.3 million. In the thirty-nine weeks ended September 28, 2019, we recorded an income tax benefit of \$1.8 million on a pre-tax loss of \$71.1 million. The effective income tax rate was 20.6% and 2.6% for the thirteen and thirty-nine weeks ended September 28, 2019, respectively.

The effective income tax rate differed from the federal statutory tax rate in the thirteen weeks ended September 26, 2020 primarily due a change in the IRC Section 163(j) interest limitation under the CARES Act, state and foreign income taxes, and certain non-deductible expenses.

The effective income tax rate differed from the federal statutory tax rate in the thirteen weeks ended September 28, 2019 primarily due a change in the IRC Section 163(j) interest limitation. The remaining differences were due to state and foreign income taxes, and certain non-deductible expenses.

### ***Liquidity and Capital Resources***

The statements of cash flows reflect the changes in cash and cash equivalents for the thirty-nine weeks ended September 26, 2020 and the thirty-nine weeks ended September 28, 2019 by classifying transactions into three major categories: operating, investing, and financing activities.

Net cash provided by operating activities for the thirty-nine weeks ended September 26, 2020 was \$67.6 million as compared to \$34.9 million in the comparable prior year period. Operating cash flows for the thirty-nine weeks ended September 26, 2020 were favorably impacted by the increased net income in the current year. Operating cash flows for the thirty-nine weeks ended September 28, 2019 were unfavorably impacted by the increase in inventory due to new business wins and tariffs..

Net cash used by investing activities was \$30.0 million and \$37.3 million for the thirty-nine weeks ended September 26, 2020 and the thirty-nine weeks ended September 28, 2019, respectively. The primary use of cash in both periods was our investment in new key duplicating kiosks and machines. In 2019, we also received \$9.9 million in cash proceeds from the sale of a building and machinery in Canada.

Net cash used for financing activities was \$24.6 million for the thirty-nine weeks ended September 26, 2020. Our revolver draws, net of repayments, provided cash of \$16.0 million in the thirty-nine weeks ended September 26, 2020. Additionally, we used cash to pay \$8.0 million in principal payments on the senior term loan under the Senior Facilities.

Net cash used by financing activities was \$12.9 million for the thirty-nine weeks ended September 28, 2019. Revolver repayments were \$5.2 million, net of draws, in the thirty-nine weeks ended September 28, 2019. Additionally, we used cash to pay \$8.0 million in principal payments on the senior term loan under the Senior Facilities.

Management believes that projected cash flows from operations and revolver availability will be sufficient to fund working capital and capital expenditure needs for the next 12 months. Our working capital (current assets minus current liabilities) position of \$263.2 million as of September 26, 2020 represents an increase of \$31.4 million from the December 28, 2019 level of \$231.8 million. Because COVID-19 pandemic has not, as of the date of this report, had a materially negative impact on our operations or demand for our products, it has not had a materially negative impact on the Company's liquidity position. We have initiated mitigating efforts to manage non-critical capital spending, assess operating spend, and preserve cash. We expect to generate sufficient operating cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets, although there can be no assurance of our ability to do so. However, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources and liquidity in the future.

### ***Off-Balance Sheet Arrangements***

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

### ***Critical Accounting Policies and Estimates***

Significant accounting policies and estimates are summarized in the notes 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 that these estimates and assumptions are reasonable based on the facts and circumstances as of September 26, 2020, however, actual results may differ from these estimates under different assumptions and circumstances.

There have been no material changes to our critical accounting policies and estimates which are discussed in the “Critical Accounting Policies and Estimates” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of the Annual Report on Form 10-K for the year ended December 28, 2019, as filed with the Securities and Exchange Commission. In addition, our most significant accounting policies are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 28, 2019.

### ***Recent Accounting Pronouncements***

See “Note 3 - Recent Accounting Pronouncements” of the Notes to Condensed Consolidated Financial Statements.

## **Item 3.**

### ***Quantitative and Qualitative Disclosures About Market Risk***

#### **Interest Rate Exposure**

We are exposed to the impact of interest rate changes as borrowings under the Senior Facilities bear interest at variable interest rates. It is our policy to enter into interest rate swap and interest rate cap transactions only to the extent considered necessary to meet our objectives. Furthermore, regulatory changes, such as the announcement of the United Kingdom’s Financial Conduct Authority to phase out the London Interbank Offered Rate (“LIBOR”) by the end of 2021, may adversely affect our floating rate debt and interest rate derivatives. If LIBOR ceases to exist, we may need to renegotiate any credit agreements or interest rate derivatives agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate or hedge rate, which could adversely impact our cost of debt.

Based on our exposure to variable rate borrowings at September 26, 2020, after consideration of our LIBOR floor rate and interest rate swap agreements, 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 \$9.9 million.

#### **Foreign Currency Exchange**

We are exposed to foreign exchange rate changes of the Canadian and Mexican currencies as they impact the \$153.9 million tangible and intangible net asset value of our Canadian and Mexican subsidiaries as of September 26, 2020. The foreign subsidiaries net tangible assets were \$64.0 million and the net intangible assets were \$89.9 million as of September 26, 2020.

We utilize foreign exchange forward contracts to manage the exposure to currency fluctuations in the Canadian dollar versus the U.S. Dollar. See Note 12 - Derivatives and Hedging of the Notes to Condensed Consolidated Financial Statements.

## **Item 4.**

### ***Controls and Procedures***

#### **Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of September 26, 2020, in ensuring that material information required to be disclosed in reports that we file or submit 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 were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the thirty-nine weeks ended September 26, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. – Legal Proceedings.**

We are subject to various claims and litigation that arise in the normal course of business. In the opinion of our management, the ultimate resolution of the pending litigation matters will not have a material adverse effect on our condensed consolidated financial position, operations, or cash flows.

### **Item 1A – Risk Factors.**

Except as set forth below, there have been no material changes to the risks from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 28, 2019.

#### ***Our operations and results could be adversely affected by the recent outbreak of the disease caused by the novel coronavirus (COVID-19).***

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China, and has since spread to a number of other countries, including the United States and Canada. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Several states in the United States, including Ohio, where we are headquartered, have declared states of emergency, and several countries around the world have taken steps to restrict travel. A number of countries, as well as certain states and cities within the United States, have also enacted temporary closures of businesses, issued quarantine orders and taken other restrictive measures in response to the COVID-19 pandemic. Within the United States, our business has been designated an essential business, which allows us to continue to serve customers that remain open.

While all of our operations are located in North America, we participate in a global supply chain, and the existence of a worldwide pandemic and the reactions of governments around the world in response to COVID-19 to regulate the flow of labor and products began to impact our business in March 2020. If we need to close any of our facilities or a critical number of our employees become too ill to work, our distribution network could be materially adversely affected in a rapid manner. Similarly, if our customers experience adverse business consequences due to COVID-19, demand for our products could also be materially adversely affected in a rapid manner. The Company continues to experience customer demand both during the thirteen and thirty-nine weeks ended September 26, 2020 and during the subsequent period. Our teams continue to monitor demand disruption and there can be no assurance as to the level of demand that will prevail through the remainder of fiscal 2020. A large portion of our customers continue to operate and sell our products, with some customers reducing operations or restricting some access to portions of the retail space. The magnitude of the financial impact on our quarterly and annual results is dependent on the duration of the COVID-19 pandemic and how quickly the U.S. and Canada economies resume normal operations.

An extended period of global supply chain, workforce availability and economic disruption could materially affect the Company's business, the results of operations, financial condition, access to sources of liquidity, and the carrying value of goodwill and intangible assets. While a triggering event did not occur during the thirteen and thirty-nine weeks ended September 26, 2020, a prolonged COVID-19 pandemic could negatively impact net sales growth, change key assumptions and other global and regional macroeconomic factors that could result in future impairment charges for goodwill and indefinite-lived intangible assets. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot predict the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted.



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

Not Applicable.

**Item 3. – Defaults Upon Senior Securities.**

Not Applicable.

**Item 4. – Mine Safety Disclosures.**

Not Applicable.

**Item 5. – Other Information.**

Not Applicable.

**Item 6. – Exhibits.**

a) Exhibits, including those incorporated by reference.

[31.1](#) \* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Exchange Act

[31.2](#) \* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Exchange Act

[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

[99.1](#) \* Supplemental Financial Information for The Hillman Companies, Inc.

101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2020 filed with the Securities and Exchange Commission on October 26, 2020, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets as of September 26, 2020 and December 28, 2019, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 26, 2020 and the thirteen and thirty-nine weeks ended September 28, 2019, (iii) Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended September 26, 2020 and the thirty-nine weeks ended September 28, 2019, and (iv) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith.

**SIGNATURES**

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

**THE HILLMAN COMPANIES, INC.**

/s/ Robert O. Kraft

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Robert O. Kraft  
Chief Financial Officer

/s/ Anne S. McCalla

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Anne S. McCalla  
Controller  
(Chief Accounting Officer)

DATE: October 26, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Douglas J. Cahill, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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.
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: October 26, 2020

/s/ Douglas J. Cahill

Douglas J. Cahill

President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Robert O. Kraft, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hillman Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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.
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: October 26, 2020

/s/ Robert O. Kraft  
Robert O. Kraft  
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the thirteen and thirty-nine weeks ended September 26, 2020 (the "Report") of The Hillman Companies, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof; I, Douglas J. Cahill, the President and 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 condition and results of operations of the Registrant.

/s/ Douglas J. Cahill

Name: Douglas J. Cahill

Date: October 26, 2020

**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 thirteen and thirty-nine weeks ended September 26, 2020 (the "Report") of The Hillman Companies, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof; I, Robert O. Kraft, 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 condition and results of operations of the Registrant.

/s/ Robert O. Kraft  
Name: Robert O. Kraft  
Date: October 26, 2020

**THE HILLMAN COMPANIES, INC. AND SUBSIDIARIES**  
**RECONCILIATION OF ADJUSTED EBITDA (Unaudited)**  
**(dollars in thousands)**

EBITDA and Adjusted EBITDA are not measures made in accordance with U.S. generally accepted accounting principles (“GAAP”), and as such, should not be considered a measure of financial performance or condition, liquidity, or profitability. It should not be considered an alternative to GAAP-based net income or income from operations or operating cash flows. Further, because not all companies use identical calculations, amounts reflected by Hillman as EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is included to satisfy a reporting obligation under our indenture. Adjusted EBITDA as presented herein does not include certain adjustments and pro forma run rate measures contemplated by our senior secured credit facilities and our indenture and may also include additional adjustments that were not applicable at the time of the offering of the senior notes governed by our indenture. Adjusted EBITDA is also one of the performance criteria for the Company's annual performance-based bonus plan. The reconciliation of Net loss to Adjusted EBITDA is presented below.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 26,	September 28,	September 26,	September 28,
	2020	2019	2020	2019
Net income (loss)	\$ 10,662	\$ (14,526)	\$ (3,318)	\$ (69,290)
Income tax provision (benefit)	1,400	(3,775)	(9,593)	(1,844)
Interest expense, net	20,688	24,882	67,746	77,509
Interest expense on junior subordinated debentures	3,219	3,152	9,555	9,456
Investment income on trust common securities	(94)	(95)	(283)	(284)
Depreciation	15,926	16,269	50,673	48,740
Amortization	14,883	14,665	44,596	44,114
EBITDA	66,684	40,572	159,376	108,401
Stock compensation expense	1,148	1,243	3,818	1,906
Management fees	130	140	451	396
Acquisition and integration expense	1,054	2,757	2,044	5,225
Retention and long term incentive bonuses	—	2,030	—	6,089
Non-recurring legal fees	2,979	—	5,654	—
Canada Restructuring <sup>(1)</sup>	651	1,874	3,362	3,111
U.S. Restructuring <sup>(2)</sup>	2,187	—	3,067	—
Restructuring and other costs <sup>(3)</sup>	1,254	2,905	2,693	13,027
Asset impairment costs <sup>(4)</sup>	—	96	210	6,896
Other non-recurring charges <sup>(5)</sup>	431	—	1,288	—
Change in fair value of contingent consideration	—	—	(1,300)	—
Mark-to-market adjustment on interest rate swaps	(773)	315	1,169	3,217
Adjusted EBITDA	\$ 75,745	\$ 51,932	\$ 181,832	\$ 148,268

1. Includes charges related to a restructuring plan announced in our Canada segment in 2018, including facility consolidation and charges relating to exiting certain lines of business. See Note 9 - Restructuring of the Notes to the Condensed Consolidated Financial statements for additional information.
2. Includes charges related to a restructuring plan announced in our United States business in the fourth quarter of 2019, including severance related to management realignment and the integration of sales and operating functions. See Note 9 - Restructuring of the Notes to the Condensed Consolidated Financial statements for additional information.
3. Includes one time charges associated with new business wins along with consulting and other costs associated with streamlining our manufacturing and distribution operations.
4. Impairment losses for the disposal of FastKey self-service key duplicating kiosks and related assets.
5. Includes ongoing expenses associated with manufacturing lines that were temporarily idle due to the pandemic.