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 24, 2022

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 001-39609

Hillman Solutions Corp.
(Exact name of registrant as specified in its charter)

Delaware	**85-2096734**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10590 Hamilton Avenue	
Cincinnati , Ohio	**45231**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.0001 per share	HLMN	The Nasdaq Stock Market LLC

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, 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	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

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 ☒

On November 2, 2022, 194,476,074 shares of common stock, par value $0.0001 per share, were outstanding.

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES

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HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(dollars in thousands, except per share amounts)

	September 24, 2022	December 25, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,228	$ 14,605
Accounts receivable, net of allowances of $2,446 ($2,891 - 2021)	126,138	107,212
Inventories, net	534,970	533,530
Other current assets	25,852	12,962
Total current assets	716,188	668,309
Property and equipment, net of accumulated depreciation of $320,767 ($284,069 - 2021)	181,260	174,312
Goodwill	823,626	825,371
Other intangibles, net of accumulated amortization of $398,638 ($352,695 - 2021)	749,126	794,700
Operating lease right of use assets	78,220	82,269
Deferred tax assets	—	1,323
Other assets	26,698	16,638
Total assets	$ 2,575,118	$ 2,562,922
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 150,620	$ 186,126
Current portion of debt and finance lease liabilities	12,805	11,404
Current portion of operating lease liabilities	12,868	13,088
Accrued expenses:		
Salaries and wages	16,496	8,606
Pricing allowances	9,861	10,672
Income and other taxes	3,726	4,829
Interest	5,236	1,519
Other accrued liabilities	57,210	41,052
Total current liabilities	268,822	277,296
Long-term debt	913,815	906,531
Deferred tax liabilities	141,471	137,764
Operating lease liabilities	72,880	74,476
Other non-current liabilities	11,310	16,760
Total liabilities	$ 1,408,298	$ 1,412,827
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, $0.0001 par, 500,000,000 shares authorized, 194,394,767 issued and outstanding at September 24, 2022 and 194,083,625 issued and 193,995,320 outstanding at December 25, 2021	20	20
Additional paid-in capital	1,400,084	1,387,410
Accumulated deficit	(212,718)	(210,181)
Accumulated other comprehensive income (loss)	(20,566)	(27,154)
Total stockholders' equity	1,166,820	1,150,095
Total liabilities and stockholders' equity	$ 2,575,118	$ 2,562,922

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

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(dollars in thousands, except per share amounts)

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Net sales	$ 378,538	$ 364,480	$ 1,135,665	$ 1,081,476
Cost of sales (exclusive of depreciation and amortization shown separately below)	214,802	236,999	648,221	654,264
Selling, general and administrative expenses	133,246	110,447	366,013	325,288
Depreciation	14,312	14,454	41,738	46,065
Amortization	15,557	15,504	46,644	45,827
Management fees to related party	—	56	—	270
Other expense (income), net	1,070	315	(3,124)	(2,232)
Income (loss) from operations	(449)	(13,295)	36,173	11,994
Loss on change in fair value of warrant liability	—	3,990	—	3,990
Interest expense, net	14,696	11,801	38,857	49,979
Interest expense on junior subordinated debentures	—	1,471	—	7,775
(Gain) loss on mark-to-market adjustments	—	(261)	—	(1,685)
Refinancing charges	—	8,070	—	8,070
Investment income on trust common securities	—	(44)	—	(233)
Income (loss) before income taxes	(15,145)	(38,322)	(2,684)	(55,902)
Income tax provision (benefit)	(5,679)	(5,798)	(147)	(11,023)
Net income (loss)	$ (9,466)	$ (32,524)	$ (2,537)	$ (44,879)
Basic and diluted income (loss) per share	$ (0.05)	$ (0.19)	$ (0.01)	$ (0.38)
Weighted average basic shares outstanding	194,370	168,440	194,171	116,945
Net income (loss) from above	$ (9,466)	$ (32,524)	$ (2,537)	$ (44,879)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(7,834)	(4,740)	(8,745)	1,575
Hedging activity	3,811	246	15,333	246
Total other comprehensive income (loss)	(4,023)	(4,494)	6,588	1,821
Comprehensive income (loss)	$ (13,489)	$ (37,018)	$ 4,051	$ (43,058)

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

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Cash flows from operating activities:		
Net income (loss)	$ (2,537)	$ (44,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	88,382	91,892
Deferred income taxes	5,670	(21,538)
Deferred financing and original issue discount amortization	2,251	3,036
Stock-based compensation expense	10,789	8,817
Increase in fair value of warrant liabilities	—	3,990
Write off of deferred financing fees, premiums and discounts associated with debt refinancing	—	(8,372)
Change in fair value of contingent consideration	(2,926)	(1,110)
Other non-cash interest and change in fair value of interest rate swap	—	(1,685)
Changes in operating items:		
Accounts receivable, net	(19,482)	(17,097)
Inventories, net	(6,004)	(110,065)
Other assets	(5,549)	3,003
Accounts payable	(34,648)	12,896
Other accrued liabilities	27,171	(24,193)
Net cash provided by (used for) operating activities	63,117	(105,305)
Cash flows from investing activities:		
Acquisition of business, net of cash received	(2,500)	(39,102)
Capital expenditures	(46,431)	(36,955)
Net cash used for investing activities	(48,931)	(76,057)
Cash flows from financing activities:		
Repayments of senior term loans	(6,384)	(1,072,042)
Borrowings on senior term loans	—	883,872
Proceeds from recapitalization of Landcadia, net of transaction costs	—	455,161
Proceeds from sale of common stock in PIPE, net of issuance costs	—	363,301
Repayments of senior notes	—	(330,000)
Repayment of Junior Subordinated Debentures	—	(108,707)
Financing fees	—	(20,988)
Borrowings on revolving credit loans	161,000	246,000
Repayments of revolving credit loans	(154,000)	(244,000)
Principal payments under finance lease obligations	(998)	(697)
Proceeds from exercise of stock options	1,885	1,761
Cash payments related to hedging activities	(1,421)	—
Other financing activities	1,809	—
Net cash provided by financing activities	1,891	173,661
Effect of exchange rate changes on cash	(1,454)	610
Net increase (decrease) in cash and cash equivalents	14,623	(7,091)
Cash and cash equivalents at beginning of period	14,605	21,520
Cash and cash equivalents at end of period	$ 29,228	$ 14,429
Supplemental disclosure of cash flow information:		
Interest paid on junior subordinated debentures, net	$ —	$ 7,542
Interest paid	30,597	55,624
Income taxes paid	2,550	1,990

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

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)
(dollars in thousands)

	Common Stock					
	Shares (in thousands)	Amount	Additional Paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Thirty-nine weeks ended September 24, 2022						
Balance at December 25, 2021	193,995	$ 20	$ 1,387,410	$ (210,181)	$ (27,154)	$ 1,150,095
Net income (loss)	—	—	—	(1,887)	—	(1,887)
Stock option activity, stock awards and employee stock purchase plan	53	—	6,018	—	—	6,018
Hedging activity	—	—	—	—	8,413	8,413
Change in cumulative foreign currency translation adjustment	—	—	—	—	3,735	3,735
Balance at March 26, 2022	194,048	$ 20	$ 1,393,428	$ (212,068)	$ (15,006)	$ 1,166,374
Net income (loss)	—	—	—	8,816	—	8,816
Stock option activity, stock awards and employee stock purchase plan	223	—	3,435	—	—	3,435
Hedging activity	—	—	—	—	3,109	3,109
Change in cumulative foreign currency translation adjustment	—	—	—	—	(4,646)	(4,646)
Balance at June 25, 2022	194,271	$ 20	$ 1,396,863	$ (203,252)	$ (16,543)	$ 1,177,088
Net income (loss)	—	—	—	(9,466)	—	(9,466)
Stock option activity, stock awards and employee stock purchase plan	124	—	3,221	—	—	3,221
Hedging Activity	—	—	—	—	3,811	3,811
Change in cumulative foreign currency translation adjustment	—	—	—	—	(7,834)	(7,834)
Balance at September 24, 2022	194,395	$ 20	$ 1,400,084	$ (212,718)	$ (20,566)	$ 1,166,820
Thirty-nine weeks ended September 25, 2021						
Balance at December 26, 2020	90,935	$ 9	$ 565,815	$ (171,849)	$ (29,388)	$ 364,587
Net income (loss)	—	—	—	(8,970)	—	(8,970)
Stock option activity, stock awards and employee stock purchase plan	268	—	3,384	—	—	3,384
Change in cumulative foreign currency translation adjustment	—	—	—	—	2,473	2,473
Balance at March 27, 2021	91,203	$ 9	$ 569,199	$ (180,819)	$ (26,915)	$ 361,474
Net income (loss)	—	—	—	(3,385)	—	(3,385)
Stock option activity, stock awards and employee stock purchase plan	18	—	1,914	—	—	1,914
Change in cumulative foreign currency translation adjustment	—	—	—	—	3,842	3,842
Balance at June 26, 2021	91,221	$ 9	$ 571,113	$ (184,204)	$ (23,073)	$ 363,845
Net income (loss)	—	—	—	(32,524)	—	(32,524)
Stock option activity, stock awards and employee stock purchase plan	—	—	5,280	—	—	5,280
Vesting of restricted shares	88	—	—	—	—	—
Proceeds from exercise of stock options	—	—	—	—	—	—
Recapitalization of Landcadia, net of issuance costs and fair value of assets and liabilities acquired	58,672	6	378,016	—	—	378,022
Shares issued to PIPE, net of issuance costs	37,500	4	363,297	—	—	363,301
Hedging activity	—	—	—	—	246	246
Change in cumulative foreign currency translation adjustment	—	—	—	—	(4,740)	(4,740)
Balance at September 25, 2021	187,481	$ 19	$ 1,317,706	$ (216,728)	$ (27,567)	$ 1,073,430

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

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

1. Basis of Presentation:

The accompanying condensed financial statements include the consolidated accounts of theHillman Solutions Corp. and its wholly-owned subsidiaries (collectively “Hillman” or the “Company”). The accompanying unaudited financial statements include the condensed consolidated accounts of the Company for the thirteen and thirty-nine weeks ended September 24, 2022. Unless the context requires otherwise, references to "Hillman," "we," "us," "our," or "our Company" refer to Hillman Solutions Corp. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

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 thirteen and thirty-nine weeks ended September 24, 2022 do not necessarily indicate the results that may be expected for the full year. For further information, refer to the Consolidated Financial Statements for the year ended December 25, 2021 and notes thereto included in the Form 10-K filed on March 16, 2022 with the Securities and Exchange Commission (“SEC”).

On July 14, 2021, privately held HMAN Group Holdings Inc. ("Old Hillman"), and Landcadia Holdings III, Inc. (“Landcadia” and after the business combination described herein, “New Hillman”), a special purpose acquisition company ("SPAC"), consummated the previously announced business combination (the “Closing”) pursuant to the terms of the Agreement and Plan of Merger, dated as of January 24, 2021 (as amended on March 12, 2021, the "Merger Agreement”) by and among Landcadia, Helios Sun Merger Sub, a wholly-owned subsidiary of Landcadia (“Merger Sub”), HMAN Group Holdings Inc., a Delaware corporation (“Hillman Holdco”) and CCMP Sellers’ Representative, LLC, a Delaware Limited Liability Company in its capacity as the Stockholder Representative thereunder (the “Stockholder Representative”). Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into Hillman Holdco with Hillman Holdco surviving the merger as a wholly owned subsidiary of New Hillman, which was renamed “Hillman Solutions Corp.” (the “Merger” and together with the other transactions contemplated by the Merger Agreement, the “Business Combination”). Unless the context indicates otherwise, the discussion of the Company and its financial condition and results of operations is with respect to New Hillman following the closing date and Old Hillman prior to the closing date. See Note 3 - Merger Agreement for more information.

“Hillman Solutions Corp.,” “HMAN Group Holdings Inc.,” and “The Hillman Companies, Inc.” are holding companies with no other operations, cash flows, material assets or liabilities other than the equity interests in “The Hillman Group, Inc.,” which is the borrower under our credit facility.

In connection with the closing of the Business Combination on July 14, 2021, Landcadia changed its name from “Landcadia Holdings III, Inc." to “Hillman Solutions Corp.” and the Company’s common stock and warrants began trading on The Nasdaq Stock Market under the trading symbols “HLMN” and “HLMNW”, respectively. As of December 25, 2021, the Company exercised and redeemed all outstanding warrants.

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 filed onMarch 16, 2022 with the SEC.

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.

Warrant Liabilities:

The Company accounts for the warrants in accordance with the guidance contained in ASC 815-40 under which the warrants do not meet the criteria for equity treatment and must be recorded as liabilities. Accordingly, the Company classifies the warrants as liabilities at their fair value and adjusts the warrants to fair value at each reporting period. The warrants were fully redeemed in the year ended December 25, 2021. See Note 10 - Warrants for additional information.

(dollars in thousands)

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 Condensed 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 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:

	Thirteen weeks ended September 24, 2022			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	$ 210,853	$ —	$ 39,578	$ 250,431
Personal Protective	61,000	—	322	61,322
Keys and Key Accessories	—	51,688	1,145	52,833
Engraving and Resharp	—	13,944	8	13,952
Consolidated	$ 271,853	$ 65,632	$ 41,053	$ 378,538

	Thirteen weeks ended September 25, 2021			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	$ 189,935	$ —	$ 34,648	$ 224,583
Personal Protective	71,521	—	79	71,600
Keys and Key Accessories	—	52,586	778	53,364
Engraving and Resharp	—	14,913	20	14,933
Consolidated	$ 261,456	$ 67,499	$ 35,525	$ 364,480

	Thirty-nine weeks ended September 24, 2022			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	$ 625,537	$ —	$ 121,710	$ 747,247
Personal Protective	192,573	—	984	193,557
Keys and Key Accessories	—	149,901	2,611	152,512
Engraving and Resharp	—	42,315	34	42,349
Consolidated	$ 818,110	$ 192,216	$ 125,339	$ 1,135,665

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

	Thirty-nine weeks ended September 25, 2021			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	$ 557,745	$ —	$ 114,565	$ 672,310
Personal Protective	217,769	—	270	218,039
Keys and Key Accessories	—	144,969	1,345	146,314
Engraving and Resharp	—	44,760	53	44,813
Consolidated	$ 775,514	$ 189,729	$ 116,233	$ 1,081,476

The following table disaggregates our revenue by geographic location:

	Thirteen weeks ended September 24, 2022			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	$ 265,446	$ 64,372	$ —	$ 329,818
Canada	1,941	1,260	41,053	44,254
Mexico	4,466	—	—	4,466
Consolidated	$ 271,853	$ 65,632	$ 41,053	$ 378,538

	Thirteen weeks ended September 25, 2021			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	$ 256,407	$ 66,563	$ —	$ 322,970
Canada	1,866	936	35,525	38,327
Mexico	3,183	—	—	3,183
Consolidated	$ 261,456	$ 67,499	$ 35,525	$ 364,480

	Thirty-nine weeks ended September 24, 2022			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	$ 800,925	$ 189,066	$ —	$ 989,991
Canada	5,794	3,150	125,339	134,283
Mexico	11,391	—	—	11,391
Consolidated	$ 818,110	$ 192,216	$ 125,339	$ 1,135,665

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

	Thirty-nine weeks ended September 25, 2021			
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	$ 760,946	$ 187,602	$ —	$ 948,548
Canada	5,145	2,127	116,233	123,505
Mexico	9,423	—	—	9,423
Consolidated	$ 775,514	$ 189,729	$ 116,233	$ 1,081,476

Our revenue by geography is allocated based on the location of our sales operations. Our Hardware and Protective Solutions segment contains sales of Big Time Products personal protective equipment into Canada. Our Robotics and Digital Solutions segment contains sales of MinuteKey Canada.

Hardware and 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.

Robotics and Digital 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, which occurs upon delivery of the products. Judgment is required in determining the time at which to recognize revenue for the in-store services and the access to key duplicating and engraving equipment. Revenue is recognized for in-store service and access to key duplicating and engraving equipment as the related products are delivered, which approximates a time-based recognition pattern. 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 delivery 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.

The Company used the practical expedient regarding the existence of a significant financing component as payments are due in less than one year after delivery of the products.

3. Merger Agreement:

On July 14, 2021, the Merger between Old Hillman and Landcadia was consummated. Pursuant to the Merger Agreement, at the closing date of the Merger, the outstanding shares of Old Hillman common stock were converted into 91,220,901 shares of New Hillman common stock as calculated pursuant to the Merger Agreement.

The Merger was accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP ("Generally Accepted Accounting Principles"). Under this method of accounting, Landcadia is treated as the “acquired” company for financial reporting purposes.

This determination was based primarily on Old Hillman having the ability to appoint a majority of the initial Board of Directors of the combined entity, Old Hillman's senior management comprising the majority of the senior management of the combined company, and the ongoing operations of Old Hillman comprising the ongoing operations of the combined company.

(dollars in thousands)

Accordingly, for accounting purposes, the Merger was treated as the equivalent of New Hillman issuing shares for the net assets of Landcadia, accompanied by a recapitalization. The net assets of Landcadia were stated at carrying value, with no goodwill or other intangible assets recorded. The historical statements of the combined entity prior to the Merger are presented as those of Old Hillman with the exception of the shares and par value of equity recast to reflect the exchange ratio on the Closing Date, adjusted on a retroactive basis. A summary of the impact of the reverse recapitalization on the cash, cash equivalents and restricted cash, change in net assets and the change in common shares is included in the tables below.

Landcadia cash and cash equivalents [1]	$	479,602
PIPE investment proceeds [2]		375,000
Less cash paid to underwriters and other transaction costs, net of tax [3]		(36,140)
Net change in cash and cash equivalents as a result of recapitalization	$	818,462
Prepaid expenses and other current assets [1]		132
Accounts payable and other accrued expenses [1]		(81)
Warrant liabilities [1][4]		(77,190)
Change in net assets as a result of recapitalization	$	741,323

The change in number of shares outstanding as a result of the reverse recapitalization is summarized as follows:

Common shares issued to New Hillman Shareholders [5]	91,220,901
Shares issued to SPAC sponsors and public shareholders [6]	58,672,000
Common shares issued to PIPE investors [2]	37,500,000
Common Shares outstanding immediately after the Business Combination	187,392,901

1. These assets and liabilities represent the reported balances as of the Closing Date immediately prior to the Business Combination. The recapitalization of the assets and liabilities from Landcadia's balance sheet was a non-cash financing activity.
2. In connection with the Business Combination, Landcadia entered into subscription agreements with certain investors (the “PIPE Investors”), pursuant to which it issued 37,500,000 shares of common stock at $10.00 per share (the “PIPE Shares”) for an aggregate purchase price of $375,000 (the “PIPE Financing”), which closed simultaneously with the consummation of the Business Combination.
3. In connection with the Business Combination, the Company incurred $36,140 of transaction costs, net of tax, consisting of underwriting, legal and other professional fees which were recorded as accumulated deficit as a reduction of proceeds.
4. The warrants acquired in the Merger include (a) redeemable warrants issued by Landcadia and sold as part of the units in the Landcadia IPO (whether they were purchased in the Landcadia IPO or thereafter in the open market), which are exercisable for an aggregate of 16,666,628 shares of common stock at a purchase price of $11.50 per share (the “Public Warrants”) and (b) warrants issued by Landcadia to the sponsors in a private placement simultaneously with the closing of the Landcadia IPO, which are exercisable for an aggregate of 8,000,000 shares of common stock at a purchase price of $11.50 per share (the “Private Placement Warrants”).
5. The Company issued 91,220,901 common shares in exchange for 553,439 Old Hillman common shares resulting in an exchange ratio of 164.83. This exchange ratio was applied to Old Hillman's common shares which further impacted common stock held at par value and additional paid in capital, as well as the calculation of weighted average shares outstanding and loss per common share.
6. The Company issued 50,000,000 shares to the public shareholders and 8,672,000 shares to the SPAC sponsor shareholders at the Closing Date.

4. Recent Accounting Pronouncements:

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides 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 its contracts and the optional expedients provided by the new standard.

In January 2021, FASB issued ASU 2021-01, Reference Rate Reform, to expand the scope of ASU 2020-04 by allowing an entity to apply the optional expedients, by stating that a change to the interest rate used for margining, discounting or contract price alignment for a derivative is not considered to be a change to the critical terms of the hedging relationship that requires designation. The entity may apply the contract modification relief provided in ASU 2020-04 and continue to account for the derivative in the same manner that existed prior to the changes resulting from reference rate reform or the discounting transition. The Company is currently evaluating its contracts and the optional expedients provided by the new standard.

On October 28, 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends Accounting Standards Codification ("ASC") 805 to require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. Under current GAAP, an acquirer generally recognizes such items at fair value on the acquisition date. This update is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to 1) the recognition of an acquired contract liability, and 2) payment terms and their effect on subsequent revenue recognized by the acquirer. The amendment is effective on fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact provided by the new standard.

On March 28, 2022, the FASB issued ASU 2022-01, which clarifies the guidance in ASC Topic 815, Derivatives and Hedging on fair value hedge accounting of interest rate risk for portfolios of financial assets. The ASU amends the guidance in ASU 2017-12 which established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible. ASU 2022-01 renames that method the "portfolio layer" method. Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets without having to consider prepayment risk or credit risk when measuring those assets. ASU 2022-01 expands the scope of this guidance to allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and non-prepayable financial assets. The amendment is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact provided by the new standard.

5. Acquisitions:

On April 16, 2021, the Company completed its acquisition of Oz Post International, LLC ("OZCO"), a leading manufacturer of superior quality hardware that offers structural fasteners and connectors used for decks, fences and other outdoor structures, for a total purchase price of $39,834. The Company entered into an amendment ("OZCO Amendment") to the term loan credit agreement dated May 31, 2018 (the "2018 Term Loan"), which provided $35,000 of incremental term loan funds to be used to finance the acquisition. OZCO has business operations throughout North America and its financial results reside in the Company's Hardware and Protective Solutions reportable segment.

(dollars in thousands)

The following table reconciles the fair value of the acquired assets and assumed liabilities to the total purchase price of OZCO.

Accounts receivable	$ 1,341
Inventory	3,435
Other current assets	26
Property and equipment	595
Goodwill	9,093
Customer relationships	23,500
Trade names	2,600
Technology	4,000
Total assets acquired	44,590
Less:	
Liabilities assumed	(4,756)
Total purchase price	$ 39,834

Pro forma financial information has not been presented for OZCO as their associated financial results are insignificant to the financial results of the Company on a standalone basis.

On March 7, 2022, the Company completed its acquisition of the Irvine, California-based Monkey Hook, LLC ("Monkey Hook") for a total purchase price of $2,800, which includes $300 in holdback that remains payable to the seller. Monkey Hook products are designed to hang artwork on drywall where no stud is present. Monkey Hook sells its products throughout North America and its financial results reside in the Company's Hardware and Protective Solutions reportable segment. The total purchase price is preliminary as the Company is in the process of finalizing certain working capital adjustments.

6. Goodwill and Other Intangible Assets:

Goodwill amounts by reportable segment are summarized as follows:

	Goodwill at December 25, 2021	Acquisitions (1)	Dispositions	Other (2)	Goodwill at September 24, 2022
Hardware and Protective Solutions	$ 574,698	$ (158)	$ —	$ 72	$ 574,612
Robotics and Digital Solutions	220,936	—	—	—	220,936
Canada	29,737	—	—	(1,659)	28,078
Total	$ 825,371	$ (158)	$ —	$ (1,587)	$ 823,626

(1) The amount relates to the Ozco acquisition, see Note 5 - Acquisitions for additional information.

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

(dollars in thousands)

Other intangibles, net, as of September 24, 2022 and December 25, 2021 consist of the following:

	Estimated Useful Life (Years)	September 24, 2022	December 25, 2021
Customer relationships	13 - 20	$ 963,418	$ 965,054
Trademarks - Indefinite	Indefinite	85,242	85,591
Trademarks - Other	7 - 15	31,387	29,000
Technology and patents	8 - 12	67,717	67,750
Intangible assets, gross		1,147,764	1,147,395
Less: Accumulated amortization		398,638	352,695
Other intangibles, net		$ 749,126	$ 794,700

The amortization expense for intangible assets, including the adjustments resulting from fluctuations in foreign currency exchange rates for the thirteen and thirty-nine weeks ended September 24, 2022 was $15,557 and $46,644, respectively. Amortization expense for the thirteen and thirty-nine weeks ended September 25, 2021 was $15,504 and $45,827, 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 24, 2022 and the thirteen and thirty-nine weeks ended September 25, 2021, the Company did not identify any triggering events that would result in an impairment analysis outside of the annual assessment.

7. Commitments and Contingencies:

The Company self-insures its general liability including product liability, automotive and workers' compensation losses up to $500 per occurrence. Catastrophic coverage has been purchased from third party insurers for occurrences up to and aggregate limits of $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 $2,497 recorded for such risks is adequate as of September 24, 2022.

As of September 24, 2022, the Company has provided certain vendors and insurers letters of credit aggregating to $32,790 related to our product purchases and insurance coverage for product liability, workers’ compensation, and general liability.

The Company self-insures group health claims up to an annual stop loss limit of $300 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 $2,650 recorded for such risks is adequate as of September 24, 2022.

The Company imports large quantities of fastener products which are subject to customs requirements and to tariffs and quotas set by governments through mutual agreements and bilateral actions. The Company could be subject to the assessment of additional duties and interest if it or its suppliers fail to comply with customs regulations or similar laws. The U.S. Department of Commerce has received requests from petitioners to conduct administrative reviews of compliance with anti-dumping duty and countervailing duty laws for certain nail products sourced from Asian countries. The Company sourced products under review from vendors in China and Taiwan during the periods selected for review. The Company accrues for the duty expense once it is determined to be probable and the amount can be reasonably estimated.

On June 1, 2021, Hy-Ko Products Company LLC ("Hy-Ko"), a manufacturer of key duplication machines, filed a complaint for patent infringement against Hillman in the United States District Court for the Eastern District of Texas (Marshall Division). The case was assigned Civil Action No. 2:21-cv-0197. Hy-Ko's complaint alleges that Hillman's KeyKrafter and PKOR key duplication machines infringe U.S. Patent Nos. 9,656,332, 9,682,432, 9,687,920, and 10,421,133, which are assigned to Hy-Ko, and seeks damages and injunctive relief against Hillman. Hy-Ko's complaint additionally contains allegations of unfair competition under the Federal Lanham Act and conversion, as well as a cause of action for "replevin" for return of alleged Hy-Ko proprietary information.

On September 19, 2022, Hy-Ko and Hillman filed a joint stipulation dismissing the 9,682,432 patent from the litigation. In addition, at the Court pre-trial conference on September 26, 2022, Hy-Ko advised the Court that it was no longer pursuing its allegations related to the 9,656,332 patent, thus leaving two patents (the 9,687,920 and 10,421,133 patents) for trial.

Also on September 26, 2022, the Court granted Hillman's motion for summary judgment dismissing Hy-Ko's Federal Lanham Act claim.

On October 7, 2022, following a jury trial commencing October 3, 2022, the jury rendered a verdict finding that Hillman infringed Hy-Ko U.S. Patent Nos. 9,687,920, and 10,421,133, but also found that there was no willfulness in the infringement. The jury awarded Hy-Ko $16.0 million in damages, representing a one-time lump sum royalty payment, which was recorded in the thirteen weeks ended September 24, 2022.

Additionally, the jury rendered a verdict rejecting Hy-Ko's conversion claim.

The Company disagrees with the infringement finding and the damages award, but believes this verdict will not have any impact on its ongoing business operations.

8. Related Party Transactions:

The Company has recorded aggregate management fee charges and expenses from CCMP Capital Advisors, LLC and Oak Hill Funds of $56 and $270 for the thirteen and thirty-nine weeks ended September 25, 2021. Since the Business Combination on July 14, 2021, the Company is no longer being charged management fees. See Note 3 - Merger Agreement for additional details on the Business Combination. Two members of our Board of Directors, Rich Zannino and Joe Scharfenberger, are partners at CCMP. Another director, Teresa Gendron, is the CFO of Jefferies.

At the Closing, Hillman, the Sponsors, CCMP Investors and the Oak Hill Investors entered into the A&R Registration Rights Agreement, pursuant to which, among other things, the parties to the A&R Registration Rights Agreement agreed not to effect any sale or distribution of any equity securities of Hillman held by any of them during the lock-up period described therein and were granted certain registration rights with respect to their respective shares of Hillman common stock, in each case, on the terms and subject to the conditions therein.

Sales to related parties, which are included in net sales, consist primarily of the sale of excess inventory to Ollie's Bargain Outlet Holdings, Inc. ("Ollie's"). John Swygert, President and Chief Executive Officer of Ollie's, is a member of our Board of Directors. Sales to related parties were $497 in the twenty-six weeks ended June 25, 2022. There were no such sales made in the thirteen weeks ended September 24, 2022 and throughout 2021.

9. 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 24, 2022 and the thirteen and thirty-nine weeks ended September 25, 2021, the Company applied an estimated annual effective tax rate based on expected annual pre-tax income to the interim period pre-tax loss to calculate the income tax benefit.

For the thirteen and thirty-nine weeks ended September 24, 2022, the effective income tax rate was 37.5% and 5.5%, respectively. The Company recorded an income tax benefit for the thirteen weeks ended September 24, 2022 of $5,679 and an income tax benefit for the thirty-nine weeks ended September 24, 2022 of $147. The effective tax rate for the thirteen and thirty-nine weeks ended September 24, 2022 was primarily the result of an estimated increase in Global intangible low-taxed income ("GILTI") from the Company's Canadian operations. The effective tax rate also includes the impact from non-deductible stock compensation, state and foreign income taxes, and the discrete income tax benefit for the Pennsylvania income tax rate change resulting in a reduction to the Company's deferred taxes.

For the thirteen and thirty-nine weeks ended September 25, 2021, the effective income tax rate was 15.1% and 19.7%, respectively. The Company recorded an income tax benefit for the thirteen weeks ended September 25, 2021 of $5,798, and an income tax benefit for the thirty-nine weeks ended September 25, 2021 of $11,023. The effective tax rate for the thirteen and thirty-nine weeks ended September 25, 2021 was the result of an estimated increase in GILTI from the Company's Canadian operations, state and foreign income taxes, non-deductible transaction expenses, and non-deductible stock compensation.

10. Warrants

Each whole warrant entitled the holder thereof to purchase one share of common stock at an exercise price of $11.50 per share and a redemption price of $.10 a share. As of the date of the merger, as discussed in Note 3 - Merger Agreement, there were 24,666,628 warrants outstanding consisting of 16,666,628 public warrants, which were included in the units issued in Landcadia's initial public offering ("Public Warrants"), and 8,000,000 private placement warrants, which were included in the units issued in the concurrent private placement at the time of Landcadia's initial public offering ("Private Placement Warrants" and, collectively with the Public Warrants, the "Warrants"). The Public and Private Placement Warrants were accounted for as liabilities and are presented as warrant liabilities on the Consolidated Balance Sheets. The warrant liabilities are measured at fair value at inception and on a recurring basis, with changes in fair value presented within loss on change in fair value of warrant liabilities in the Consolidated Statements of Comprehensive Loss. The fair market value of the warranty liabilities were recorded as $77,190 and $81,180 as of the date of the Merger and the third quarter ending September 25,2021, respectively, on the Consolidated Balance Sheets. The change in fair market value of the warranty liability was related to a $3,990 loss in the third quarter of 2021. The Public Warrants were considered part of Level 1 of the fair value hierarchy, as those securities are traded on an active public market. At the Closing Date, the Company valued the Private Warrants using Level 3 of the fair value hierarchy. The Private Warrants were valued using a Modified Black Scholes Model, which is considered to be a Level 3 fair value measurement. The primary unobservable input utilized in determining the fair value of the Private Warrants are the share price of the Company's common stock, the risk free rate, and the expected volatility of the Company’s common stock.

The Public Warrants may only be exercised for a whole number of shares. No fractional warrants were issued upon separation of the units issued in the initial public offering into their component parts of Public Warrants and shares of common stock. The Public Warrants became exercisable on the later of 30 days after the completion of the Business Combination or 12 months from the closing of the Public Offering.

On November 22, 2021, the Company announced that it would redeem all of its outstanding warrants (the “Public Warrants”) to purchase shares of the Company’s common stock, par value $0.0001 per share (the “Common Stock”), that were issued under the Amended and Restated Warrant Agreement (the “Warrant Agreement”), dated November 13, 2020, by and between the Company and Continental Stock Transfer & Trust Company (“CST”), as warrant agent (the “Warrant Agent”) as part of the units sold in the Company’s initial public offering (the “IPO”) and that remain outstanding at 5:00 p.m. New York City time on December 22, 2021 (the “Redemption Date”) for a redemption price of $0.10 per Public Warrant. In addition, the Company would redeem all of its outstanding warrants to purchase Common Stock that were issued under the Warrant Agreement in a private placement simultaneously with the IPO (the “Private Warrants” and, together with the Public Warrants, the “Warrants”) on the same terms as the outstanding Public Warrants.

Under the terms of the Warrant Agreement, the Company was entitled to redeem all of the outstanding Public Warrants at a redemption price of $0.10 per Public Warrant if (i) the last sales price (the “Reference Value”) of the Common Stock equals or exceeds $10.00 per share on any twenty trading days within any thirty-day trading period ending on the third trading day prior to the date on which a notice of redemption is given and (ii) if the Reference Value is less than $18.00 per share, the Private Warrants must also concurrently be called for redemption on the same terms as the outstanding Public Warrants. At the direction of the Company, the Warrant Agent delivered a notice of redemption to each of the registered holders of the outstanding Warrants. As the Reference Value was less than $18.00 per share, payment upon exercise of the Warrants was made either (i) in cash, at an exercise price of $11.50 per share of Common Stock or (ii) on a “cashless basis” in which the exercising holder received a number of shares of Common Stock determined in accordance with the terms of the Warrant Agreement and based on the Redemption Date and the volume weighted average price (the “Fair Market Value”) of the Common Stock during the 10 trading days immediately following the date on which the notice of redemption was sent to holders of Warrants. The Company provided holders the Fair Market Value no later than one business day after such 10-trading day period ends. In no event did the number of shares of Common Stock issued in connection with an exercise on a cashless basis exceed 0.361 shares of Common Stock per Warrant. If any holder of Warrants would, after taking into account all of such holder’s Warrants exercised at one time, have been entitled to receive a fractional interest in a share of Common Stock, the number of shares the holder was entitled to receive was rounded down to the nearest whole number of shares. Any Warrants that remained unexercised at 5:00 p.m. New York City time on the Redemption Date was then void and no longer exercisable, and the holders of those Warrants were entitled to receive only the redemption price of $0.10 per warrant.

(dollars in thousands)

As of December 25, 2021, the Company exercised and redeemed all of its warrants generating cash proceeds of $8 and cash paid of $47 and issuing 6,364,978 shares of Common Stock. Public and private warrant exercise activity and underlying Common Stock issued or surrendered for the year ended December 25, 2021 was:

	Public Warrants	Private Warrants	Total
Beginning balance as of July, 14 2021	16,666,628	8,000,000	24,666,628
Shares issued for cash exercises	(666)	—	(666)
Shares issued for cashless exercises	(16,199,169)	(8,000,000)	(24,199,169)
Shares redeemed by the Company	(466,793)	—	(466,793)
Ending balance as of December 25, 2021	—	—	—

11. Long-Term Debt:

The following table summarizes the Company’s debt:

	September 24, 2022	December 25, 2021
Revolving loans	$ 100,000	$ 93,000
Senior term loan, due 2028	844,618	851,000
Finance leases	4,826	1,782
Other financing [1]	1,809	—
	951,253	945,782
Unamortized discount on Senior term loan	(5,246)	(5,948)
Current portion of long-term debt and financing lease liabilities	(12,805)	(11,404)
Deferred finance fees	(19,387)	(21,899)
Total long-term debt, net	$ 913,815	$ 906,531

(1) The Company entered into an agreement to finance warehouse fixtures and equipment. The agreement has an interest rate of 3.94% and will be repaid through August 31, 2027.

As of September 24, 2022, the ABL Revolver had an outstanding amount of $100,000 and outstanding letters of credit of $32,790. The Company has $195,350 of available borrowings under the revolving credit facility as a source of liquidity as of September 24, 2022 based on the customary asset-backed loan borrowing base and availability provisions.

On July 29, 2022 the Company amended the asset-based revolving credit agreement (the “ABL Revolver") with Barclays Bank PLC, as administrative agent, and the lenders and other parties thereto (the “ABL Credit Agreement”), increasing the aggregate commitments thereunder to $375,000 and extended the maturity. Portions of the ABL Agreement are separately available for borrowing by the Company's United States subsidiary and Canadian subsidiary for $325,000 and $50,000, respectively. The interest rate for the ABL Revolver is, at the discretion of the Company, adjusted SOFR (or a Canadian banker’s acceptance rate in the case of Canadian Dollar loans) plus a margin varying from 1.25% to 1.75% per annum based on availability or an alternate base rate (or a Canadian prime rate or alternate base rate in the case of Canadian Dollar loans) plus a margin varying from 0.25% to 0.75% per annum based on availability. The stated maturity date of the revolving credit commitments under the ABL Credit Agreement is July 29, 2027. The loans and other amounts outstanding under the ABL Credit Agreement and related documents are guaranteed by The Hillman Companies, Inc., a wholly-owned subsidiary of the Company, and, subject to certain exceptions, the Borrower’s wholly-owned domestic subsidiaries and are secured by substantially all of the Borrower’s and the guarantors’ assets plus, solely in the case of the Canadian Borrower, its and its wholly-owned Canadian subsidiary’s assets, which has guaranteed by the Canadian portion under the ABL Credit Agreement.

2021 Refinancing

(dollars in thousands)

In connection with the Closing as described in Note 1 - Basis of Presentation, the Company entered into a new credit agreement (the “Term Credit Agreement”), which provided for a new funded term loan facility of $835.0 million and a delayed draw term loan facility of $200.0 million (of which $16.0 million was drawn). The Company also entered into an amendment to the existing Asset-Based Revolving Credit Agreement (the “ABL Amendment”) extending the maturity and conformed certain provisions to the Term Credit Agreement. The proceeds of the funded term loans under the Term Credit Agreement and revolving credit loans under the ABL Credit Agreement were used, together with other available cash, to (1) refinance in full all outstanding term loans and to terminate all outstanding commitments under the credit agreement, dated as of May 31, 2018 ("2018 Term Loan" including the OZCO Amendment), (2) refinance outstanding revolving credit loans, and (3) redeem in full the senior notes due July 15, 2022 (the “6.375% Senior Notes”). Additionally, the Company fully redeemed the 11.6% Junior Subordinated Debentures.

In connection with the Term Credit Agreement, the Company recorded $23,432 in deferred financing fees and $6,380 in discount which are recorded as long term debt on the Consolidated Balance Sheet. In connection with the ABL Amendment, the Company recorded $3,035 in deferred financing fees which are recorded as other non-current assets on the Consolidated Balance Sheet.

Additionally, the Company recorded a loss (gain) on extinguishment of debt for each debt instrument included in the refinancing as detailed below. The Company amended its interest rate swaps in connection with the refinancing, see Note 16 - Derivatives and Hedging for additional details.

	Loss (gain) on extinguishment of debt	
Term Credit Agreement	$	20,243
ABL Revolver		288
6.375% Senior Notes, due 2022		1,083
11.6% Junior Subordinated Debentures		(13,603)
Interest rate swaps		59
Total	$	8,070

Additional information with respect to the fair value of the Company’s fixed rate Senior Notes and Junior Subordinated Debentures is included in Note 17 - Fair Value Measurements.

12. 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 1) the right to obtain substantially all of the economic benefits from the use of the asset and 2) 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 2033. 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.

(dollars in thousands)

The components of operating and finance lease costs for the thirteen and thirty-nine weeks ended September 24, 2022 and thirteen and thirty-nine weeks ended September 25, 2021 were as follows:

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Operating lease costs	$ 5,082	$ 5,482	$ 15,029	$ 15,724
Short term lease costs	1,563	834	5,891	2,820
Variable lease costs	529	576	1,066	1,334
Finance lease costs:				
Amortization of right of use assets	485	230	1,082	668
Interest on lease liabilities	34	29	87	96

Rent expense is recognized on a straight-line basis over the expected lease term. Rent expense totaled $7,174 and $21,986 in the thirteen and thirty-nine weeks ended September 24, 2022, respectively, and $6,892 and $19,878 in the thirteen and thirty-nine weeks ended September 25, 2021, respectively. Rent expense includes operating lease costs as well as expenses 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 leases were as follows as of September 24, 2022 and December 25, 2021:

	September 24, 2022		December 25, 2021	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted average remaining lease term	6.30	2.82	6.60	2.60
Weighted average discount rate	7.35%	2.84%	7.88%	5.59%

Supplemental balance sheet information related to the Company's finance leases was as follows as of September 24, 2022 and December 25, 2021:

	September 24, 2022	December 25, 2021
Finance lease assets, net, included in property plant and equipment	$ 4,757	$ 1,768
Current portion of long-term debt	1,818	767
Long-term debt, less current portion	3,008	1,015
Total principal payable on finance leases	$ 4,826	$ 1,782

(dollars in thousands)

Supplemental cash flow information related to the Company's operating leases was as follows for the thirty-nine weeks ended September 24, 2022 and thirty-nine weeks ended September 25, 2021:

	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	$ 14,497	$ 14,854
Operating cash outflow from finance leases	84	99
Financing cash outflow from finance leases	998	697

As of September 24, 2022, our future minimum rental commitments are immaterial for lease agreements beginning after the current reporting period.Maturities of our lease liabilities for all operating and finance leases are as follows as of September 24, 2022:

	Operating Leases	Finance Leases
Less than one year	$ 18,489	$ 1,934
1 to 2 years	17,227	1,683
2 to 3 years	16,638	1,095
3 to 4 years	15,871	266
4 to 5 years	14,287	17
After 5 years	23,361	1
Total future minimum rental commitments	105,873	4,996
Less - amounts representing interest	(20,125)	(170)
Present value of lease liabilities	$ 85,748	$ 4,826

In late 2022, the Company will have an additional operating lease for a new property located in Shannon, Georgia for the purposes of office, warehouse, and distribution. Occupancy has not yet commenced. The estimated future minimum rental commitments are approximately $26,721.

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.

13. Equity and Accumulated Other Comprehensive Income (Loss):

Common Stock

The Hillman Solutions Corp. has one class of common stock.

Accumulated Other Comprehensive Income (Loss)

The following is detail of the changes in the Company's accumulated other comprehensive loss from December 26, 2020 to September 24, 2022, including the effect of significant reclassifications out of accumulated other comprehensive income (loss) (net of tax):

(dollars in thousands)

	Accumulated Other Comprehensive Loss	
Balance at December 26, 2020	$	(29,388)
Other comprehensive income before reclassifications		1,849
Amounts reclassified from other comprehensive income		385
Net current period other comprehensive income [1]		2,234
Balance at December 25, 2021		(27,154)
Other comprehensive income before reclassifications		7,882
Amounts reclassified from other comprehensive income [2]		(1,294)
Net current period other comprehensive income		6,588
Balance at September 24, 2022	$	(20,566)

1. During the year ended December 25, 2021, the Company obtained and amended its interest rate swap agreements to hedge against effective cash flows (i.e. interest payments) on floating-rate debt associated with the Company's new Term Credit Agreement. In accordance with ASC 815, derivatives designated and that qualify as cash flow hedges of interest rate risk record the associated gain or loss within other comprehensive income. For the year ended December 25, 2021, the Company deferred a gain of $2,982, reclassified a loss of $385 and a net of tax of $850 into other comprehensive income due to hedging activities. The amounts reclassified out of other comprehensive income were recorded as interest expense. See Note 16 - Derivatives and Hedging for additional information on the interest rate swaps.
2. During the thirty-nine weeks ended September 24, 2022, the Company deferred a gain of $21,792, reclassified a gain of $1,294 net of tax of $5,165 into other comprehensive income due to hedging activities. The amounts reclassified out of other comprehensive income were recorded as interest expense. See Note 16 - Derivatives and Hedging for additional information on the interest rate swaps.

14. Stock Based Compensation:

2014 Equity Incentive Plan

Following the Merger and in connection with the Business Combination described in Note 3 - Merger Agreement, Landcadia Holdings III, Inc. (“Landcadia”) became the direct parent company of Old Hillman and was renamed Hillman Solutions Corp. (“New Hillman”). Shares of Class A common stock of New Hillman (“New Hillman Shares”) are publicly traded on the Nasdaq Stock Market. Consequently, the outstanding stock options issued under the 2014 Equity Incentive Plan (the “Prior Plan”) prior to the Merger were converted and modified to purchase New Hillman Shares.

At the Closing, each outstanding option to acquire common stock of Hillman Holdco (a “Hillman Holdco Option”), whether vested or unvested, was assumed by New Hillman and converted into an option to purchase common stock of New Hillman (“New Hillman Option”) with substantially the same terms and conditions (including expiration date and exercise provisions) as applicable to the Hillman Holdco Option immediately prior to the Closing, except both the number of shares and the exercise price were modified using the conversion ratio at Closing. Each New Hillman Option is generally subject to the same vesting conditions as the Hillman Holdco Option from which it was converted, except that the performance-based vesting conditions of any Hillman Holdco Option granted prior to 2021 were adjusted such that the performance-based portion of the associated New Hillman Option will vest upon certain pre-established stock price hurdles. For all time based options and performance options granted during 2021, the change in fair value was immaterial and as such no additional compensation cost was recognized. For the performance options granted prior, the modification of the vesting criteria resulted in $11,482 of additional compensation expense, $8,228 of which was recognized in 2021 and $3,254 of which was recognized in the thirty-nine weeks ended September 24, 2022, respectively.

At the Closing, (i) each share of unvested restricted Hillman Holdco common stock was cancelled and converted into the right to receive a number of shares of New Hillman restricted stock equal to the Closing Stock Per Restricted Share Amount (as defined in the Merger Agreement) with substantially the same terms and conditions as were applicable to the related share of Hillman Holdco restricted stock immediately prior to the Closing (including with respect to vesting and termination-related provisions), and (ii) each Hillman Holdco restricted stock unit was assumed by New Hillman and converted into a New Hillman restricted stock unit award with substantially the same terms and conditions as were applicable to such Hillman Holdco restricted stock unit immediately prior to the Closing (including with respect to vesting and termination-related provisions).

Upon closing, the 2014 Equity Incentive Plan may grant options, stock appreciation rights, restricted stock, and other stock-based awards for up to an aggregate of14,523,510 shares of its common stock.

Stock Options
The fair value of stock options is determined at the grant date using the Black-Scholes option pricing model. The time-based stock option awards generally vest evenly overfour years from the grant date and performance-based options vest based on specified targets such as Company performance and Company stock price hurdles.

Restricted Stock
The Company granted restricted stock at the grant date fair value of the underlying common stock securities. The restrictions lapse in one quarter increments on each of the three anniversaries of the award date, and one quarter on the completion of the relocation of the recipient to the Cincinnati area or earlier in the event of a change in control. The associated expense is recognized over the service period.

Restricted Stock Units
The restricted stock units ("RSUs") granted to employees for service generally vest after three years, subject to continued employment. The RSUs granted to non-employee directors generally vest in full on the first anniversary of the grant date.

The 2014 Equity Incentive Plan had stock compensation expense of $1,034 and $7,390 recognized in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 24, 2022, respectively, and $5,280 and $8,817 in the thirteen and thirty-nine weeks ended September 25, 2021, respectively.

2021 Equity Incentive Plan

Effective July 14, 2021, the Company established the 2021 Equity Incentive Plan. Under the 2021 Equity Incentive Plan (the “2021 Plan”), the maximum number of shares of common stock that may be delivered in satisfaction of awards under the 2021 Plan as of the Effective Date is (i) 7,150,814 shares, plus (ii) the number of shares of stock underlying awards under the 2014 Equity Incentive Plan that on or after the Effective Date expire or become unexercisable, or are forfeited, cancelled or otherwise terminated, in each case, without delivery of shares or cash therefore, and would have become available again for grant under the Prior Plan in accordance with its terms (not to exceed 14,523,510 shares of common stock in the aggregate).

Stock Options
The fair value of stock options is determined at the grant date using the Black-Scholes option pricing model. The time-based stock option awards generally vest evenly overfour years from the grant date and performance-based options vest based on specified targets such as Company performance and Company stock price hurdles.

Restricted Stock Units
The RSUs granted to employees for service generally vest after three years, subject to continued employment. The RSUs granted to non-employee directors generally vest in full on the sooner of (1) the first anniversary of the grant date; or (2) the next annual meeting of stockholders.

The 2021 Equity Incentive Plan had stock compensation expense of $1,358 and $3,143 recognized in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 24, 2022, respectively.

2021 Employee Stock Purchase Plan

Our Employee Stock Purchase Plan ("ESPP") became effective on July 14, 2021, in which1,140,754 shares of common stock were available for issuance under the ESPP. Under the ESPP, eligible employees are granted options to purchase shares of common stock at 85% of the fair market value at the time of exercise. Options to purchase shares are granted four times a year on the first payroll date in January, April, July, and October of each year and ending approximately three months later on the last business day in March, June, September or December. No employee may be granted an option under the Plan if, immediately after the option is granted, the employee would own stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company. The first option period began on January 1, 2022 and the first purchase was made in April of 2022.

Compensation expense associated with ESPP purchase rights is recognized on a straight-line basis over the vesting period. As of the thirteen and thirty-nine weeks ended September 24, 2022, there was approximately $93 and $256, respectively, of compensation expense related to the ESPP.

15. Earnings Per Share:

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share include the dilutive effect of stock options, restricted stock awards and units, and warrants. The following is a reconciliation of the basic and diluted earnings per share ("EPS") computations for both the numerator and denominator (in thousands, except per share data):

	Thirteen weeks ended September 24, 2022			Thirty-nine weeks ended September 24, 2022		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net loss	$ (9,466)	194,370	$ (0.05)	$ (2,537)	194,171	$ (0.01)
Dilutive effect of stock options and awards	—	—	—	—	—	—
Net income per diluted common share	$ (9,466)	194,370	$ (0.05)	$ (2,537)	194,171	$ (0.01)

	Thirteen weeks ended September 25, 2021			Thirty-nine weeks ended September 25, 2021		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net loss	$ (32,524)	168,440	$ (0.19)	$ (44,879)	116,945	$ (0.38)
Dilutive effect of stock options and awards	—	—	—	—	—	—
Dilutive effect of warrants	—	—	—	—	—	—
Net loss per diluted common share	$ (32,524)	168,440	$ (0.19)	$ (44,879)	116,945	$ (0.38)

Stock options and awards outstanding totaling 9,586 and 4,635 were excluded from the computation for the thirteen and thirty-nine weeks ended September 24, 2022 andl,492 and 2,018 for the thirteen and thirty-nine weeks ended September 25, 2021, respectively, as they would have had an antidilutive effect under the treasury stock method. Warrants of 19,788 and 6,596 were excluded from the computation for the thirteen and thirty-nine weeks ended September 25, 2021, respectively, as they would have had an antidilutive effect under the treasury stock method.

16. Derivatives and Hedging:

FASB ASC 815, Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments.

The Company uses derivative financial instruments to manage its exposures to (1) interest rate fluctuations on its floating rate senior term loan 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.

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

Interest Rate Swap Agreements

On January 8, 2018, the Company entered into a forward Interest Rate Swap Agreement ("2018 Swap 1") withthree-year terms for a notional amount of $90,000. The forward start date of the 2018 Swap 1 was September 30, 2018 and the termination date was June 30, 2021. The 2018 Swap 1 has a determined interest rate of 2.3%. The 2018 Swap 1 was terminated on June 30, 2021. In accordance with ASC 815, the 2018 Swap 1 was not designated as a cash flow hedge and therefore changes in fair value were recorded in (Gain) loss on mark-to-market adjustments on the Company's Statements of Comprehensive Income (Loss).

On November 8, 2018, the Company entered into another forward Interest Rate Swap Agreement ("2018 Swap 2") 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 a pay fixed interest rate of 3.1%. The 2018 Swap 2 was effectively terminated on July 16, 2021 in connection with the Merger as described in Note 3 - Merger Agreement. In accordance with ASC 815, the 2018 Swap 2 was not designated as a cash flow hedge and therefore changes in fair value were recorded in (Gain) loss on mark-to-market adjustments on the Company's Statement of Comprehensive Income (Loss).

On July 9, 2021, the Company entered into an interest swap agreement ("2021 Swap 1") for a notional amount of $144,000. The forward start date of the 2021 Swap 1 was July 30, 2021 and the termination date is July 31, 2024. The 2021 Swap 1 has a determined pay fixed interest rate of 0.75%. In accordance with ASC 815, the Company determined the 2021 Swap 1 constituted an effective cash flow hedge and therefore changes in fair value are recorded within other comprehensive income within the Company's Statement of Comprehensive Income (Loss) and the deferred gains or losses are reclassified out of Other comprehensive income into interest expense in the same period during which the hedged transactions affect earnings.

On July 9, 2021, the Company entered into an interest swap agreement ("2021 Swap 2") for a notional amount of $216,000. The forward start date of the 2021 Swap 2 was July 30, 2021 and the termination date is July 31, 2024. The 2021 Swap 2 has a determined pay fixed interest rate of 0.76%. In accordance with ASC 815, the Company determined the 2021 Swap 2 constituted an effective cash flow hedge and therefore changes in fair value are recorded within other comprehensive income within the Company's Statement of Comprehensive Income (Loss) and the deferred gains or losses are reclassified out of Other comprehensive income into interest expense in the same period during which the hedged transactions affect earnings.

On July 16, 2021, the Company modified its original 2018 Swap 2 derivative instrument ("2021 Swap 3") for a notional amount of $60,000. The forward start date of the 2021 Swap 3 was July 30, 2021 and the termination date is November 30, 2022. The 2021 Swap 3 has a determined pay fixed interest rate of 3.63%. In accordance with ASC 815, the Company determined the 2021 Swap 3 constituted an effective cash flow hedge and therefore changes in fair value are recorded within accumulated other comprehensive loss within the Company's Consolidated Balance Sheets and the deferred gains or losses are reclassified out of other comprehensive income into interest expense in the same period during which the hedged transactions affect earnings. Due to an other-than-insignificant financing element from the modification, the swap entered into during 2021 is considered a hybrid instrument, with a financing component treated as a debt instrument with an embedded at-market derivative. Within the Company’s Condensed Consolidated Balance Sheets, the financing components are carried at amortized cost and the embedded at-market derivatives are carried at fair value.

(dollars in thousands)

The following table summarizes the Company's derivatives financial instruments:

	Asset Derivatives			Liability Derivatives		
	As of September 24, 2022		As of December 25, 2021	As of September 24, 2022		As of December 25, 2021
	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments:						
2021 Swap 1	Other current assets/other assets	$ 9,426	$ 1,513	Other accrued expenses	$ —	$ (170)
2021 Swap 2	Other current assets/other assets	14,135	2,250	Other accrued liabilities	—	(270)
2021 Swap 3	Other current/other non-current assets	310	59	Other accrued liabilities/other non-current liabilities	(471)	(1,880)
Total hedging instruments		**$ 23,871**	**$ 3,822**		**$ (471)**	**$ (2,320)**

Additional information with respect to the fair value of derivative instruments is included in Note 17 - Fair Value Measurements.

17. 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 accounting guidance establishes a hierarchy which requires an entity to maximize the use of quoted market prices and minimize the use of unobservable inputs. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement.

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:

	As of September 24, 2022			
	Level 1	Level 2	Level 3	Total
Trading securities	$ 1,167	$ —	$ —	$ 1,167
Interest rate swaps	—	23,400	—	23,400
Contingent consideration payable	—	—	(9,305)	(9,305)

	As of December 25, 2021			
	Level 1	Level 2	Level 3	Total
Trading securities	$ 1,686	$ —	$ —	$ 1,686
Interest rate swaps	—	1,502	—	1,502
Contingent consideration payable	—	—	(12,347)	(12,347)

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 24, 2022 and December 25, 2021, the Company's interest rate swaps were recorded on the accompanying Condensed Consolidated Balance Sheets in accordance with ASC 815.

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 24, 2022, the total contingent consideration was recorded as $678 in other accrued expenses and $8,627 in other non-current liabilities on the Condensed Consolidated Balance Sheets, in addition to $116 in payments made during the year. As of December 25, 2021, the total contingent consideration was recorded as $476 in other accrued expenses and $11,871 in other non-current liabilities on the Condensed Consolidated Balance Sheets in addition to $36 of payments made during the year. As of September 24, 2022, compared to December 25, 2021, the Company recorded a $2,718 and $208 decrease in the Resharp and Instafob contingent consideration liability, respectively. The total $2,926 gain on the revaluation was determined by using a simulation model of the Monte Carlo analysis that included updated projections applicable to the liability as of September 24, 2022 compared to the prior valuation period and was recorded within other income in the Condensed Consolidated Statements of Comprehensive Income (Loss).

Cash, accounts receivable, short-term borrowings and accounts payable are reflected in the Condensed Consolidated Balance Sheets at book value, which approximates fair value, due to the short-term nature of these instruments. The carrying amount of the long-term debt under the revolving credit facility approximates the fair value at September 24, 2022 and December 25, 2021 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 24, 2022 and December 25, 2021 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.

Additional information with respect to the derivative instruments is included in Note 16 - Derivatives and Hedging.

18. 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 24, 2022: Hardware and Protective Solutions, Robotics and Digital 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.

(dollars in thousands)

The table below presents revenues and income (loss) from operations for our reportable segments for the thirteen and thirty-nine weeks ended September 24, 2022 and thirteen and thirty-nine weeks ended September 25, 2021.

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Revenues				
Hardware and Protective Solutions	$ 271,853	$ 261,456	$ 818,110	$ 775,514
Robotics and Digital Solutions	65,632	67,499	192,216	189,729
Canada	41,053	35,525	125,339	116,233
Total revenues	$ 378,538	$ 364,480	$ 1,135,665	$ 1,081,476
Segment income (loss) from operations				
Hardware and Protective Solutions	$ 7,113	$ (24,901)	$ 15,255	$ (8,856)
Robotics and Digital Solutions	(14,094)	11,158	4,198	17,858
Canada	6,532	448	16,720	2,992
Total income (loss) from operations	$ (449)	$ (13,295)	$ 36,173	$ 11,994

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 Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 25, 2021.

Forward-Looking Statements

This quarterly report contains certain forward-looking statements, including, but not limited to, certain disclosures related to acquisitions, refinancing, capital expenditures, resolution of pending litigation, and realization of deferred tax assets, which are not historical facts and are subject to numerous assumptions, risks, and uncertainties. Statements that do not describe historical or current facts, including statements about beliefs and expectations, are forward-looking statements.

All forward-looking statements are made in good faith by the company and are intended to qualify for the safe harbor from liability established by Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. You should not rely on these forward-looking statements as predictions of future events. Words such as "expect," "estimate," "project," "budget," "forecast," "anticipate," "intend," "plan," “target”, “goal”, "may," "will," "could," "should," "believes," "predicts," "potential," "continue," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements include, without limitation, the Company’s expectations with respect to future performance. These forward-looking statements involve significant risks and uncertainties that could cause the actual results to differ materially from the expected results. Most of these factors are outside the Company's control and are difficult to predict. Factors that may cause such differences include, but are not limited to: (1) unfavorable economic conditions that may affect operations, financial condition and cash flows including spending on home renovation or construction projects, inflation, recessions, instability in the financial markets or credit markets; (2) increased supply chain costs, including raw materials, sourcing, transportation and energy; (3) the highly competitive nature of the markets that we serve (4) ability to continue to innovate with new products and services; (5) seasonality; (6) large customer concentration; (7) ability to recruit and retain qualified employees; (8) the outcome of any legal proceedings that may be instituted against the Company (9) adverse changes in currency exchange rates; (10) the impact of COVID-19 on the Company’s business; or (11) regulatory changes and potential legislation that could adversely impact financial results. The foregoing list of factors is not exclusive, and readers should also refer to those risks that are included in the Company’s filings with the Securities and Exchange Commission (“SEC”), including the Annual Report on Form 10-K filed on March 16, 2022. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward looking statements.

Except as required by applicable law, the Company does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements in this communication to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based.

General

Hillman Solutions Corp. 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 our 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 and accessories; builder's hardware; personal protective equipment, such as gloves and eye-wear; and identification items, such as tags and letters, numbers, and signs. We support product sales with services that include design and installation of merchandising systems, maintenance of appropriate in-store inventory levels, and break-fix for our robotics kiosks.

Our headquarters are located at 10590 Hamilton Avenue, Cincinnati, Ohio. We maintain a website at www.hillmangroup.com. Information contained or linked on our website is not incorporated by reference into this quarterly report and should not be considered a part of this quarterly report.

On July 14, 2021, privately held HMAN Group Holdings Inc. ("Old Hillman"), and Landcadia Holdings III, Inc. (“Landcadia” and after the Business Combination described herein, “New Hillman”), a special purpose acquisition company ("SPAC") consummated the previously announced Business Combination (the “Closing”) pursuant to the terms of the Agreement and Plan of Merger, dated as of January 24, 2021 (as amended on March 12, 2021, the "Merger Agreement”). Unless the context indicates otherwise, the discussion of the Company and its financial condition and results of operations is with respect to New Hillman following the closing date and Old Hillman prior to the closing date. See Note 1 - Basis of Presentation of the Notes to Condensed Consolidated Financial Statements for additional information.

In connection with the Closing, the Company entered into a new credit agreement with Jefferies Finance LLC, as administrative agent, and the lenders and other parties thereto (the “Term Credit Agreement”), which provided for a new funded term loan facility of $835.0 million and a delayed draw term loan facility of $200.0 million (of which $16.0 million was drawn). The Company also entered into an amendment to their existing asset-based revolving credit agreement (the “ABL Amendment”) with Barclays Bank PLC, as administrative agent, and the lenders and other parties thereto (the “ABL Credit Agreement”), increasing the aggregate commitments thereunder to $250.0 million, extended the maturity and conformed certain provisions to the Term Credit Agreement. The proceeds of the funded term loans under the Term Credit Agreement and revolving credit loans under the ABL Credit Agreement were used, together with other available cash, to (1) refinance in full all outstanding term loans and to terminate all outstanding commitments under the credit agreement, dated as of May 31, 2018, (2) refinance outstanding revolving credit loans, and (3) redeem in full senior notes due July 15, 2022 (the “6.375% Senior Notes”).

In anticipation of the Business Combination and the refinancing described above, on July 13, 2021, the Company delivered a notice to redeem in full 11.6% Junior Subordinated Debentures due September 30, 2027 (the “Junior Subordinated Debentures”) issued under the Indenture, dated as of September 5, 1997 (as amended and supplemented, the “Debentures Indenture”), between The Hillman Companies and The Bank of New York Mellon, a New York banking corporation, as Trustee (the “Trustee”) and deposited an amount with the Trustee sufficient to satisfy and discharge the Debentures Indenture, which is no longer in effect. Notices to redeem 4,217,837 trust preferred securities (the “Trust Preferred Securities”) issued in a public offering by the Hillman Group Capital Trust ("Trust") and 130,449 of trust common securities (the “Trust Common Securities”) issued by the Trust to Hillman Companies were also delivered on July 13, 2021. Upon the payment of the redemption price for the Debentures on August 12, 2021, the Trust redeemed the Trust Preferred Securities and the Trust Common Securities, which as of August 12, 2021 was no longer be deemed to be outstanding. The last day of trading for the Trust Preferred Securities on the New York Stock Exchange (the “NYSE”) was August 11, 2021 and the Company voluntarily delisted the Trust Preferred Securities from the NYSE.

On July 29, 2022 the Company amended the asset-based revolving credit agreement (the “ABL Revolver") with Barclays Bank PLC, as administrative agent, and the lenders and other parties thereto (the “ABL Credit Agreement”), increasing the aggregate commitments thereunder to $375,000 and extended the maturity. Portions of the ABL Agreement are separately available for borrowing by the Company's United States subsidiary and Canadian subsidiary for $325,000 and $50,000, respectively. The interest rate for the ABL Revolver is, at the discretion of the Company, adjusted SOFR (or a Canadian banker’s acceptance rate in the case of Canadian Dollar loans) plus a margin varying from 1.25% to 1.75% per annum based on availability or an alternate base rate (or a Canadian prime rate or alternate base rate in the case of Canadian Dollar loans) plus a margin varying from 0.25% to 0.75% per annum based on availability. The stated maturity date of the revolving credit commitments under the ABL Credit Agreement is July 29, 2027. The loans and other amounts outstanding under the ABL Credit Agreement and related documents are guaranteed by The Hillman Companies, Inc., a wholly-owned subsidiary of the Company, and, subject to certain exceptions, the Borrower’s wholly-owned domestic subsidiaries and are secured by substantially all of the Borrower’s and the guarantors’ assets plus, solely in the case of the Canadian Borrower, its and its wholly-owned Canadian subsidiary’s assets, which has guaranteed by the Canadian portion under the ABL Credit Agreement.

On October 7, 2022, following a jury trial commencing October 3, 2022, the jury rendered a verdict finding that Hillman infringed Hy-Ko U.S. Patent Nos. 9,687,920, and 10,421,133, but also found that there was no willfulness in the infringement.
The jury awarded Hy-Ko $16.0 million in damages, representing a one-time lump sum royalty payment. The Company disagrees with the infringement finding and the damages award, but believes this verdict will not have any impact on its ongoing business operations (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information).

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.

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 declined in value relative to the CNY by approximately 6.5% in 2020, declined by 2.6% in 2021, and increased by 11.9% during the thirty-nine weeks ended September 24, 2022. The U.S. dollar declined in value relative to the Taiwan dollar by approximately 7.9% in 2020, declined by 1.4% in 2021, and increased by 14.7% during the thirty-nine weeks ended September 24, 2022.

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.

Further we are exposed to transportation risk for imported products as well as the transportation and fuel costs associated with our U.S. distribution network. Increasing transportation costs increase our product cost and require us to increase price on the impacted products.

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 declined in value relative to the Canadian dollar by approximately 1.9% in 2020, declined by 0.2% in 2021, and increased by 5.9% during the thirty-nine weeks ended September 24, 2022. 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.

We import large quantities of products which are subject to customs requirements and to tariffs and quotas set by governments through mutual agreements and bilateral actions. The U.S. tariffs on steel and aluminum and other imported goods has increased our product costs and required us to increase prices on the affected products.

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 24, 2022 and the thirteen weeks ended September 25, 2021.

Thirteen weeks ended September 24, 2022 vs the Thirteen weeks ended September 25, 2021

	Thirteen Weeks Ended September 24, 2022		Thirteen Weeks Ended September 25, 2021	
(dollars in thousands)	**Amount**	**% of Net Sales**	**Amount**	**% of Net Sales**
Net sales	$ 378,538	100.0 %	$ 364,480	100.0 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	214,802	56.7 %	236,999	65.0 %
Selling, general and administrative expenses	133,246	35.2 %	110,447	30.3 %
Depreciation	14,312	3.8 %	14,454	4.0 %
Amortization	15,557	4.1 %	15,504	4.3 %
Other (income) expense	1,070	0.3 %	371	0.1 %
Income from operations	(449)	(0.1)%	(13,295)	(3.6)%
Loss on change in fair value of warrant liability	—	— %	3,990	1.1 %
Interest expense, net of investment income	14,696	3.9 %	13,228	3.6 %
Mark-to-market adjustment of interest rate swap	—	— %	(261)	(0.1)%
Refinancing charges	—	— %	8,070	2.2 %
Income (loss) before income taxes	(15,145)	(4.0)%	(38,322)	(10.5)%
Income tax expense (benefit)	(5,679)	(1.5)%	(5,798)	(1.6)%
Net income (loss)	$ (9,466)	(2.5)%	$ (32,524)	(8.9)%
Adjusted EBITDA[(1)]	$ 58,973	15.6 %	$ 56,528	15.5 %

(1) Adjusted EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information, including our definition and our use of Adjusted EBITDA, and for a reconciliation from net income to Adjusted EBITDA.

Net Sales

Net sales for the thirteen weeks ended September 24, 2022 were $378.5 million, an increase of approximately $14.1 million compared to net sales of $364.5 million for the thirteen weeks ended September 25, 2021. Fastening and hardware sales increased $20.9 million driven by $24.2 million in price increases in response to inflationary pressures, partially offset by decreased volume driven by lower demand. Sales in Canada increased $5.5 million primarily driven by approximately $7.5 million in price increases partially offset by decreased volume driven by lower demand. Partially offsetting these increases, sales of protective products decreased by $10.5 million due to lower promotional sales and retail softness.

Cost of Sales

Our cost of sales ("COS") was $214.8 million, or 56.7% of net sales, in the thirteen weeks ended September 24, 2022, a decrease of approximately $22.2 million compared to $237.0 million, or 65.0% of net sales, in the thirteen weeks ended September 25, 2021. Cost of sales as a percentage of net sales in the thirteen weeks ended September 24, 2022 decreased (8.3)% compared to the thirteen weeks ended September 25, 2021. In the third quarter of 2021, we evaluated our customers' needs and the market conditions and ultimately decided to exit certain protective product categories related to COVID-19, including cleaning wipes, disinfecting sprays, face masks, and certain disposable gloves which caused an inventory valuation adjustment in our Hardware and Protective Solutions segment of $32.0 million.

Expenses

Selling, general, and administrative ("SG&A") expenses were $133.2 million in the thirteen weeks ended September 24, 2022, an increase of $22.8 million, compared to $110.4 million in the thirteen weeks ended September 25, 2021. The following changes impacted the change in operating expenses:

- Selling expense was $44.0 million in the thirteen weeks ended September 24, 2022, an increase of $2.0 million compared to $42.0 million in the third quarter of 2021. The increase in selling expense was primarily due to increased variable selling and compensation costs in the thirteen weeks ended September 24, 2022.

- Warehouse and delivery expenses were $42.6 million in the thirteen weeks ended September 24, 2022, a decrease of $2.3 million compared to $44.9 million in the thirteen weeks ended September 25, 2021. The reduced expense was primarily driven by lower transportation costs.

- General and administrative (“G&A”) expenses were $46.7 million in the thirteen weeks ended September 24, 2022, an increase of $23.2 million compared to $23.5 million in the thirteen weeks ended September 25, 2021. The $23.2 million increase was primarily due to higher charges related to the litigation with Hy-Ko in the current year partially offset by KeyMe in prior year (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information).

Depreciation expense was $14.3 million in the thirteen weeks ended September 24, 2022 which was comparable to depreciation expense of $14.5 million in the thirteen weeks ended September 25, 2021. Amortization expense was $15.6 million in the thirteen weeks ended September 24, 2022 which was comparable to $15.5 million in the thirteen weeks ended September 25, 2021.

Other (income) expense was $1.1 million in the thirteen weeks ended September 24, 2022 compared to other (income) expense of $0.4 million in the thirteen weeks ended September 25, 2021. Other expense in the thirteen weeks ended September 24, 2022 was primarily comprised of a $0.7 million loss on the revaluation of the contingent consideration associated with the acquisitions of Resharp and Instafob (see Note 17 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information) along with exchange rate losses of $0.6 million. In the thirteen weeks ended September 25, 2021 other income consisted primarily of an exchange rate loss of $0.3 million along with a $0.1 million loss on the revaluation of the contingent consideration associated with the acquisitions of Resharp and Instafob.

Thirty-nine weeks ended September 24, 2022 vs the Thirty-nine weeks ended September 25, 2021

	Thirty-nine Weeks Ended September 24, 2022		Thirty-nine Weeks Ended September 25, 2021	
(dollars in thousands)	**Amount**	**% of Net Sales**	**Amount**	**% of Net Sales**
Net sales	$ 1,135,665	100.0 %	$ 1,081,476	100.0 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	648,221	57.1 %	654,264	60.5 %
Selling, general and administrative expenses	366,013	32.2 %	325,288	30.1 %
Depreciation	41,738	3.7 %	46,065	4.3 %
Amortization	46,644	4.1 %	45,827	4.2 %
Other (income) expense	(3,124)	(0.3)%	(1,962)	(0.2)%
(Loss) income from operations	36,173	3.2 %	11,994	1.1 %
Loss on change in fair value of warrant liability	—	— %	3,990	0.4 %
Interest expense, net of investment income	38,857	3.4 %	57,521	5.3 %
Mark-to-market adjustment of interest rate swap	—	— %	(1,685)	(0.2)%
Refinancing charges	—	— %	8,070	0.7 %
Income (loss) before income taxes	(2,684)	(0.2)%	(55,902)	(5.2)%
Income tax expense (benefit)	(147)	— %	(11,023)	(1.0)%
Net income (loss)	$ (2,537)	(0.2)%	$ (44,879)	(4.1)%
Adjusted EBITDA(1)	$ 165,260	14.6 %	$ 168,806	15.6 %

(1) Adjusted EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information, including our definition and our use of Adjusted EBITDA, and for a reconciliation from net income to Adjusted EBITDA.

Net Sales

Net sales for the thirty-nine weeks ended September 24, 2022 were $1,135.7 million, an increase of approximately $54.2 million compared to net sales of $1,081.5 million for the thirty-nine weeks ended September 25, 2021. Sales of hardware products increased by $67.8 million driven by $80.2 million in price increases in response to inflationary pressures in the market, partially offset by decreased volume driven by lower demand. Net sales in our Canada operating segment increased by $9.1 million primarily driven $22.2 million in price increases partially offset by decreased volume driven by lower demand. Sales of personal protective equipment decreased by $25.2 million due to lower demand for COVID-19 protective and cleaning products in the third quarter of 2022, partially offset by price increases of $7.1 million.

Cost of Sales

Our cost of sales was $648.2 million, or 57.1% of net sales, in the thirty-nine weeks ended September 24, 2022, a decrease of approximately $6.0 million compared to $654.3 million, or 60.5% of net sales, in the thirty-nine weeks ended September 25, 2021. The decrease of 3.4% in cost of sales, expressed as a percent of net sales, in 2022 compared to the thirty-nine weeks ended September 25, 2021 was primarily due to an inventory valuation adjustment in our Hardware and Protective Solutions segment of $32.0 million in 2021 caused by the strategic review of our COVID-19 related product offerings.

Expenses

Selling, general, and administrative ("SG&A") expenses were approximately $366.0 million in the thirty-nine weeks ended September 24, 2022, an increase of approximately $40.7 million, compared to $325.3 million in the thirty-nine weeks ended September 25, 2021. The following changes impacted the change in operating expenses:

- Selling expense was $131.5 million in the thirty-nine weeks ended September 24, 2022, an increase of $12.0 million compared to $119.5 million in the thirty-nine weeks ended September 25, 2021. The increase in selling expense was primarily due to increased variable selling and compensation costs in the thirty-nine weeks ended September 24, 2022.

- Warehouse and delivery expenses were $136.3 million in the thirty-nine weeks ended September 24, 2022, an increase of $6.9 million compared to $129.4 million in the thirty-nine weeks ended September 25, 2021. The additional expense was primarily driven by inflation in warehouse, wages and transportation costs.

- General and administrative ("G&A") expenses were $98.3 million in the thirty-nine weeks ended September 24, 2022, an increase of $21.8 million compared to $76.5 million in the thirty-nine weeks ended September 25, 2021. The increase was primarily driven by higher legal and consulting expenses associated with our litigation with HyKo (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information). Additionally, we incurred increased variable compensation in the thirty-nine weeks ended September 24, 2022.

Depreciation expense was $41.7 million in the thirty-nine weeks ended September 24, 2022 compared to depreciation expense of $46.1 million in the thirty-nine weeks ended September 25, 2021. The decrease was due to certain assets becoming fully depreciated. Amortization expense was $46.6 million in the thirty-nine weeks ended September 24, 2022 compared to amortization expense of $45.8 million in the thirty-nine weeks ended September 25, 2021. The increase was primarily driven by the acquisitions of Ozco and Monkey Hook (see Note 5 - Acquisitions of the Notes to Condensed Consolidated Financial Statements for additional information).

Other (income) expense was $(3.1) million in the thirty-nine weeks ended September 24, 2022 compared to $(2.0) million in the thirty-nine weeks ended September 25, 2021. Other (income) expense in the thirty-nine weeks ended September 24, 2022 was comprised primarily of a $2.9 million gain on the revaluation of the contingent consideration associated with the acquisitions of Resharp and Instafob, (see Note 17 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information). In the thirty-nine weeks ended September 25, 2021 other income was primarily comprised of exchange rate gains of $1.1 million along with a $1.1 million gain on the revaluation of the contingent consideration associated with the acquisition of Resharp, (see Note 17 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information).

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 24, 2022 and the thirteen and thirty-nine weeks ended September 25, 2021 (dollars in thousands):

Hardware and Protective Solutions

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Hardware and Protective Solutions				
Segment Revenues	$ 271,853	$ 261,456	$ 818,110	$ 775,514
Segment Income from operations	7,113	(24,901)	15,255	(8,856)
Adjusted EBITDA[(1)]	28,693	30,634	80,569	95,780

(1) Adjusted EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information, including our definition and our use of Adjusted EBITDA, and for a reconciliation from net income to Adjusted EBITDA.

Thirteen weeks ended September 24, 2022 vs the Thirteen weeks ended September 25, 2021

Net Sales

Net sales for our Hardware and Protective Solutions operating segment increased by $10.4 million in thirteen weeks ended September 24, 2022 to $271.9 million as compared to $261.5 million in the thirteen weeks ended September 25, 2021. Fastening and hardware sales increased by $20.9 million driven by $24.2 million in price increases in response to inflationary pressures in the market, partially offset by decreased volume driven by lower demand. Protective products sales decreased by $10.5 million due to higher COVID related sales of personal protective equipment in 2021.

Income from Operations

Income from operations of our Hardware and Protective Solutions operating segment increased by approximately $32.0 million in the thirteen weeks ended September 24, 2022 to $7.1 million from a loss of $24.9 million in the thirteen weeks ended September 25, 2021. The increase in sales was partially offset by increased expenses:

- Cost of sales decreased by approximately $21.6 million in the thirteen weeks ended September 24, 2022 to $172.8 million as compared to $194.4 million in the thirteen weeks ended September 25, 2021. Cost of sales as a percentage of net sales was 63.6% in the thirteen weeks ended September 24, 2022, a decrease of 10.8% from 74.3% in the thirteen weeks ended September 25, 2021. The decrease in cost of sales as a percentage of net sales was primarily due to an inventory valuation adjustment in our Hardware and Protective Solutions segment of $32.0 million primarily related to strategic review of our COVID-19 related product offerings in the thirteen weeks ended September 25, 2021.
- Selling expense increased $1.7 million in the thirteen weeks ended September 24, 2022 compared to the thirteen weeks ended September 25, 2021 primarily due to increased variable selling and compensation costs.
- Warehouse expense decreased $0.8 million in the thirteen weeks ended September 24, 2022 compared to the thirteen weeks ended September 25, 2021. The reduced expense was primarily driven by lower transportation costs.
- General and administrative (“G&A”) decreased by $1.6 million in the thirteen weeks ended September 24, 2022, compared to the thirty-nine weeks ended September 25, 2021. The decrease was primarily driven by reduced stock compensation expense.

Thirty-nine weeks ended September 24, 2022 vs the Thirty-nine weeks ended September 25, 2021

Net Sales

Net sales for our Hardware and Protective Solutions operating segment increased by $42.6 million in the thirty-nine weeks ended September 24, 2022 to $818.1 million as compared to $775.5 million in the thirty-nine weeks ended September 25, 2021. Sales of hardware products increased by $67.8 million driven by $80.2 million in price increases in response to inflationary pressures in the market related to the cost of products, inbound and outbound transportation costs, and personnel costs, partially offset by decreased volume driven by lower demand. Sales of personal protective equipment decreased by $25.2 million due to lower demand for COVID-19 protective and cleaning products in the 2022, partially offset by price increases of $7.1 million.

Income from Operations

Income from operations of our Hardware and Protective Solutions operating segment increased by approximately $24.1 million in the thirty-nine weeks ended September 24, 2022 to $15.3 million as compared to a loss of $8.9 million in the thirty-nine weeks ended September 25, 2021. The increase was driven by increased sales partially offset by increased operating expenses:

- Cost of sales decreased by approximately $1.5 million in the thirty-nine weeks ended September 24, 2022 to $518.0 million as compared to $519.5 million in the thirty-nine weeks ended September 25, 2021. Cost of sales as a percentage of net sales was 63.3% in the thirty-nine weeks ended September 24, 2022, a decrease of 3.7% from 67.0% in the thirty-nine weeks ended September 25, 2021 The decrease is primarily due to an inventory valuation adjustment in our Hardware and Protective Solutions segment of $32.0 million primarily related to the strategic review of our COVID-19 related product offerings in the third quarter of 2021.
- Selling expense increased $9.2 million in the thirty-nine weeks ended September 24, 2022 compared to the thirty-nine weeks ended September 25, 2021 primarily due to increased marketing, variable compensation, and travel and entertainment expense.

- Warehouse expense increased $8.4 million in the thirty-nine weeks ended September 24, 2022 compared to the thirty-nine weeks ended September 25, 2021. The additional expense was primarily driven by inflation in warehouse wages and transportation costs.
- G&A expense increased $1.6 million in the thirty-nine weeks ended September 24, 2022 compared to the thirty-nine weeks ended September 25, 2021. The additional expense was primarily due to increased stock compensation expense in connection with modification of awards associated with the Merger.

Robotics and Digital Solutions

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Robotics and Digital Solutions				
Revenues	$ 65,632	$ 67,499	$ 192,216	$ 189,729
Segment income from operations	(14,094)	11,158	4,198	17,858
Adjusted EBITDA[(1)]	22,446	23,483	63,654	64,596

(1) Adjusted EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information, including our definition and our use of Adjusted EBITDA, and for a reconciliation from net income to Adjusted EBITDA.

Thirteen weeks ended September 24, 2022 vs the Thirteen weeks ended September 25, 2021

Net Sales

Net sales in our Robotics and Digital Solutions operating segment decreased by $1.9 million in the thirteen weeks ended September 24, 2022 to $65.6 million as compared to $67.5 million in the thirteen weeks ended September 25, 2021. The decreased sales were primarily due to a decrease of $0.9 million in keys sales along with a decrease of $1.0 million in engraving. Key and engraving sales in the third quarter of 2022 were negatively impacted by lower retail foot traffic.

Income from Operations

Income from operations of our Robotics and Digital Solutions operating segment decreased by approximately $25.3 million in the thirteen weeks ended September 24, 2022 to a loss of $14.1 million as compared to income of $11.2 million in the thirteen weeks ended September 25, 2021. The decrease was primarily due to increased G&A expense of $24.4 million driven by higher legal expenses associated with our litigation with Hy-Ko in the current year (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information). We also recorded a $0.7 million loss on the revaluation of the contingent consideration associated with the acquisitions of Resharp and Instafob in the thirteen weeks ended September 24, 2022, (see Note 17 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information) as compared to a $0.1 million loss in the thirteen weeks ended September 25, 2021.

Thirty-nine weeks ended September 24, 2022 vs the Thirty-nine weeks ended September 25, 2021

Net Sales

Net sales in our Robotics and Digital Solutions operating segment increased by $2.5 million in the thirty-nine weeks ended September 24, 2022 to $192.2 million as compared to $189.7 million in the thirty-nine weeks ended September 25, 2021. The increased sales were primarily due to an increase of $4.9 million in key sales due to new machine installations and price increases that were partially offset by a decrease of $2.4 million in engraving sales due to a reduction in discretionary consumer spending and fewer pet adoptions.

Income from Operations

Income from operations of our Robotics and Digital Solutions operating segment decreased by approximately $13.7 million in the thirty-nine weeks ended September 24, 2022 to $4.2 million as compared to $17.9 million in the thirty-nine weeks ended September 25, 2021. The decrease was primarily due to increased G&A expense of 19.2 million driven by increased legal expense associated with our litigation with HyKo and KeyMe (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information). In addition, selling expense increased by $3.2 million primarily due to increased variable selling costs driven by higher sales. We also recorded a $2.9 million gain on the revaluation of the contingent consideration associated with the acquisitions of Resharp and Instafob in the thirty-nine weeks ended September 24, 2022 (see Note 17 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information) as compared to a $1.1 million gain in 2021.

Canada

	Thirteen Weeks Ended September 24, 2022	Thirteen Weeks Ended September 25, 2021	Thirty-nine Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 25, 2021
Canada				
Revenues	$ 41,053	$ 35,525	$ 125,339	$ 116,233
Segment income (loss) from operations	6,532	448	16,720	2,992
Adjusted EBITDA[1]	7,834	2,411	21,037	8,430

(1) Adjusted EBITDA is a non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section for additional information, including our definition and our use of Adjusted EBITDA, and for a reconciliation from net income to Adjusted EBITDA.

<u>Thirteen weeks ended September 24, 2022 vs the Thirteen weeks ended September 25, 2021</u>

<u>Net Sales</u>

Net sales in our Canada operating segment increased by $5.5 million in the thirteen weeks ended September 24, 2022 to $41.1 million as compared to $35.5 million in the thirteen weeks ended September 25, 2021 driven by $7.5 million in price increases in response to inflationary pressures partially offset by decreased volume driven by lower demand.

<u>Income from Operations</u>

Income from operations of our Canada operating segment increased by approximately $6.1 million in the thirteen weeks ended September 24, 2022 to $6.5 million as compared to $0.4 million in the thirteen weeks ended September 25, 2021. The improved operating margins resulted from restructuring and facility consolidation and from recent pricing actions.

<u>Thirty-nine weeks ended September 24, 2022 vs the Thirty-nine weeks ended September 25, 2021</u>

<u>Net Sales</u>

Net sales in our Canada operating segment increased by $9.1 million in the thirty-nine weeks ended September 24, 2022 to $125.3 million as compared to $116.2 million in the thirty-nine weeks ended September 25, 2021. The increase was primarily driven by $22.2 million in price increases partially offset by decreased volume driven by lower demand.

<u>Income from Operations</u>

Income from operations of our Canada operating segment increased by approximately $13.7 million in the thirty-nine weeks ended September 24, 2022 to $16.7 million as compared to $3.0 million in the thirty-nine weeks ended September 25, 2021. Increased sales, improved product margins, and a reduction in warehouse expenses primarily driven by lower transportation costs led to the increase in operating income.

Non-GAAP Financial Measures

Adjusted EBITDA is a non-GAAP financial measure and is the primary basis used to measure the operational strength and performance of our businesses as well as to assist in the evaluation of underlying trends in our businesses. This measure eliminates the significant level of noncash depreciation and amortization expense that results from the capital-intensive nature of our businesses and from intangible assets recognized in business combinations. It is also unaffected by our capital and tax structures, as our management excludes these results when evaluating our operating performance. Our management and Board of Directors use this financial measure to evaluate our consolidated operating performance and the operating performance of our operating segments and to allocate resources and capital to our operating segments. Additionally, we believe that Adjusted EBITDA is useful to investors because it is one of the bases for comparing our operating performance with that of other companies in our industries, although our measure of Adjusted EBITDA may not be directly comparable to similar measures used by other companies.

The following table presents a reconciliation of Net (loss) income, the most directly comparable financial measures under GAAP, to Adjusted EBITDA for the periods presented:

	Thirteen Weeks Ended September 24, 2022		Thirteen Weeks Ended September 25, 2021		Thirty-nine Weeks Ended September 24, 2022		Thirty-nine Weeks Ended September 25, 2021	
Net (loss) income	$	(9,466)	$	(32,524)	$	(2,537)	$	(44,879)
Income tax provision (benefit)		(5,679)		(5,798)		(147)		(11,023)
Interest expense, net		14,696		11,801		38,857		49,979
Interest expense on junior subordinated debentures		—		1,471		—		7,775
Investment income on trust common securities		—		(44)		—		(233)
Depreciation		14,312		14,454		41,738		46,065
Amortization		15,557		15,504		46,644		45,827
Mark-to-market adjustment of interest rate swap		—		(261)		—		(1,685)
EBITDA	$	29,420	$	4,603	$	124,555	$	91,826
Stock compensation expense		2,485		5,280		10,789		8,817
Management fees		—		56		—		270
Restructuring (1)		916		462		1,481		571
Litigation expense (2)		25,255		487		28,968		10,769
Acquisition and integration expense (3)		178		802		2,393		8,941
Buy-back expense (4)		—		650		—		2,000
Anti-dumping duties (5)		—		—		—		2,636
Loss on change in fair value of warrant liability		—		3,990		—		3,990
Refinancing charges (6)		—		8,070		—		8,070
Inventory valuation related charges (7)		—		32,026		—		32,026
Change in fair value of contingent consideration		719		102		(2,926)		(1,110)
Adjusted EBITDA	$	58,973	$	56,528	$	165,260	$	168,806

(1) Restructuring includes severance, consulting, and other costs associated with streamlining our operations.
(2) Litigation expense includes legal fees and damages associated with our litigation with KeyMe, Inc. and Hy-Ko Products Company LLC. (see Note 7 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information).
(3) Acquisition and integration expense includes professional fees, non-recurring bonuses, and other costs related to the merger with Landcadia III (see Note 3 - Merger Agreement of the Notes to Condensed Consolidated Financial Statements for additional information) and the secondary offering of shares in 2022.
(4) Infrequent buy backs associated with new business wins.
(5) Anti-dumping duties assessed related to the nail business for prior year purchases.
(6) In connection with the merger, we refinanced our Term Credit Agreement and ABL Revolver. Proceeds from the refinancing were used to redeem in full senior notes due July 15, 2022 (the "6.375% Senior Notes") and the 11.6% Junior Subordinated Debentures (see Note 11 - Long-Term Debt of the Notes to Condensed Consolidated Financial Statements for additional information).
(7) In the third quarter of 2021, we recorded an inventory valuation adjustment in our Hardware and Protective Solutions segment of $32.0 million primarily related to strategic review of our COVID-19 related product offerings. We evaluated our customers' needs and the market conditions and ultimately decided to exit the following protective product categories related to COVID-19; cleaning wipes, disinfecting sprays, face masks, and certain disposable gloves (see the Current Economic Conditions section of Management's discussion and analysis for additional information).

The following tables presents a reconciliation of segment operating income, the most directly comparable financial measures under GAAP, to segment Adjusted EBITDA for the periods presented (amounts in thousands).

Thirteen weeks ended September 24, 2022		Hardware and Protective Solutions		Robotics and Digital Solutions		Canada		Consolidated
Operating income (loss)	$	7,113	$	(14,094)	$	6,532	$	(449)
Depreciation and amortization		18,440		10,284		1,145		29,869
Stock compensation expense		2,131		197		157		2,485
Restructuring		831		85		—		916
Litigation expense		—		25,255		—		25,255
Acquisition and integration expense		178		—		—		178
Change in fair value of contingent consideration		—		719		—		719
Adjusted EBITDA	$	28,693	$	22,446	$	7,834	$	58,973

Thirteen weeks ended September 25, 2021		Hardware and Protective Solutions		Robotics and Digital Solutions		Canada		Consolidated
Operating income (loss)	$	(24,901)	$	11,158	$	448	$	(13,295)
Depreciation and amortization		17,615		10,842		1,501		29,958
Stock compensation expense		4,535		745		—		5,280
Management fees		47		9				56
Restructuring		—		—		462		462
Inventory valuation		32,026		—		—		32,026
Litigation expense		—		487		—		487
Acquisition and integration expense		662		140		—		802
Change in fair value of contingent consideration		—		102		—		102
Buy-back expense		650		—		—		650
Adjusted EBITDA		30,634		23,483		2,411		56,528

Thirty-nine weeks ended September 24, 2022		Hardware and Protective Solutions		Robotics and Digital Solutions		Canada		Consolidated
Operating income (loss)	$	15,255	$	4,198	$	16,720	$	36,173
Depreciation and amortization		53,159		31,754		3,469		88,382
Stock compensation expense		8,693		1,248		848		10,789
Restructuring		1,357		124		—		1,481
Litigation expense		—		28,968		—		28,968
Acquisition and integration expense		2,105		288		—		2,393
Change in fair value of contingent consideration		—		(2,926)		—		(2,926)
Adjusted EBITDA	$	80,569	$	63,654	$	21,037	$	165,260

Thirty-nine weeks ended September 25, 2021	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Consolidated
Operating income (loss)	$ (8,856)	$ 17,858	$ 2,992	$ 11,994
Depreciation and amortization	52,135	34,816	4,941	91,892
Stock compensation expense	7,591	1,226	—	8,817
Management fees	232	38	—	270
Restructuring	64	10	497	571
Inventory valuation	32,026	—	—	32,026
Litigation expense	—	10,769	—	10,769
Acquisition and integration expense	7,952	989	—	8,941
Change in fair value of contingent consideration	—	(1,110)	—	(1,110)
Buy-back expense	2,000	—	—	2,000
Anti-dumping duties	2,636	—	—	2,636
Adjusted EBITDA	$ 95,780	$ 64,596	$ 8,430	$ 168,806

Income Taxes

For the thirteen weeks ended September 24, 2022, the Company recorded an income tax benefit of $5.7 million based on a pre-tax loss of $15.1 million. The Company recorded an income tax benefit for the thirty-nine weeks ended September 24, 2022 of $0.1 million. The effective income tax rate was 37.5% and 5.5% for the thirteen and thirty-nine weeks ended September 24, 2022, respectively.

The effective rate differed from the federal statutory rate due to an estimated increase in GILTI from the Company's Canadian operations, non-deductible stock compensation, state and foreign income taxes, and includes the discrete income tax benefit for the Pennsylvania income tax rate change resulting in a reduction to the Company's deferred taxes.

For the thirteen weeks ended September 25, 2021, the Company recorded an income tax benefit of $5.8 million based on a pre-tax loss of $38.3 million. The Company recorded an income tax benefit for the thirty-nine weeks ended September 25, 2021 of $5.2 million based on a pre-tax loss of $17.6 million. The effective income tax rate was 15.1% and 19.7% for the thirteen and thirty-nine weeks ended September 25, 2021, respectively.

The effective income tax rate differed from the federal statutory tax rate in the thirteen and thirty-nine weeks ended September 25, 2021 primarily due to certain non-deductible expenses, an estimated increase in GILTI from the Company's Canadian operations, and state and foreign income taxes.

Liquidity and Capital Resources

The statements of cash flows reflect the changes in cash and cash equivalents for the thirty-nine weeks ended September 24, 2022 and the thirty-nine weeks ended September 25, 2021 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 24, 2022 was $63.1 million as compared to $105.3 million of cash used by operating activities in the comparable prior year period. Operating cash flows for the thirty-nine weeks ended September 24, 2022 were unfavorably impacted by (1) reduced accounts payable resulting from lower purchases and (2) increased accounts receivable and inventory resulting from price increases and inflation. Operating cash flows for the thirty-nine weeks ended September 25, 2021 were unfavorably impacted by increased inventory in response to extended lead times and supply chain disruptions.

Net cash used for investing activities was $48.9 million and $76.1 million for the thirty-nine weeks ended September 24, 2022 and the thirty-nine weeks ended September 25, 2021, respectively. During the thirty-nine weeks ended September 24, 2022, we acquired Monkey Hook for approximately $2.5 million during the thirty-nine weeks ended September 25, 2021, we acquired Oz Post International, LLC ("OZCO") for approximately $39.8 million (see Note 5 - Acquisitions of the Notes to Condensed Consolidated Financial Statements for additional information). Excluding acquisitions, the primary use of cash in both periods was our investment in new key duplicating kiosks and machines.

Net cash provided by financing activities was $1.9 million for the thirty-nine weeks ended September 24, 2022. Our revolver draws, net of repayments, provided cash of $7.0 million in the thirty-nine weeks ended September 24, 2022. We used cash to pay $6.4 million in principal payments on the senior term loan under the Senior Facilities. Additionally, the Company entered into an agreement to finance racking and warehouse equipment, net of repayments, in 2022 for $1.8 million.

Net cash provided by financing activities was $173.7 million for the thirty-nine weeks ended September 25, 2021. We received cash of $455.2 million on the recapitalization of Landcadia, net of transaction costs and $363.3 million from the issuance of common stock to the PIPE.

In connection with the Merger, we refinanced all of our outstanding debt. On July 14, 2021 we entered into a new credit agreement, which provided for a new funded term loan facility of $835.0 million and a delayed draw term loan facility of $200.0 million (of which $16.0 million was drawn). Concurrently with the Term Credit Agreement, we also entered into an amendment to their existing asset-based revolving credit agreement (the “ABL Amendment”) and extended the maturity and conformed certain provisions to the Term Credit Agreement. The proceeds were used, together with other available cash, to (1) refinance in full all outstanding term loans and to terminate all outstanding commitments under the credit agreement, dated as of May 31, 2018, (2) refinance outstanding revolving credit loans, and (3) redeem in full senior notes due July 15, 2022 (the “6.375% Senior Notes”), issued by the Borrower and as a result the 6.375% Senior Notes are redeemed, satisfied and discharged and no longer in effect. Additionally, we fully redeemed the 11.6% Junior Subordinated Debentures. In connection with the refinancing we incurred a loss of $8.1 million and paid $38.7 million in financing fees, of which $21.0 million was recorded as a financing activity.

In the second quarter of 2021, we entered into an amendment ("OZCO Amendment") to the term loan credit agreement dated May 31, 2018, which provided $35.0 million of incremental term loan funds to be used to finance the acquisition, (see Note 5 - Acquisitions of the Notes to Condensed Consolidated Financial Statements for additional information). In the thirty-nine weeks ended September 25, 2021 we used $8.0 million to make regularly scheduled payments under our old Term Credit agreement. Our revolver draws, net of repayments, provided cash of $2.0 million in the thirty-nine weeks ended September 25, 2021. Finally, in the thirty-nine weeks ended September 25, 2021 the Company received $1.8 million on the exercise of stock options.

We believe that projected cash flows from operations and ABL Revolver availability will be sufficient to fund working capital and capital expenditure needs for the next 12 months. As of September 24, 2022, the ABL Revolver had an outstanding amount of $100.0 million and outstanding letters of credit of $32.8 million leaving $195.4 million of available borrowings as a source of liquidity based on the customary asset-backed loan borrowing base and availability provisions. Our material cash requirements for known contractual obligations include debt, lease obligations, and capital expenditures each of which are discussed in more detail earlier in this section and in the Notes to the Condensed Consolidated Financial Statements. We believe projected cash flows from operations and ABL Revolver availability will be sufficient to meet our liquidity and capital needs for these items in the short-term and also in the long-term beyond the next 12 months. We also have cash requirements for purchase orders and contracts for the purchase of inventory and other goods and services, which are based on current distribution needs and are fulfilled by our suppliers within the short term.

Our working capital (current assets minus current liabilities) position of $447.4 million as of September 24, 2022 represents an increase of $56.4 million from the December 25, 2021 level of $391.0 million. 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, disruption and volatility in the global capital markets, could impact our capital resources and liquidity in the future.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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 24, 2022, 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 25, 2021, as filed with the Securities and Exchange Commission on March 16, 2022.

Recent Accounting Pronouncements

See "Note 4 - 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 swaps only to the extent considered necessary to meet our objectives.

Based on our exposure to variable rate borrowings at September 24, 2022, 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 $5.2 million.

Foreign Currency Exchange

We are exposed to foreign exchange rate changes of the Canadian and Mexican currencies as they impact the $171.6 million tangible and intangible net asset value of our Canadian and Mexican subsidiaries as of September 24, 2022. The foreign subsidiaries' net tangible assets were $113.5 million and the net intangible assets were $58.1 million as of September 24, 2022.

We utilize foreign exchange forward contracts to manage the exposure to currency fluctuations in the Canadian dollar versus the U.S. Dollar. See Note 16 - Derivatives and Hedging of the Condensed Notes to the accompanying Condensed Consolidated Financial Statements.

Commodity Price Risk

Our transportation costs are exposed to fluctuations in the price of fuel and some of our products contain commodity-priced materials. The Company regularly monitors commodity trends and works to mitigate any material exposure to commodity price risk by having alternative sourcing plans in place, limiting supplier concentrations, passing commodity-related inflation to customers, and continuing to scale its distribution networks.

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 24, 2022, 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 24, 2022 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. For a description of our material legal proceedings, see Note 7 - Commitments and Contingencies, to the accompanying Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 1A – Risk Factors.

There have been no material changes to the risks from those disclosed in the Form 10-K filed on March 16, 2022 with the Securities and Exchange Commission ("SEC").

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
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 24, 2022 filed with the Securities and Exchange Commission on November 3, 2022, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets as of September 24, 2022 and December 25, 2021, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 24, 2022 and the thirteen and thirty-nine weeks ended September 25, 2021, (iii) Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended September 24, 2022 and the thirty-nine weeks ended September 25, 2021, (iv) Condensed Consolidated Statements of Stockholders' Equity for the thirteen and thirty-nine weeks ended September 24, 2022 and the thirteen and thirty-nine weeks ended September 25, 2021, and (v) 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.

HILLMAN SOLUTIONS CORP.

/s/ Robert O. Kraft	/s/ Anne S. McCalla
Robert O. Kraft	Anne S. McCalla
Chief Financial Officer	Controller
	(Chief Accounting Officer)

DATE: November 3, 2022

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Douglas J. Cahill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hillman Solutions Corp.;

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: November 3, 2022

/s/ Douglas J. Cahill
Douglas J. Cahill
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert O. Kraft, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hillman Solutions Corp.;

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: November 3, 2022

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the thirteen and thirty-nine weeks ended September 24, 2022 (the “Report”) of Hillman Solutions Corp. (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: November 3, 2022

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the thirteen and thirty-nine weeks ended September 24, 2022 (the “Report”) of Hillman Solutions Corp. (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: November 3, 2022