

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2023
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™

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.)

1280 Kemper Meadow Drive

Cincinnati, Ohio

45240

(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 6, 2023, 194,902,999 shares of common stock, par value \$0.0001 per share, were outstanding.

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HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(dollars in thousands)

	As of September 30, 2023	As of December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,262	\$ 31,081
Accounts receivable, net of allowances of \$2,312 (\$2,405 - 2022)	129,709	86,985
Inventories, net	397,077	489,326
Other current assets	29,778	24,227
Total current assets	<u>595,826</u>	<u>631,619</u>
Property and equipment, net of accumulated depreciation of \$362,422 (\$333,452 - 2022)	200,121	190,258
Goodwill	824,305	823,812
Other intangibles, net of accumulated amortization of \$461,240 (\$414,275 - 2022)	688,451	734,460
Operating lease right of use assets	88,578	66,955
Other assets	14,633	23,586
Total assets	<u>\$ 2,411,914</u>	<u>\$ 2,470,690</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 159,332	\$ 131,751
Current portion of debt and financing lease liabilities	10,697	10,570
Current portion of operating lease liabilities	13,814	12,285
Accrued expenses:		
Salaries and wages	9,188	15,709
Pricing allowances	10,917	9,246
Income and other taxes	5,786	5,300
Interest	352	697
Other accrued liabilities	23,390	29,854
Total current liabilities	<u>233,476</u>	<u>215,412</u>
Long-term debt	780,043	884,636
Deferred tax liabilities	142,103	140,091
Operating lease liabilities	81,795	61,356
Other non-current liabilities	14,897	12,456
Total liabilities	<u>\$ 1,252,314</u>	<u>\$ 1,313,951</u>
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.0001 par, 500,000,000 shares authorized, 194,827,369 issued and outstanding at September 30, 2023 and 194,548,411 issued and outstanding at December 31, 2022		
	20	20
Additional paid-in capital	1,415,059	1,404,360
Accumulated deficit	(226,147)	(226,617)
Accumulated other comprehensive loss	(29,332)	(21,024)
Total stockholders' equity	<u>1,159,600</u>	<u>1,156,739</u>
Total liabilities and stockholders' equity	<u>\$ 2,411,914</u>	<u>\$ 2,470,690</u>

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 for per share amounts)

	Thirteen Weeks Ended September 30, 2023	Thirteen Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 30, 2023	Thirty-nine Weeks Ended September 24, 2022
Net sales	\$ 398,943	\$ 378,538	\$ 1,128,669	\$ 1,135,665
Cost of sales (exclusive of depreciation and amortization shown separately below)	222,644	214,802	643,652	648,221
Selling, warehouse, general and administrative expenses	113,359	133,246	335,876	366,013
Depreciation	14,434	14,312	44,939	41,738
Amortization	15,583	15,557	46,733	46,644
Other (income) expense, net	(1,819)	1,070	841	(3,124)
Income (loss) from operations	34,742	(449)	56,628	36,173
Interest expense, net	16,728	14,696	52,880	38,857
Income (loss) before income taxes	18,014	(15,145)	3,748	(2,684)
Income tax expense (benefit)	12,957	(5,679)	3,278	(147)
Net income (loss)	<u>\$ 5,057</u>	<u>\$ (9,466)</u>	<u>\$ 470</u>	<u>\$ (2,537)</u>
Basic income (loss) per share	\$ 0.03	\$ (0.05)	\$ 0.00	\$ (0.01)
Weighted average basic shares outstanding	194,794	194,370	194,662	194,171
Diluted income (loss) per share	\$ 0.03	\$ (0.05)	\$ 0.00	\$ (0.01)
Weighted average diluted shares outstanding	196,575	194,370	195,832	194,171
Net income (loss) from above	\$ 5,057	\$ (9,466)	\$ 470	\$ (2,537)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(2,994)	(7,834)	1,851	(8,745)
Hedging activity	(4,257)	3,811	(10,159)	15,333
Total other comprehensive (loss) income	(7,251)	(4,023)	(8,308)	6,588
Comprehensive (loss) income	<u>\$ (2,194)</u>	<u>\$ (13,489)</u>	<u>\$ (7,838)</u>	<u>\$ 4,051</u>

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 30, 2023	Thirty-nine Weeks Ended September 24, 2022
Cash flows from operating activities:		
Net income (loss)	\$ 470	\$ (2,537)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	91,672	88,382
Deferred income taxes	1,835	5,670
Deferred financing and original issue discount amortization	3,993	2,251
Stock-based compensation expense	9,111	10,789
Change in fair value of contingent consideration	2,614	(2,926)
Changes in operating items:		
Accounts receivable, net	(42,883)	(19,482)
Inventories, net	92,833	(6,004)
Other assets	(5,697)	(5,549)
Accounts payable	27,220	(34,648)
Other accrued liabilities	(9,691)	27,286
Net cash provided by operating activities	171,477	63,232
Cash flows from investing activities:		
Acquisition of business, net of cash received	(300)	(2,500)
Capital expenditures	(52,145)	(46,431)
Other investing activities	(318)	—
Net cash used for investing activities	(52,763)	(48,931)
Cash flows from financing activities:		
Repayments of senior term loans	(86,383)	(6,384)
Borrowings on revolving credit loans	172,000	161,000
Repayments of revolving credit loans	(197,000)	(154,000)
Principal payments under finance lease obligations	(1,687)	(998)
Proceeds from exercise of stock options	1,600	1,885
Payments of contingent consideration	(1,175)	(115)
Other financing activities	883	1,809
Cash payments related to hedging activities	—	(1,421)
Net cash (used for) provided by financing activities	(111,762)	1,776
Effect of exchange rate changes on cash	1,229	(1,454)
Net increase in cash and cash equivalents	8,181	14,623
Cash and cash equivalents at beginning of period	31,081	14,605
Cash and cash equivalents at end of period	\$ 39,262	\$ 29,228
Supplemental disclosure of cash flow information:		
Interest paid	\$ 43,843	\$ 30,597
Income taxes paid	3,999	2,550

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

HILLMAN SOLUTIONS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(dollars in thousands)

Common Stock						
	Shares	Amount	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Thirty-nine weeks ended September 30, 2023						
Balance at December 31, 2022	194,548	\$ 20	\$ 1,404,360	\$ (226,617)	\$ (21,024)	\$ 1,156,739
Net Income (Loss)	—	—	—	(9,132)	—	(9,132)
Stock option activity, stock awards and employee stock purchase plan	—	—	2,708	—	—	2,708
Hedging activity	—	—	—	—	(5,142)	(5,142)
Change in cumulative foreign currency translation adjustment	—	—	—	—	959	959
Balance at April 1, 2023	194,548	\$ 20	\$ 1,407,068	\$ (235,749)	\$ (25,207)	\$ 1,146,132
Net Income (Loss)	—	—	—	4,545	—	4,545
Stock option activity, stock awards and employee stock purchase plan	159	—	4,012	—	—	4,012
Hedging activity	—	—	—	—	(760)	(760)
Change in cumulative foreign currency translation adjustment	—	—	—	—	3,886	3,886
Balance at July 1, 2023	194,707	\$ 20	\$ 1,411,080	\$ (231,204)	\$ (22,081)	\$ 1,157,815
Net Income (Loss)	—	—	—	5,057	—	5,057
Stock option activity, stock awards and employee stock purchase plan	120	—	3,979	—	—	3,979
Hedging activity	—	—	—	—	(4,257)	(4,257)
Change in cumulative foreign currency translation adjustment	—	—	—	—	(2,994)	(2,994)
Balance at September 30, 2023	194,827	\$ 20	\$ 1,415,059	\$ (226,147)	\$ (29,332)	\$ 1,159,600
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

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

1. BASIS OF PRESENTATION

The accompanying condensed financial statements include the consolidated accounts of the Hillman 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 30, 2023. 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 30, 2023 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 31, 2022 and notes thereto included in the Form 10-K filed on February 27, 2023 with the Securities and Exchange Commission ("SEC").

Nature of Operations:

The Company is comprised of three separate operating business segments: (1) Hardware and Protective Solutions, (2) Robotics and Digital Solutions, and (3) Canada.

In the first quarter of 2023, the Company realigned its Canada segment to include the Canada-based Protective Solutions and MinuteKey businesses, which are now operating under the Canada segment leadership team. Previously, the results of the Canada-based Protective Solutions business were reported in the Hardware and Protective Solutions segment and the Canada-based MinuteKey business was reported in the Robotics and Digital Solutions segment and were operating under those respective segment leadership teams. See Note 16 - Segment Reporting for additional information.

Hillman provides and, on a limited basis, produces products such as fasteners and related hardware items; threaded rod and metal shapes; keys, key duplication systems, and accessories; personal protective equipment such as gloves and eyewear; builder's hardware; and identification items, such as tags and letters, numbers, and signs, to retail outlets, primarily hardware stores, home centers and mass merchants, pet supply stores, grocery stores, and drug stores. The Canada segment also produces fasteners, stampings, fittings, and processes threaded parts for automotive suppliers, industrial Original Equipment Manufacturers ("OEMs"), and industrial distributors.

Reclassifications:

Certain amounts in the prior year Condensed Consolidated Financial Statements and in the Notes to the Condensed Consolidated Financial Statements were reclassified to conform to the current year's presentation. This had no impact on the prior periods' statement of financial position, net income (loss), cash flows, or stockholder's equity.

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 on February 27, 2023 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.

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 tables display our disaggregated revenue by product category. Certain amounts in the prior year presentation between segments were reclassified to conform to the current year's presentation.

Thirteen weeks ended September 30, 2023				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	\$ 228,515	\$ —	\$ 35,497	\$ 264,012
Personal Protective	67,038	—	1,933	68,971
Keys and Key Accessories	—	50,408	2,477	52,885
Engraving and Resharp	—	13,060	15	13,075
Total Revenue	<u>\$ 295,553</u>	<u>\$ 63,468</u>	<u>\$ 39,922</u>	<u>\$ 398,943</u>

Thirteen weeks ended September 24, 2022				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	\$ 211,064	\$ —	\$ 39,356	\$ 250,420
Personal Protective	59,052	—	2,263	61,315
Keys and Key Accessories	—	50,445	2,422	52,867
Engraving and Resharp	—	13,928	8	13,936
Total Revenue	<u>\$ 270,116</u>	<u>\$ 64,373</u>	<u>\$ 44,049</u>	<u>\$ 378,538</u>

Thirty-nine weeks ended September 30, 2023				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	\$ 658,629	\$ —	\$ 111,462	\$ 770,091
Personal Protective	159,569	—	5,474	165,043
Keys and Key Accessories	—	147,976	6,510	154,486
Engraving and Resharp	—	39,014	35	39,049
Total Revenue	<u>\$ 818,198</u>	<u>\$ 186,990</u>	<u>\$ 123,481</u>	<u>\$ 1,128,669</u>

Thirty-nine weeks ended September 24, 2022				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
Fastening and Hardware	\$ 626,174	\$ —	\$ 121,078	\$ 747,252
Personal Protective	186,757	—	6,778	193,535
Keys and Key Accessories	—	146,750	5,778	152,528
Engraving and Resharp	—	42,316	34	42,350
Total Revenue	\$ 812,931	\$ 189,066	\$ 133,668	\$ 1,135,665

The following tables disaggregate our revenue by geographic location. Certain amounts in the prior year presentation between segments were reclassified to conform to the current year's presentation.

Thirteen weeks ended September 30, 2023				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	\$ 292,580	\$ 63,468	\$ —	\$ 356,048
Canada	—	—	39,922	39,922
Mexico	2,973	—	—	2,973
Consolidated	\$ 295,553	\$ 63,468	\$ 39,922	\$ 398,943

Thirteen weeks ended September 24, 2022				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	\$ 265,649	\$ 64,373	\$ —	\$ 330,022
Canada	—	—	44,049	44,049
Mexico	4,467	—	—	4,467
Consolidated	\$ 270,116	\$ 64,373	\$ 44,049	\$ 378,538

Thirty-nine weeks ended September 30, 2023				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	\$ 809,250	\$ 186,990	\$ —	\$ 996,240
Canada	—	—	123,481	123,481
Mexico	8,948	—	—	8,948
Consolidated	\$ 818,198	\$ 186,990	\$ 123,481	\$ 1,128,669

Thirty-nine weeks ended September 24, 2022				
	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Total Revenue
United States	\$ 801,539	\$ 189,066	\$ —	\$ 990,605
Canada	—	—	133,668	133,668
Mexico	11,392	—	—	11,392
Consolidated	\$ 812,931	\$ 189,066	\$ 133,668	\$ 1,135,665

The Company's revenue by geography is allocated based on the location of its sales operations.

Hardware and Protective Solutions revenues consist primarily of the delivery of fasteners, anchors, specialty fastening products, and personal protective equipment such as gloves and eyewear, 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, warehouse, 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. 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, 2024. As of September 30, 2023, the Company does not have any receivables, hedging relationships, lease agreements, or debt agreements that reference LIBOR or another reference rate expected to be discontinued. On June 30, 2023, we amended and restated our term loan and interest rate swap agreements. As a result of those amendments, our floating rate debt no longer references a LIBOR based benchmark rate.

In January 2021, the 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. As of September 30, 2023, the Company does not have any receivables, hedging relationships, lease agreements, or debt agreements that reference LIBOR or another reference rate expected to be discontinued. On June 30, 2023, we amended and restated our term loan and interest rate swap agreements. As a result of those amendments, our floating rate debt no longer references a LIBOR based benchmark rate.

In September 2022, the FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50) to enhance the transparency of supplier finance programs. The amendments in this update apply to all entities that use supplier finance programs in connection with the purchase of goods and services. Supplier finance programs include reverse factoring, payables finance, or structured payables arrangements that allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date. The amendments in this update require that a buyer in a supplier finance program disclose sufficient information about the program including the program's nature and activity during the period, changes from period to period, and potential magnitude as well as disclosure of the qualitative and quantitative information about its supplier finance programs. The amendments in this update are effective for fiscal years beginning after December 15, 2022 and should be applied retrospectively

to each period in which a balance sheet is presented. The amendment on roll forward information is effective for fiscal years beginning after December 15, 2023, which should be applied prospectively. The Company has evaluated the impact provided by the new standard and does not expect it to have a material impact on its financial statements.

4. ACQUISITIONS

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 \$3,800, which included \$300 in hold-back that remained payable to the seller as of December 31, 2022. During the first quarter of 2023, the hold-back of \$300 was paid to satisfy the full purchase price. 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.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill amounts by reportable segment are summarized as follows:

	Goodwill at				Goodwill at
	December 31, 2022	Acquisitions	Dispositions	Other ⁽¹⁾	September 30, 2023
Hardware and Protective Solutions	\$ 574,744	\$ —	\$ —	\$ 443	\$ 575,187
Robotics and Digital Solutions	220,936	—	—	—	220,936
Canada	28,132	—	—	50	28,182
Total	\$ 823,812	\$ —	\$ —	\$ 493	\$ 824,305

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

Other intangibles, net, as of September 30, 2023 and December 31, 2022 consist of the following:

	Estimated Useful Life (Years)	September 30, 2023	December 31, 2022
Customer relationships	13 - 20	\$ 964,171	\$ 963,622
Trademarks - indefinite	Indefinite	85,364	85,275
Trademarks - other	7 - 15	32,437	31,387
Technology and patents	5 - 12	67,719	68,451
Intangible assets, gross		1,149,691	1,148,735
Less: Accumulated amortization		461,240	414,275
Other intangibles, net		\$ 688,451	\$ 734,460

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 30, 2023 was \$15,583 and \$46,733. Amortization expense for the thirteen and thirty-nine weeks ended September 24, 2022 was \$15,557 and \$46,644.

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 30, 2023 and the thirteen and thirty-nine weeks ended September 24, 2022, the Company did not identify any triggering events that would result in an impairment analysis outside of the annual assessment.

6. COMMITMENTS AND CONTINGENCIES

Cybersecurity Incident

In late May 2023, the Company experienced a ransomware attack (the "Cybersecurity Incident") that affected certain of the IT systems and shipping operations. As part of the containment effort, the Company suspended affected systems and elected to temporarily suspend additional systems in an abundance of caution. The Company reactivated and restored operational systems over the course of the week following the Cybersecurity Incident. The Company has restored production and shipping at all our facilities and has restored our systems such that normal operating activities have resumed. In the thirty-nine weeks ended September 30, 2023, the Cybersecurity Incident related costs net of an expected insurance receivable totaled \$1.0 million. There were no additional expenses recorded in the thirteen weeks ended September 30, 2023.

The Company expects to incur ongoing costs related to this Cybersecurity Incident, as well as costs for ongoing efforts to enhance data security in response to ongoing developments in the cybersecurity landscape. The Company is unable to estimate the ultimate direct and indirect financial impacts of this Cybersecurity Incident, though it is not expected to be material to our full year fiscal 2023 financial results.

Insurance Coverage

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 \$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 \$2,828 recorded for such risks is adequate as of September 30, 2023.

As of September 30, 2023, the Company has provided certain vendors and insurers letters of credit aggregating to \$5,890 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 \$500 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 \$2,726 recorded for such risks is adequate as of September 30, 2023.

Import Duties

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 (the "Department") 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.

Litigation

We are involved in litigation arising in the normal course of business. In management's opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

7. RELATED PARTY TRANSACTIONS

Hillman, Jefferies Financial Group Inc., certain other financial sponsors, CCMP Investors and the Oak Hill Investors entered into the Amended and Restated Registration Rights Agreement (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. Richard Zannino and Joe Scharfenberger, both partners at CCMP, were members of our Board at the time Hillman entered into the A&R Registration Rights Agreement. Mr. Zannino and Mr. Scharfenberger each resigned from the Hillman Board in May 2023 following CCMP's complete exit of its investment in Hillman during the second quarter of 2023. Another director, Teresa Gendron, was the CFO of Jefferies Financial Group until March 2023. Additionally, Oak Hill owned in excess of 5% of the Company's outstanding securities at certain times in fiscal 2022.

Sales to related parties, which are included in net sales, consist 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 \$519 and \$1,167 for the thirteen and thirty-nine weeks ended September 30, 2023. Sales to related parties were \$497 in the thirty-nine weeks ended September 24, 2022. There were no such sales made in the thirteen weeks ended September 24, 2022.

8. INCOME TAXES

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 30, 2023, the Company applied an estimated annual effective tax rate based on expected annual pre-tax income to the interim period pre-tax income to calculate the income tax expense. For the thirteen and thirty-nine weeks ended September 24, 2022, the Company applied an estimated annual effective tax rate based on expected annual pre-tax loss to the interim period pre-tax loss to calculate the income tax benefit.

For the thirteen and thirty-nine weeks ended September 30, 2023, the effective income tax rate was 71.9% and 87.5%, respectively. The Company recorded an income tax provision for the thirteen and thirty-nine weeks ended September 30, 2023 of \$12,957 and \$3,278, respectively. The effective tax rate for the thirteen and thirty-nine weeks ended September 30, 2023 was the result of certain non-deductible expenses and state and foreign income taxes.

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 and thirty-nine weeks ended September 24, 2022 of \$5,679 and \$147, respectively. The effective tax rate for the thirteen and thirty-nine weeks ended September 24, 2022 was primarily the result of an estimated increase in GILTI from the Company's Canadian operations. Non-deductible stock compensation and state and foreign income taxes also contributed to an increase to the effective tax rate.

9. LONG-TERM DEBT

The following table summarizes the Company's debt:

	September 30, 2023	December 31, 2022
Revolving loans	\$ 47,000	\$ 72,000
Senior Term loan, due 2028	753,980	840,363
Finance lease & other obligations	10,118	6,406
	<u>811,098</u>	<u>918,769</u>
Unamortized discount on Senior Term loan	(4,318)	(5,012)
Current portion of long-term debt and finance leases	(10,697)	(10,570)
Deferred financing fees	(16,040)	(18,551)
Total long-term debt, net	<u>\$ 780,043</u>	<u>\$ 884,636</u>

As of September 30, 2023, the ABL Revolver had an outstanding amount of \$17,000 and outstanding letters of credit of \$35,890. The Company has \$251,904 of available borrowings under the revolving credit facility as a source

of liquidity as of September 30, 2023 based on the customary asset-backed loan borrowing base and availability provisions.

In August 2023, the Company made a \$80.0 million dollar prepayment against the outstanding term loan balance without payment of a premium or penalty.

Conversion of Debt from LIBOR Interest Rate to SOFR Interest Rate

The Company's debt instruments are subject to interest rate adjustments that were initially based on the London Interbank Offered Rate ("LIBOR"). However, due to the discontinuation of LIBOR as a benchmark rate and the industry's transition to the Secured Overnight Financing Rate (SOFR), the Company has undertaken the necessary steps to convert its debt from LIBOR interest rate to SOFR interest rate. On June 30, 2023, the Company amended the term loan credit agreement to change the benchmark rate from LIBOR to SOFR, and had previously amended the ABL revolver to do the same on July 29, 2022.

The interest rate for the term loan is, at the discretion of the Company, (i) term SOFR plus a margin varying from 2.50% to 2.75% per annum based on leverage, plus a credit spread adjustment varying between 0.11448% to 0.42826%, depending on the SOFR tenor selected; or (ii) an alternate base rate plus a margin varying from 1.50% to 1.75% per annum based on leverage.

10. 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.

The components of operating and finance lease costs for the thirteen and thirty-nine weeks ended September 30, 2023 and thirteen and thirty-nine weeks ended September 24, 2022 were as follows:

	Thirteen Weeks Ended September 30, 2023	Thirteen Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 30, 2023	Thirty-nine Weeks Ended September 24, 2022
Operating lease costs	\$ 5,011	\$ 5,082	\$ 16,055	\$ 15,029
Short term lease costs	1,003	1,563	4,095	5,891
Variable lease costs	229	529	1,204	1,066
Finance lease costs:				
Amortization of right of use assets	714	485	1,808	1,082
Interest on lease liabilities	92	34	188	87

Rent expense is recognized on a straight-line basis over the expected lease term. Rent expense totaled \$,243 and \$21,354 in the thirteen and thirty-nine weeks ended September 30, 2023 and \$7,174 and \$21,986 in the thirteen and thirty-nine weeks ended September 24, 2022. 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 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted average remaining lease term	6.58	3.02	6.13	2.65
Weighted average discount rate	7.06 %	5.25 %	7.22 %	2.99 %

Supplemental balance sheet information related to the Company's finance leases was as follows as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
Finance lease assets, net, included in property plant and equipment	\$	7,334	\$	4,540
Current portion of long-term debt		2,773		1,862
Long-term debt, less current portion		4,684		2,767
Total principal payable on finance leases	\$	7,457	\$	4,629

Supplemental cash flow information related to the Company's operating leases was as follows for the thirty-nine weeks ended September 30, 2023 and thirty-nine weeks ended September 24, 2022:

	Thirty-nine Weeks Ended September 30, 2023		Thirty-nine Weeks Ended September 24, 2022	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflow from operating leases	\$	15,119	\$	14,497
Operating cash outflow from finance leases		170		84
Financing cash outflow from finance leases		1,687		998

As of September 30, 2023, 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 30, 2023:

	Operating Leases		Finance Leases	
Less than one year	\$	19,892	\$	3,099
1 to 2 years		19,198		2,515
2 to 3 years		18,519		1,627
3 to 4 years		17,051		548
4 to 5 years		15,252		311
After 5 years		28,902		8
Total future minimum rental commitments		118,814		8,108
Less - amounts representing interest		(23,205)		(651)
Present value of lease liabilities	\$	95,609	\$	7,457

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.

11. EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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 income (loss) from December 25, 2021 to September 30, 2023, including the effect of significant reclassifications out of accumulated other comprehensive income (loss) (net of tax):

	Accumulated Other Comprehensive Income (Loss)
Balance at December 25, 2021	\$ (27,154)
Other comprehensive income before reclassifications	10,524
Amounts reclassified from other comprehensive income	(4,394)
Net current period other comprehensive income ⁽¹⁾	6,130
Balance at December 31, 2022	(21,024)
Other comprehensive income before reclassifications	3,121
Amounts reclassified from other comprehensive income	(11,429)
Net current period other comprehensive loss ⁽²⁾	(8,308)
Balance at September 30, 2023	\$ (29,332)

- During the year ended December 31, 2022, the Company deferred a gain of \$2,771, reclassified a gain of \$4,394 net of tax of \$4,631 into other comprehensive loss due to hedging activities. The amounts reclassified out of other comprehensive loss were recorded as interest expense. See Note 14 - Derivatives and Hedging for additional information on the interest rate swaps.
- During the thirty-nine weeks ended September 30, 2023, the Company deferred a gain of \$3,308, reclassified a gain of \$11,429 net of tax of \$2,038 into other comprehensive loss due to hedging activities. The amounts reclassified out of other comprehensive loss were recorded as interest expense. See Note 14 - Derivatives and Hedging for additional information on the interest rate swaps.

12. STOCK-BASED COMPENSATION

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan may grant options, stock appreciation rights, restricted stock, and other stock-based awards for up to an aggregate of 4,523,510 shares of its common stock.

The 2014 Equity Incentive Plan had stock compensation expense of \$876 and \$3,502 recognized in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 30, 2023, respectively, and \$1,034 and \$7,390 for the thirteen and thirty-nine weeks ended September 24, 2022, respectively.

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 over four years from the grant date and performance-based options vest based 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.

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).

The 2021 Equity Incentive Plan had stock compensation expense of \$2,103 and \$5,335 recognized in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 30, 2023, respectively, and \$1,358 and \$3,143 for the thirteen and thirty-nine weeks ended September 24, 2022, respectively.

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 over four 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 sooner of the first anniversary of the grant date or the Company's next annual meeting of stockholders.

2021 Employee Stock Purchase Plan

Our Employee Stock Purchase Plan ("ESPP") became effective on July 14, 2021, in which 1,140,754 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 30, 2023, there was approximately \$90 and \$274, respectively, and as of thirteen and thirty-nine weeks ended September 24, 2022, there was approximately \$3 and \$256, respectively, of compensation expense related to the ESPP.

13. 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 and restricted stock awards and units. 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 30, 2023			Thirty-nine weeks ended September 30, 2023		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$ 5,057	194,794	\$ 0.03	\$ 470	194,662	\$ 0.00
Dilutive effect of stock options and awards	—	1,781	—	—	1,170	—
Net income per diluted common share	<u>\$ 5,057</u>	<u>196,575</u>	<u>\$ 0.03</u>	<u>\$ 470</u>	<u>195,832</u>	<u>\$ 0.00</u>

	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 loss per diluted common share	<u>\$ (9,466)</u>	<u>194,370</u>	<u>(0.05)</u>	<u>\$ (2,537)</u>	<u>194,171</u>	<u>\$ (0.01)</u>

Stock options and awards outstanding totaling 2,794 and 4,324 were excluded from the computation for the thirteen and thirty-nine weeks ended September 30, 2023 and 9,586 and 4,635 for the thirteen and thirty-nine weeks ended September 24, 2022, respectively, as they would have had an antidilutive effect under the treasury stock method.

14. 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 July 9, 2021, the Company entered into an interest swap agreement ("2021 Swap 1") for a notional amount of \$44,000. The forward start date of the 2021 Swap 1 was July 30, 2021 and the termination date is July 31, 2024. Originally, the 2021 Swap 1 had a determined pay fixed interest rate of 0.75%. As of June 30, 2023 the Company modified the terms of the swaps to replace the LIBOR-based reference rates with SOFR-based reference rates, in accordance with the respective swap agreements and market conventions. This modification resulted in a determined pay fixed interest rate of 0.74%. 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 (loss) within the Company's Statement of Comprehensive Income (Loss) and the deferred gains or losses are reclassified out of other comprehensive income (loss) 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 \$16,000. The forward start date of the 2021 Swap 2 was July 30, 2021 and the termination date is July 31, 2024. Originally, the 2021 Swap 2 had a determined pay fixed interest rate of 0.76%. As of June 30, 2023 the Company modified the terms of the swaps to replace the LIBOR-based reference rates with SOFR-based reference rates, in

accordance with the respective swap agreements and market conventions. This modification resulted in a determined pay fixed interest rate of 0.74%. 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 (loss) within the Company's Statement of Comprehensive Income (Loss) and the deferred gains or losses are reclassified out of other comprehensive income (loss) into interest expense in the same period during which the hedged transactions affect earnings.

As of September 30, 2023 and December 31, 2022 the Company did not hold any derivative liabilities. The following table summarizes the Company's derivative financial instruments:

Asset Derivatives			As of September 30, 2023	As of December 31, 2022
Balance Sheet Location		Fair Value	Fair Value	
Derivatives designated as hedging instruments:				
2021 Swap 1	Other current/other non-current assets	\$ 5,451	\$ 8,705	
2021 Swap 2	Other current/other non-current assets	8,177	13,044	
Total hedging instruments:		<u>\$ 13,628</u>	<u>\$ 21,749</u>	

Additional information with respect to the fair value of derivative instruments is included in Note 15 - Fair Value Measurements.

15. 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 30, 2023				
	Level 1	Level 2	Level 3	Total
Trading securities	\$ 990	\$ —	\$ —	\$ 990
Interest rate swaps	—	13,628	—	13,628
Contingent consideration payable	—	—	12,502	12,502

As of December 31, 2022				
	Level 1	Level 2	Level 3	Total
Trading securities	\$ 1,155	\$ —	\$ —	\$ 1,155
Interest rate swaps	—	21,749	—	21,749
Contingent consideration payable	—	—	11,063	11,063

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 30, 2023 and December 31, 2022, 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 InstaJob 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. The current and non-current portions of these obligations are reported separately on the Condensed Consolidated Balance Sheets as other accrued expense and other non-current liabilities, respectively. Subsequent changes in the fair value of the contingent consideration liabilities, as determined by using a simulation model of the Monte Carlo analysis that includes updated projections applicable to the liability, are recorded within other income (expense) in the Condensed Consolidated Statements of Comprehensive Income (Loss).

The table below provides a summary of the changes in fair value of the Company's contingent considerations (Level 3) for Resharp and InstaJob as of September 30, 2023.

	Resharp		InstaJob		Total
	Other accrued expense	Other non-current liabilities	Other accrued expense	Other non-current liabilities	
Fair value as of December 31, 2022	\$ 271	\$ 9,729	\$ 922	\$ 141	\$ 11,063
Fair value of cash consideration paid	(164)	—	(1,011)	—	(1,175)
Change in fair value of contingent consideration	113	2,351	105	45	2,614
Fair value as of September 30, 2023	<u>\$ 220</u>	<u>\$ 12,080</u>	<u>\$ 16</u>	<u>\$ 186</u>	<u>\$ 12,502</u>

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 amounts of the long-term debt under the revolving credit facility and term loan approximate the fair value at September 30, 2023 and December 31, 2022 as the interest rate is variable and approximates current market rates of debt based on observable market transactions with similar terms and comparable credit risk.

Additional information with respect to the derivative instruments is included in Note 14 - Derivatives and Hedging.

16. 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 30, 2023: 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.

In the first quarter of 2023, the Company realigned its Canada segment to include the Canada-based Protective Solutions and MinuteKey businesses, which are now operating under the Canada segment leadership team. Previously, the results of the Canada-based Protective Solutions business were reported in the Hardware and Protective Solutions segment and the Canada-based MinuteKey business was reported in the Robotics and Digital Solutions segment and were operating under those respective segment leadership teams.

The table below presents revenues and income from operations for our reportable segments for the thirteen and thirty-nine weeks ended September 30, 2023 and thirteen and thirty-nine weeks ended September 24, 2022. Certain amounts in the prior year presentation between segments were reclassified to conform to the current year's presentation.

	Thirteen Weeks Ended September 30, 2023	Thirteen Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 30, 2023	Thirty-nine Weeks Ended September 24, 2022
Revenues				
Hardware and Protective Solutions	\$ 295,553	\$ 270,116	\$ 818,198	\$ 812,931
Robotics and Digital Solutions	63,468	64,373	186,990	189,066
Canada	39,922	44,049	123,481	133,668
Total revenues	\$ 398,943	\$ 378,538	\$ 1,128,669	\$ 1,135,665
Segment Income from Operations				
Hardware and Protective Solutions	\$ 18,556	\$ 7,259	\$ 19,087	\$ 15,391
Robotics and Digital Solutions	12,772	(14,052)	27,608	3,655
Canada	3,414	6,344	9,933	17,127
Total segment income from operations	\$ 34,742	\$ (449)	\$ 56,628	\$ 36,173

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 31, 2022.

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) the ability to continue to innovate with new products and services; (5) direct and indirect costs associated with the May 2023 ransomware attack, and our receipt of expected insurance receivables associated with that Cybersecurity Incident; (6) seasonality; (7) large customer concentration; (8) the ability to recruit and retain qualified employees; (9) the outcome of any legal proceedings that may be instituted against the Company; (10) adverse changes in currency exchange rates; (11) the impact of COVID-19 on the Company's business; or (12) 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 February 27, 2023. 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 Solutions Corp. and its wholly-owned subsidiaries (collectively, "Hillman Group"), which had net sales of \$398.9 million in the thirteen weeks ended September 30, 2023 and \$1,128.7 million in the thirty-nine weeks ended September 30, 2023. 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, and Mexico. 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 eyewear; 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.

RECENT DEVELOPMENTS

In late May 2023, we experienced a ransomware attack relating to certain systems on our network (the "Cybersecurity Incident"). We promptly initiated an investigation, engaged the services of cyber-security experts and outside advisors and worked with appropriate law enforcement authorities to contain, assess and remediate the Cybersecurity Incident. We are engaged in an ongoing process of assessing data accessed during the course of the Cybersecurity Incident and will notify applicable regulatory agencies and individuals as appropriate.

The Cybersecurity Incident affected certain of our information technology systems, and as part of the containment effort, we suspended affected systems and elected to temporarily suspend additional systems in an abundance of caution. We reactivated and restored our operational systems over the course of the week following the Cybersecurity Incident.

In the thirty-nine weeks ended September 30, 2023, the Cybersecurity Incident related costs net of an expected insurance receivable totaled \$1.0 million. There were no additional expenses recorded in the thirteen weeks ended September 30, 2023. We are working diligently with our insurance carrier on claims to recover costs incurred.

We expect to incur ongoing costs related to this Cybersecurity Incident, as well as costs for ongoing efforts to enhance data security in response to ongoing developments in the cybersecurity landscape. We are unable to estimate the ultimate direct and indirect financial impacts of this Cybersecurity Incident, though it is not expected to be material to our full year fiscal 2023 financial results.

In the first quarter of 2023, the Company realigned its Canada segment to include the Canada-based Protective Solutions and MinuteKey businesses, which are now operating under the Canada segment leadership team. Previously, the results of the Canada-based Protective Solutions business were reported in the Hardware and Protective Solutions segment and the Canada-based MinuteKey business was reported in the Robotics and Digital Solutions segment and were operating under those respective segment leadership teams. Certain amounts in the prior year presentation between segments were reclassified to conform to the current year's presentation.

IMPACT OF GLOBAL ECONOMIC CONDITIONS ON OUR RESULTS OF OPERATIONS

Our business is impacted by general economic conditions in the North American markets, particularly the U.S. and Canadian retail markets including hardware stores, home centers, mass merchants, and other retailers. Changes in current economic conditions, including inflationary pressures in the cost of inventory, transportation, and employee compensation, foreign currency volatility, housing market trends, and concerns of a potential recession, have impacted consumer discretionary income levels and spending. Consumer discretionary income levels and spending impact the purchasing trends of our products by our retail customers. Any adverse trends in discretionary income and consumer spending could have a material adverse effect on our business or operating results.

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 majority of our products for resale from multiple vendors located in China and Taiwan. The purchase price of these products is routinely negotiated in U.S. dollar amounts rather than the local currency of the vendors and our suppliers' profit margins decrease when the U.S. dollar declines in value relative to the local currency. This puts pressure on our suppliers to increase prices to us. The U.S. dollar increased in value relative to the CNY by approximately 5.8% in the thirty-nine weeks ended September 30, 2023, increased by 8.3% in 2022, and declined by 2.6% during 2021. The U.S. dollar increased in value relative to the Taiwan dollar by approximately 4.9% in the thirty-nine weeks ended September 30, 2023, increased by 10.8% in 2022, and declined by 1.4% in 2021.

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 0.2% in the thirty-nine weeks ended September 30, 2023, increased by 5.7% in 2022, and declined by 0.2% in 2021.

In addition, the negotiated purchase price of our products may be dependent upon market fluctuations in the cost of raw materials (i.e. 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 and materials used in the manufacturing of our products. We identify the directional impact of changes in our product cost, but the quantification of each of these variable impacts cannot be measured as to the individual impact on our product cost with a sufficient level of precision. We may take pricing action, when warranted, in an attempt to offset a portion of product cost increases. The ability of our operating divisions to implement price increases and seek price concessions, as appropriate, is dependent on competitive market conditions.

We import 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 have increased our product costs and required us to increase prices on the affected products.

Thirteen weeks ended September 30, 2023 vs the Thirteen weeks ended September 24, 2022

FINANCIAL SUMMARY AND OTHER KEY METRICS

- Net sales for the thirteen weeks ended September 30, 2023 were \$398.9 million compared to net sales of \$378.5 million for the thirteen weeks ended September 24, 2022, an increase of approximately \$20.4 million or 5.4%.
- Net income for the thirteen weeks ended September 30, 2023 was \$5.1 million, or \$0.03 per diluted share, compared to a net loss of \$9.5 million, or \$(0.05) per diluted share for the thirteen weeks ended September 24, 2022.
- Adjusted EBITDA⁽¹⁾ totaled \$66.8 million versus \$59.0 million in the thirteen weeks ended September 30, 2023 and in the thirteen weeks ended September 24, 2022, respectively.

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 30, 2023 and the thirteen weeks ended September 24, 2022.

	Thirteen Weeks Ended September 30, 2023		Thirteen Weeks Ended September 24, 2022	
<i>(dollars in thousands)</i>	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 398,943	100.0 %	\$ 378,538	100.0 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	222,644	55.8 %	214,802	56.7 %
Selling, warehouse, general and administrative expenses	113,359	28.4 %	133,246	35.2 %
Depreciation	14,434	3.6 %	14,312	3.8 %
Amortization	15,583	3.9 %	15,557	4.1 %
Other (income) expense, net	(1,819)	(0.5)%	1,070	0.3 %
Income (loss) from operations	34,742	8.7 %	(449)	(0.1)%
Interest expense, net	16,728	4.2 %	14,696	3.9 %
Income (loss) before income taxes	18,014	4.5 %	(15,145)	(4.0)%
Income tax expense (benefit)	12,957	3.2 %	(5,679)	(1.5)%
Net income (loss)	\$ 5,057	1.3 %	\$ (9,466)	(2.5)%
Adjusted EBITDA ⁽¹⁾	\$ 66,822	16.7 %	\$ 58,973	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 by Segment

	Thirteen weeks ended September 30, 2023		Thirteen weeks ended September 24, 2022		\$ Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Hardware and Protective Solutions	\$ 295,553	74.1 %	\$ 270,116	71.4 %	\$ 25,437	9.4 %
Robotics and Digital Solutions	63,468	15.9 %	64,373	17.0 %	(905)	(1.4)%
Canada	39,922	10.0 %	44,049	11.6 %	(4,127)	(9.4)%
Consolidated	\$ 398,943		\$ 378,538		\$ 20,405	

The increase in total net sales during the third quarter of 2023 was driven primarily driven by the factors described below:

Hardware and Protective Solutions net sales increased by \$25.4 million in the thirteen weeks ended September 30, 2023 due to the following:

- Hardware net sales increased by \$17.5 million driven by \$13.8 million of volume increases driven by new business wins and promotions and \$3.7 million in price increases in response to inflationary cost pressures in the market.
- Protective equipment net sales increased by \$8.0 million primarily due to \$8.8 million in increased volume driven by timing of promotional and seasonal sales partially offset by \$1.3 million of COVID-19 related sales in 2022 with no material comparable COVID-19 sales in 2023.

Robotics and Digital Solutions net sales in the thirteen weeks ended September 30, 2023 decreased by \$0.9 million primarily driven by decreased volume in full-service key and engraving sales.

Canada net sales decreased by \$4.1 million primarily due to volume decreases of \$2.5 million along with an unfavorable impact of the exchange rate from Canadian dollars to U.S. dollars.

Cost of Sales (excluding depreciation and amortization)

The following table summarizes cost of sales by segment:

	Thirteen weeks ended September 30, 2023	% of Segment Net Sales	Thirteen weeks ended September 24, 2022	% of Segment Net Sales	\$ Change	% Change
Hardware and Protective Solutions	\$ 179,422	60.7 %	\$ 171,351	63.4 %	\$ 8,071	4.7 %
Robotics and Digital Solutions	18,776	29.6 %	18,813	29.2 %	(37)	(0.2)%
Canada	24,446	61.2 %	24,638	55.9 %	(192)	(0.8)%
Consolidated	\$ 222,644	55.8 %	\$ 214,802	56.7 %	\$ 7,842	3.7 %

Hardware and Protective Solutions cost of sales as a percentage of net sales decreased primarily due to decreased shipping and product costs.

Robotics and Digital Solutions cost of sales as a percentage of net sales increased primarily due to increased product and shipping costs as well as a reduced volume of engraving sales.

Canada cost of sales as a percentage of net sales increased primarily due to increased shipping and product costs.

Selling, Warehouse, and General and Administrative Expenses

The following table summarizes selling, warehouse, and general and administrative expense ("SG&A") by segment:

	Thirteen weeks ended September 30, 2023	% of Segment Net Sales	Thirteen weeks ended September 24, 2022	% of Segment Net Sales	\$ Change	% Change
Hardware and Protective Solutions	\$ 78,551	26.6 %	\$ 73,290	27.1 %	\$ 5,261	7.2 %
Robotics and Digital Solutions	23,797	37.5 %	48,678	75.6 %	(24,881)	(51.1)%
Canada	11,011	27.6 %	11,278	25.6 %	(267)	(2.4)%
Consolidated	\$ 113,359	28.4 %	\$ 133,246	35.2 %	\$ (19,887)	(14.9)%

Hardware and Protective Solutions SG&A increased due to the following:

- Warehouse expense increased \$3.8 million due to higher sales volumes, inflation, and additional costs associated with opening a new distribution center in the current year.
- General and administrative ("G&A") increased by \$0.8 million. The increase was primarily driven by increased stock-based compensation expense.
- Selling expense increased by \$0.6 million primarily due to higher variable compensation and benefit expense in relation to the increased sales in the quarter.

Robotics and Digital Solutions SG&A decreased due to the following:

- Warehouse expense decreased by \$0.2 million primarily due to the shift from full-service keys, which have a higher warehousing cost, to self-service keys.
- G&A decreased by \$25.1 million. The decrease was primarily related to reduced legal and consulting expense in 2023, as 2022 saw increased legal expense associated with the litigation with Hy-Ko Products Company LLC. This was partially offset by increased stock compensation expense.
- Selling expense increased by \$0.4 million primarily due to variable selling expenses related to self-service key sales.

Canada SG&A decreased due to the following:

- Warehouse expense decreased by \$0.5 million primarily due to lower sales volumes along with improved operational efficiencies.
- G&A was comparable to prior year quarter.
- Selling expense increased by \$0.2 million primarily due to increased variable selling expenses.

Other Operating Expenses

Amortization and depreciation expense in the thirteen weeks ended September 30, 2023 was comparable to the prior year quarter.

In the thirteen weeks ended September 30, 2023, other income (expense) consisted primarily of a \$1.6 million gain on the revaluation of the contingent consideration associated with the acquisition of Resharp and Instafob (see Note 15 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information).

In the thirteen weeks ended September 24, 2022, other income (expense) consisted primarily of a \$0.7 million loss on the revaluation of the contingent consideration associated with the acquisition of Resharp and Instafob. We also recorded exchange rate losses of \$0.6 million in the thirteen weeks ended September 24, 2022.

Income (Loss) from Operations

	Thirteen weeks ended September 30, 2023		Thirteen weeks ended September 24, 2022		\$ Change	% Change
Hardware and Protective Solutions	\$	18,556	\$	7,259	\$ 11,297	155.6 %
Robotics and Digital Solutions		12,772		(14,052)	26,824	190.9 %
Canada		3,414		6,344	(2,930)	(46.2)%
Total segment income (loss) from operations	\$	34,742	\$	(449)	\$ 35,191	7837.6 %

Income from operations in our Hardware and Protective Solutions segment increased \$11.3 million due to the changes in sales, cost of sales, and SG&A expenses described above.

Income from operations in our Robotics and Digital Solutions segment increased \$26.8 million. The \$26.8 million increase is primarily due to reduced legal and consulting expense in 2023, as 2022 saw increased legal expense associated with the litigation with Hy-Ko Products Company LLC along with a decrease in depreciation expense of \$0.4 million due to certain assets becoming fully depreciated. This was partially offset by a decrease of \$2.3 million in other expense driven by the changes in revaluation of the contingent consideration described above along with decreased sales.

Canada's income from operations decreased by \$2.9 million primarily due to the changes in sales and offsetting changes in cost of sales and SG&A expenses described above in addition to exchange rate losses of \$0.4 million. In the thirteen weeks ended September 24, 2022 Canada recorded exchange rate gains of \$0.2 million.

Interest expense, net, increased \$2.0 million due higher interest rates in the thirteen weeks ended September 30, 2023, partially offset by a reduction in outstanding debt.

Income Taxes

For the thirteen weeks ended September 30, 2023 and thirteen weeks ended September 24, 2022, the effective income tax rate was 71.9% and 37.5%, respectively. The Company recorded an income tax provision for the thirteen weeks ended September 30, 2023 of \$13.0 million based on a pre-tax income of \$18.0 million, and an income tax benefit for the thirteen weeks ended September 24, 2022 of \$5.7 million based on a pre-tax loss of \$(15.1) million.

In 2023, the effective tax rate differed from the U.S. federal statutory tax rate for 2023 due to state and foreign income taxes and certain non-deductible expenses. See Note 8 - Income Taxes of the Notes to Condensed Consolidated Financial Statements for additional information.

In 2022, the effective rate differed from the federal statutory rate due to non-deductible stock compensation, an estimated increase in GILTI from the Company's Canadian operations, and state and foreign income taxes.

Thirty-nine weeks ended September 30, 2023 vs the Thirty-nine weeks ended September 24, 2022

FINANCIAL SUMMARY AND OTHER KEY METRICS

- Net sales for the thirty-nine weeks ended September 30, 2023 were \$1,128.7 million compared to net sales of \$1,135.7 million for the thirty-nine weeks ended September 24, 2022, a decrease of approximately \$7.0 million or 0.6%.
- Net income for the thirty-nine weeks ended September 30, 2023 was \$0.5 million, or \$0.00 per diluted share, compared to net loss of \$2.5 million, or \$(0.01) per diluted share for the thirty-nine weeks ended September 24, 2022.
- Adjusted EBITDA⁽¹⁾ totaled \$165.0 million versus \$165.3 million in the thirty-nine weeks ended September 30, 2023 and thirty-nine weeks ended September 24, 2022, respectively.

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 thirty-nine weeks ended September 30, 2023 and the thirty-nine weeks ended September 24, 2022.

(dollars in thousands)	Thirty-nine weeks ended September 30, 2023		Thirty-nine weeks ended September 24, 2022	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,128,669	100.0 %	\$ 1,135,665	100 %
Cost of sales (exclusive of depreciation and amortization shown separately below)	643,652	57.0 %	648,221	57.1 %
Selling, warehouse, general and administrative expenses	335,876	29.8 %	366,013	32.2 %
Depreciation	44,939	4.0 %	41,738	3.7 %
Amortization	46,733	4.1 %	46,644	4.1 %
Other expense (income), net	841	0.1 %	(3,124)	(0.3) %
Income from operations	56,628	5.0 %	36,173	3.2 %
Interest expense, net	52,880	4.7 %	38,857	3.4 %
Income (loss) before income taxes	3,748	0.3 %	(2,684)	(0.2) %
Income tax expense (benefit)	3,278	0.3 %	(147)	— %
Net income (loss)	\$ 470	— %	\$ (2,537)	(0.2) %
Adjusted EBITDA ⁽¹⁾	\$ 164,990	14.6 %	\$ 165,260	14.6 %

- (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 (loss) income to Adjusted EBITDA.

Net Sales by Segment

	Thirty-nine weeks ended September 30, 2023		Thirty-nine weeks ended September 24, 2022		\$ Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Hardware and Protective Solutions	\$ 818,198	72.5 %	\$ 812,931	71.6 %	\$ 5,267	0.6 %
Robotics and Digital Solutions	186,990	16.6 %	189,066	16.6 %	(2,076)	(1.1) %
Canada	123,481	10.9 %	133,668	11.8 %	(10,187)	(7.6) %
Consolidated	\$ 1,128,669		\$ 1,135,665		\$ (6,996)	

The decline in total net sales during the thirty-nine weeks ended September 30, 2023 was driven primarily driven by the factors described below:

Hardware and Protective Solutions net sales increased by \$5.3 million in thirty-nine weeks ended September 30, 2023 due to the following:

- Hardware net sales increased by \$32.5 million driven by \$22.6 million in price increases in response to inflationary cost pressures in the market and \$9.9 million in increased volume due to new business wins.
- Protective equipment net sales decreased by \$27.2 million primarily due to a \$30.1 million decrease in volume driven in part by \$16.8 million of COVID-19 related sales in 2022 with no material comparable COVID-19 sales in 2023, partially offset by \$2.8 million in price increases.

Robotics and Digital Solutions net sales in the thirty-nine weeks ended September 30, 2023 decreased by \$2.1 million compared to the thirty-nine weeks ended September 24, 2022 primarily due to decreases in full-service key and engraving volume.

Canada net sales decreased by \$10.2 million primarily due to \$6.1 million unfavorable impact of the exchange rate from Canadian dollars to U.S. dollars along with volume decreases of \$3.2 million.

Cost of Sales (excluding depreciation and amortization)

The following table summarizes cost of sales by segment:

	Thirty-nine weeks ended September 30, 2023	% of Segment Net Sales	Thirty-nine weeks ended September 24, 2022	% of Segment Net Sales	\$ Change	% Change
Hardware and Protective Solutions	\$ 511,743	62.5 %	\$ 514,008	63.2 %	\$ (2,265)	(0.4)%
Robotics and Digital Solutions	54,822	29.3 %	56,965	30.1 %	(2,143)	(3.8)%
Canada	77,087	62.4 %	77,248	57.8 %	(161)	(0.2)%
Consolidated	<u>\$ 643,652</u>	<u>57.0 %</u>	<u>\$ 648,221</u>	<u>57.1 %</u>	<u>\$ (4,569)</u>	<u>(0.7)%</u>

Hardware and Protective Solutions cost of sales as a percentage of net sales decreased primarily due to the impact of the price increases referenced above partially offset by higher shipping and product costs.

Robotics and Digital Solutions cost of sales as a percentage of net sales decreased primarily due to a shift in product mix from full-service to self-service keys.

Canada cost of sales as a percentage of net sales increased primarily due to increased shipping and product costs.

Selling, Warehouse, and General and Administrative Expenses

The following table summarizes selling, warehouse, and general and administrative expense ("SG&A") by segment:

	Thirty-nine weeks ended September 30, 2023	% of Segment Net Sales	Thirty-nine weeks ended September 24, 2022	% of Segment Net Sales	\$ Change	% Change
Hardware and Protective Solutions	\$ 232,107	28.4 %	\$ 230,524	28.4 %	\$ 1,583	0.7 %
Robotics and Digital Solutions	70,597	37.8 %	99,829	52.8 %	(29,232)	(29.3)%
Canada	33,172	26.9 %	35,660	26.7 %	(2,488)	(7.0)%
Consolidated	<u>\$ 335,876</u>	<u>29.8 %</u>	<u>\$ 366,013</u>	<u>32.2 %</u>	<u>\$ (30,137)</u>	<u>(8.2)%</u>

Hardware and Protective Solutions SG&A increased due to the following:

- Warehouse expense increased \$1.2 million due to higher sales volumes, inflation, and additional costs associated with opening a new distribution center in the current year.
- General and administrative ("G&A") increased by \$0.5 million. The increase was primarily driven by increased stock-based compensation expense.

Robotics and Digital Solutions SG&A decreased due to the following:

- G&A decreased by \$28.5 million. The decrease was primarily related to reduced legal and consulting expense in 2023 as 2022 saw \$29.0 million in legal expense associated with the litigation with Hy-Ko Products Company LLC.

- Warehouse expense decreased by \$2.1 million primarily due to the shift from full-service keys, which have a higher warehousing cost, to self-service keys.
- Selling expense increased by \$1.4 million primarily due to higher variable selling expenses related to self-service key sales and increased variable compensation.

Canada SG&A decreased due to the following:

- Warehouse expense decreased by \$2.2 million primarily due to lower sales volume and improved operational efficiencies.
- G&A decreased by \$0.2 million primarily due to decreased variable compensation.

Other Operating Expenses

Depreciation expense in the thirty-nine weeks ended September 30, 2023 increased \$3.2 million due to increased capital spend on key duplicating kiosks and machines, merchandising racks, and facility relocations.

Amortization expense in the thirty-nine weeks ended September 30, 2023 was comparable to prior year.

In the thirty-nine weeks ended September 30, 2023, other expense consisted primarily of a \$2.6 million loss on the revaluation of the contingent consideration associated with the acquisition of Resharp and Instafof (see Note 15 - Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements for additional information). We received \$0.6 million in benefits from the state and local governments associated with our new facilities in the thirty-nine weeks ended September 30, 2023. We also recorded exchange rate gains of \$0.4 million in the thirty-nine weeks ended September 30, 2023.

In the thirty-nine weeks ended September 24, 2022, other income consisted primarily of a \$2.9 million gain on the revaluation of the contingent consideration associated with the acquisition of Resharp and Instafof.

Income from Operations

	Thirty-nine weeks ended September 30, 2023	Thirty-nine weeks ended September 24, 2022	\$ Change	% Change
Hardware and Protective Solutions	\$ 19,087	\$ 15,391	\$ 3,696	24.0 %
Robotics and Digital Solutions	27,608	3,655	23,953	655.3 %
Canada	9,933	17,127	(7,194)	(42.0)%
Total segment income from operations	\$ 56,628	\$ 36,173	\$ 20,455	56.5 %

Income from operations in our Hardware and Protective Solutions segment increased \$3.7 million due to the changes in sales, cost of sales, and SG&A expenses described above.

Income from operations in our Robotics and Digital Solutions segment increased by \$24.0 million primarily due to the changes in sales, cost of sales, and SG&A expenses described above, offset by an increase of \$5.5 million in other income driven by the changes in revaluation of the contingent consideration described above.

Canada's income from operations decreased by \$7.2 million primarily due to the changes in sales, cost of sales, and SG&A expenses described above. Canada also recorded exchange rate losses of \$0.4 million in the thirty-nine weeks ended September 30, 2023.

Interest Expense

Interest expense, net, increased \$14.0 million due higher interest rates in the thirty-nine weeks ended September 30, 2023, partially offset by a reduction in outstanding debt.

Income Taxes

For the thirty-nine weeks ended September 30, 2023 and thirty-nine weeks ended September 24, 2022, the effective income tax rate was 87.5% and 5.5%, respectively. The Company recorded an income tax provision for the thirty-nine weeks ended September 30, 2023 of \$3,278 based on pre-tax income of \$3,748, and an income tax benefit for the thirty-nine weeks ended September 24, 2022 of \$(0.1) million based on a pre-tax loss of \$(2.7) million.

In 2023, the Company's effective tax rate differed from the U.S. federal statutory tax rate for 2023 due to state and foreign income taxes and certain non-deductible expenses. In 2022, the effective rate differed from the federal statutory rate due to non-deductible stock compensation, an estimated increase in GILTI from the Company's Canadian operations, and state and foreign income taxes.

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 uses 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 measure under GAAP, to Adjusted EBITDA for the periods presented:

<i>(dollars in thousands)</i>	Thirteen Weeks Ended September 30, 2023	Thirteen Weeks Ended September 24, 2022	Thirty-nine Weeks Ended September 30, 2023	Thirty-nine Weeks Ended September 24, 2022
Net income (loss)	\$ 5,057	\$ (9,466)	\$ 470	\$ (2,537)
Income tax expense (benefit)	12,957	(5,679)	3,278	(147)
Interest expense, net	16,728	14,696	52,880	38,857
Depreciation	14,434	14,312	44,939	41,738
Amortization	15,583	15,557	46,733	46,644
EBITDA	\$ 64,759	\$ 29,420	\$ 148,300	\$ 124,555
Stock compensation expense	3,069	2,485	9,111	10,789
Restructuring and other ⁽¹⁾	179	916	3,027	1,481
Litigation expense ⁽²⁾	79	25,255	339	28,968
Transaction and integration expense ⁽³⁾	289	178	1,599	2,393
Change in fair value of contingent consideration	(1,553)	719	2,614	(2,926)
Adjusted EBITDA	\$ 66,822	\$ 58,973	\$ 164,990	\$ 165,260

- (1) Includes consulting and other costs associated with severance related to our distribution center relocations and corporate restructuring activities. 2023 includes costs associated with the Cybersecurity Incident that occurred in May 2023, see Note 6 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for additional information.
- (2) Litigation expense includes legal fees associated with our litigation with Hy-Ko Products Company LLC.
- (3) Transaction and integration expense includes professional fees and other costs related to the CCMP secondary offerings in 2022 and 2023.

The following tables presents a reconciliation of segment operating income, the most directly comparable financial measure under GAAP, to segment Adjusted EBITDA for the periods presented.

Thirteen weeks ended September 30, 2023	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Consolidated
Operating income	\$ 18,556	\$ 12,772	\$ 3,414	\$ 34,742
Depreciation and amortization	19,149	9,674	1,194	30,017
Stock compensation expense	2,536	325	208	3,069
Restructuring and other	163	16	—	179
Litigation expense	—	79	—	79
Transaction and integration expense	255	34	—	289
Change in fair value of contingent consideration	—	(1,553)	—	(1,553)
Adjusted EBITDA	\$ 40,659	\$ 21,347	\$ 4,816	\$ 66,822

Thirteen weeks ended September 24, 2022	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Consolidated
Operating income (loss)	\$ 7,259	\$ (14,052)	\$ 6,344	\$ (449)
Depreciation and amortization	18,440	10,214	1,215	29,869
Stock compensation expense	2,130	197	158	2,485
Restructuring and other	831	85	—	916
Litigation expense	—	25,255	—	25,255
Transaction and integration expense	178	—	—	178
Change in fair value of contingent consideration	—	719	—	719
Adjusted EBITDA	\$ 28,838	\$ 22,418	\$ 7,717	\$ 58,973

Thirty-nine weeks ended September 30, 2023	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Consolidated
Operating income	\$ 19,087	\$ 27,608	\$ 9,933	\$ 56,628
Depreciation and amortization	56,720	31,349	3,603	91,672
Stock compensation expense	7,606	935	570	9,111
Restructuring and other	2,548	368	111	3,027
Litigation expense	—	339	—	339
Transaction and integration expense	1,424	175	—	1,599
Change in fair value of contingent consideration	—	2,614	—	2,614
Adjusted EBITDA	\$ 87,385	\$ 63,388	\$ 14,217	\$ 164,990

Thirty-nine weeks ended September 24, 2022	Hardware and Protective Solutions	Robotics and Digital Solutions	Canada	Consolidated
Operating income	\$ 15,391	\$ 3,655	\$ 17,127	\$ 36,173
Depreciation and amortization	53,159	31,542	3,681	88,382
Stock compensation expense	8,693	1,248	848	10,789
Restructuring and other	1,357	124	—	1,481
Litigation expense	—	28,968	—	28,968
Transaction and integration expense	2,105	288	—	2,393
Change in fair value of contingent consideration	—	(2,926)	—	(2,926)
Adjusted EBITDA	\$ 80,705	\$ 62,899	\$ 21,656	\$ 165,260

LIQUIDITY AND CAPITAL RESOURCES

Our working capital (current assets minus current liabilities) position of \$362.4 million as of September 30, 2023 represents a decrease of \$53.8 million from the December 31, 2022 level of \$416.2 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.

The following table presents the key categories of our consolidated statements of cash flows:

	Thirty-nine weeks ended September 30, 2023	Thirty-nine weeks ended September 24, 2022	\$ Change
Net cash provided by operating activities	\$ 171,477	\$ 63,232	\$ 108,245
Net cash used for investing activities	(52,763)	(48,931)	(3,832)
Net cash (used for) provided by financing activities	(111,762)	1,776	(113,538)
Net increase in cash and cash equivalents	8,181	14,623	(6,442)

Operating Cash Flows:

Net Cash provided by operating activities for the thirty-nine weeks ended September 30, 2023 was favorably impacted by reduced inventory as part of the company's ongoing strategic initiative to lower inventory on hand during 2023 following the build up of inventory in prior years due to recent supply chain challenges and inflation. Additionally we saw increased accounts payable due to the timing of purchases and payments.

Net cash provided by operating activities for the thirty-nine weeks ended September 24, 2022 was unfavorably impacted by (1) reduced accounts payable resulting from lower purchases and (2) increased accounts receivable and inventory resulting from price increases and inflation.

Investing Cash Flows:

Capital Expenditures:

Cash of \$52.1 million and \$46.4 million was used in the thirty-nine weeks ended September 30, 2023 and thirty-nine weeks ended September 24, 2022, respectively, to invest in: new engraving and key duplicating kiosks in the RDS segment, new merchandising racks, and leasehold improvements in new distribution facilities in the Hardware and Protective Solutions segment.

Acquisitions:

During the thirty-nine weeks ended September 24, 2022 we acquired Monkey Hook for a total purchase price of \$2.8 million, which included \$0.3 million in hold-back that remained payable to the seller as of December 31, 2022. In the thirty-nine weeks ended September 30, 2023, hold-back of \$0.3 million was paid to satisfy the full purchase price. See Note 4 - Acquisitions of the Notes to Condensed Consolidated Financial Statements for additional information.

Financing Cash Flows:

Term Loan:

The Company used \$86.4 million of cash for principal payments on the senior term loan. In August 2023, the Company made a \$80.0 million dollar prepayment against the outstanding term loan balance without payment of a premium or penalty. As of September 30, 2023, we have outstanding borrowings of \$754.0 million on the term loan. See Note 9 - Long-term Debt of the Notes to Condensed Consolidated Financial Statements for additional information.

ABL Revolver:

Our revolver repayments, net of draws, used cash of \$25.0 million in the thirty-nine weeks ended September 30, 2023 as part of our plan to pay down debt. In the thirty-nine weeks ended September 24, 2022, revolver draws, net of repayments, provided \$7.0 million of cash.

Stock Option Exercises:

In the thirty-nine weeks ended September 30, 2023 and thirty-nine weeks ended September 24, 2022 the Company received \$1.6 million and \$1.9 million from the exercise of stock options, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies and estimates are summarized in the Notes to the Condensed Consolidated Financial Statements. Some accounting policies require management to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, known trends in our industry, terms of existing contracts, and other information from outside sources, as appropriate. Management believes that these estimates and assumptions are reasonable based on the facts and circumstances as of September 30, 2023, 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 31, 2022, as filed with the Securities and Exchange Commission on February 27, 2023.

Recent Accounting Pronouncements

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE EXPOSURE

We are exposed to the impact of interest rate changes as borrowings under the Senior Facilities bear interest at variable interest rates. It is our policy to enter into interest rate swaps only to the extent considered necessary to meet our objectives.

Based on our exposure to variable rate borrowings at September 30, 2023, after consideration of our SOFR 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 \$4.4 million.

FOREIGN CURRENCY EXCHANGE

We are exposed to foreign exchange rate changes of the Canadian and Mexican currencies as they impact the \$151.2 million tangible and intangible net asset value of our Canadian and Mexican subsidiaries as of September 30, 2023. The foreign subsidiaries net tangible assets were \$93.6 million and the net intangible assets were \$57.6 million as of September 30, 2023.

We utilize foreign exchange forward contracts to manage the exposure to currency fluctuations in the Canadian dollar versus the U.S. Dollar. See Note 14 - 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 30, 2023, 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 thirteen weeks ended September 30, 2023 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

The Information required by this Item is set forth in Note 6 - Commitments and Contingencies, to the accompanying Condensed Consolidated Financial Statements included in this Form 10-Q and is incorporated into this Item by reference.

ITEM 1A – RISK FACTORS

There have been no material changes to the risks from those disclosed in the Form 10-K filed on February 27, 2023 with the Securities and Exchange Commission ("SEC").

ITEM 2. – UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable.

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. – OTHER INFORMATION

Segment Realignment

In the first quarter of 2023, the Company realigned its Canada segment to include the Canada-based Protective Solutions and MinuteKey businesses, which are now operating under the Canada segment leadership team. Previously, the results of the Canada-based Protective Solutions business were reported in the Hardware and Protective Solutions segment and the Canada-based MinuteKey business was reported in the Robotics and Digital Solutions segment and were operating under those respective segment leadership teams.

If the aforementioned changes in segments were in effect for the years ended December 31, 2022, December 25, 2021, and December 26, 2020, revenues for our Hardware and Protective Solutions segment would have been lower by \$8.1 million, \$7.4 million and \$8.0 million, respectively and revenues for our Robotics and Digital Solutions segment would have been lower by \$4.3 million, \$3.0 million and \$2.0 million for the years ended December 31, 2022, December 25, 2021, and December 26, 2020, respectively. Revenues for our Canada segment would have been

higher by \$12.3 million \$10.4 million and \$10.0 million for the years ended December 31, 2022, December 25, 2021, and December 26, 2020, respectively. In addition, the change to segment income (loss) from operations did not have a material impact on the financial statements as of December 31, 2022, December 25, 2021, and December 26, 2020. The table below presents the results as if the segment changes had been in effect for the noted periods.

	Year ended December 31, 2022	Year ended December 25, 2021	Year ended December 26, 2020
Revenues			
Hardware and Protective Solutions	\$ 1,068,734	\$ 1,017,594	\$ 1,016,412
Robotics and Digital Solutions	245,633	246,494	207,276
Canada	171,961	161,879	144,607
Total revenues	\$ 1,486,328	\$ 1,425,967	\$ 1,368,295
Segment Income from Operations			
Hardware and Protective Solutions	\$ 20,742	\$ (14,650)	\$ 64,998
Robotics and Digital Solutions	3,541	21,761	5,264
Canada	15,610	3,203	(4,496)
Total segment income from operations	\$ 39,893	\$ 10,314	\$ 65,766

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On November 2, 2023, the Board of Directors of the Company adopted the Hillman Solutions Corp. Executive Severance Plan (the "Severance Plan"). The primary purpose of the Severance Plan is to standardize and clarify the severance arrangements of our executive officers (other than Mr. Scott Ride) and the related terms and conditions.

Each of our named executive officers (as disclosed in the Company's Proxy Statement for the Annual Meeting of Stockholders held on May 31, 2023), other than Mr. Scott Ride, participate in the Plan.

As a condition to participating in the Severance Plan, each of our executive officers (other than Mr. Ride) agreed to terminate their employment agreements, if any, with the Company effective November 2, 2023.

Executives covered by the Severance Plan will generally be eligible to receive severance benefits in the event of a termination by the Company without Cause or by the Executive for Good Reason. Good Reason is a defined term under the Severance Plan and generally includes a material reduction in the Executive's duties or responsibilities, the requirement that the Executive relocate his or her principal place of business more than 50 miles from the location of the principal place of business from which the Executive worked, or any reduction in the Executive's annual base salary not part of a general base salary reduction of all similarly situated persons. Cause is a defined term under the Plan and generally includes the Executive's commission of a felony, the Executive's commission of any fraud, embezzlement, or material misconduct, the Executive's abuse of drugs or alcohol, the Executive's willful and material violation of any Company policy, the Executive's willful failure to perform his or her duties or comply with the Company's directives, or the Executive's breach of any material provisions of an employment agreement, restrictive covenant, or other agreement with the Company.

Change in Control is also a defined term under the Plan and generally includes the acquisition of more than 50% of the voting power of the Company; a change in the composition of a majority of the Board of Directors of the Company; a reorganization, merger, consolidation, sale or other disposition of all or substantially all of the assets of the Company that results in change in more than 50% of the voting power of the Company or a change in the composition of a majority of the Board of Directors.

Under the Severance Plan, in the event of a termination by the Company without Cause or by the Executive for Good Reason prior to a Change in Control or more than 24 months following a Change in Control, the severance benefits for the a participating Executive shall generally consist of the following:

- Lump sum payment of the Executive's earned but unpaid bonus for a performance period ending prior to the Executive's termination (if any);
- Continuation of the Executive's base salary for a period specified in the applicable Executive's participation notice, which is (i) eighteen months in the case of Mr. Cahill; and (ii) twelve months in the case of all other participating Executives.

- In the case of Mr. Cahill only, an amount equal to 150% of his performance based bonus at target achievement level, payable over eighteen months in equal installments on the Company's regular payroll dates.
- Payment by the Company of COBRA medical, dental and/or vision insurance premiums, based on the Executive's benefits plan elections in effect at the time of termination for a period specified in the applicable Executive's participation notice, which is (i) eighteen months in the case of Mr. Cahill; and (ii) twelve months in the case of all other participating Executives.
- Payment of the Executive's performance based bonus for the year in which the termination occurred, pro-rated for the Executive's service up to and including the date of termination and based on actual performance for the year, payable concurrently with bonus payments to other employees under the bonus plan.

Under the Severance Plan, in the event of a termination by the Company without Cause or by the Executive for Good Reason within the 24 months following a Change in Control, the severance benefits for the Executive shall generally consist of the following:

- Lump sum payment of the Executive's earned but unpaid bonus for a performance period ending prior to the Executive's termination (if any);
- Continuation of the Executive's base salary for a period specified in the applicable Executive's participation notice, which is (i) twenty-four months in the case of Mr. Cahill; and (ii) twelve months in the case of all other participating Executives.
- In the case of Mr. Cahill only, an amount equal to 200% of his performance based bonus at target achievement level, payable over twenty-four months in equal installments on the Company's regular payroll dates.
- In the case of all participating Executives other than Mr. Cahill, an amount equal to 100% of the Executive's performance based bonus at target achievement level, payable over twelve months in equal installments on the Company's regular payroll dates.
- Payment by the Company of COBRA medical, dental and/or vision insurance premiums, based on the Executive's benefits plan elections in effect at the time of termination for a period specified in the applicable Executive's participation notice, which is (i) twenty-four months in the case of Mr. Cahill; and (ii) twelve months in the case of all other participating Executives.
- Payment of the Executive's performance based bonus for the year in which the termination occurred, pro-rated for the Executive's service up to and including the date of termination and based on actual performance for the year, payable concurrently with bonus payments to other employees under the bonus plan.

The foregoing summary is qualified in its entirety by reference to the Severance Plan filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

ITEM 6. – EXHIBITS

- a) Exhibits, including those incorporated by reference.
- 10.1 * [Hillman Solutions Corp. Executive Severance Plan, dated November 2, 2023](#)(filed herewith).
- 31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) under the Exchange Act](#)(filed herewith).
- 31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) under the Exchange Act](#)(filed herewith).
- 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](#)(filed herewith).
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)(filed herewith).
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 filed with the Securities and Exchange Commission on November 8, 2023, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended September 30, 2023 and the thirteen and thirty-nine weeks ended September 24, 2022, (iii) Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended September 30, 2023 and the thirty-nine weeks ended September 24, 2022, (iv) Condensed Consolidated Statements of Stockholders' Equity for the thirteen and thirty-nine weeks ended September 30, 2023 and the thirteen and thirty-nine weeks ended September 24, 2022, and (v) Notes to Condensed Consolidated Financial Statements.

* Indicates management contract or any compensatory plan, contract or arrangement.

**HILLMAN SOLUTIONS CORP.
EXECUTIVE SEVERANCE PLAN**

Adopted as of November 2, 2023

Hillman Solutions Corp. (the “Company”) has adopted this Hillman Solutions Corp. Executive Severance Plan, including the attached Exhibits (the “Plan”), for the benefit of Participants (as defined below) on the terms and conditions hereinafter stated. The Plan, as set forth herein, is intended to provide severance protections to a select group of management or highly compensated employees (within the meaning of ERISA (as defined below)) in connection with qualifying terminations of employment. This Plan is in effect for Participants who experience certain terminations of employment occurring after the Effective Date (as defined below) and before the termination of this Plan. This Plan supersedes any and all (i) severance plans and separation policies applying to Participants that may have been in effect before the Effective Date and (ii) the provisions of any offer letters or any agreements between any Participant and the Company or a Subsidiary that provide for severance payments and benefits.

1. Defined Terms. Capitalized terms used but not otherwise defined herein shall have their respective meanings set forth below:

“Administrator” means the Compensation Committee of the Board, or such other committee as may be appointed by the Board to administer the Plan.

“Base Salary” means, with respect to any Participant, the Participant’s annual base salary rate in effect immediately prior to a Qualifying Termination, disregarding any reduction that gives rise to Good Reason.

“Board” means the Board of Directors of the Company.

“Cash Salary Severance” has the meaning provided in Section 4.2(b) hereof.

“Cause” means, with respect to any Participant, the occurrence of any one or more of the following events:

- (a) the Participant’s commission of a felony (under the laws of the United States or any relevant state, or a similar crime or offense under the applicable laws of any relevant foreign jurisdiction);
 - (b) the Participant’s commission of any act of fraud, embezzlement, dishonesty or any other act of material misconduct in the course of the Participant’s duties;
 - (c) the Participant’s abuse (including being under the influence) of narcotics or alcohol that has harmed, or may reasonably be expected to harm, the Company or a Subsidiary;
-

(d) the Participant's willful and material violation of any material rule, regulation or policy of the Company or the Board;

(e) the Participant's willful failure to perform his or her duties and/or willful failure to comply with reasonable directives of the Company's Chief Executive Officer or the Board, as applicable, if such failure is not cured to the satisfaction of the Chief Executive Officer or the Administrator within 10 business days following notice to the Participant; or

(f) the Participant's breach any of the material provisions of an employment, restrictive covenant of other agreement between the Participant or a Subsaiiry.

"Change in Control" means and includes each of the following:

(a) The consummation of a transaction or series of transactions (other than an offering of Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) directly or indirectly acquires beneficial ownership (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) of the Company's securities possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; *provided, however*, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition by the Company or any of its Subsidiaries; (ii) any acquisition by an employee benefit plan maintained by the Company or any of its Subsidiaries, or (iii) any acquisition which complies with clauses (c)(i), (c)(ii) and (c)(iii) of this definition;

(b) The Incumbent Directors cease for any reason to constitute a majority of the Board;

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination, (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "Successor Entity")) directly or indirectly, at least a majority of

the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction;

(ii) after which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (c) (ii) as beneficially owning 50% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; and

(iii) after which at least a majority of the members of the board of directors (or the analogous governing body) of the Successor Entity were Board members at the time of the Board's approval of the execution of the initial agreement providing for such transaction.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any payment under this Plan (or portion thereof) that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b) or (c) with respect to such payment (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such payment if such transaction also constitutes a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5).

The Administrator shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control has occurred pursuant to the above definition, the date of the occurrence of such Change in Control and any incidental matters relating thereto; provided that any exercise of authority in conjunction with a determination of whether a Change in Control is a "change in control event" as defined in Treasury Regulation Section 1.409A-3(i)(5) shall be consistent with such regulation.

"CIC Protection Period" means the period beginning on (and including) the date on which a Change in Control is consummated and ending on (and including) the second anniversary of the date on which such Change in Control is consummated.

"CIC Termination" means a Qualifying Termination which occurs during the CIC Protection Period.

"Claimant" has the meaning provided in Section 11.1 hereof.

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985.

"COBRA Benefits" has the meaning provided in Section 4.2(c) hereof.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

“Common Stock” means the common stock of the Company.

“Company” has the meaning defined in the Preamble hereof.

“Date of Termination” means the effective date of the termination of the Participant’s employment.

“Director” means a Board member.

“Effective Date” means the date that this Plan was adopted by the Board, which is November 2, 2023.

“Employee” means an individual who is an employee (within the meaning of Code Section 3401(c)) of the Company or any of its Subsidiaries.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Excise Tax” has the meaning provided in Section 7.1 hereof.

“Good Reason” means the Participant’s resignation due to the occurrence of any of the following conditions which occurs without the Participant’s written consent, provided that the requirements regarding advance notice and an opportunity to cure set forth below are satisfied:

(a) a material adverse change in the Participant’s authority, duties or responsibilities to the Company and its Subsidiaries, provided that neither a mere change in title alone nor reassignment following a Change in Control to a position that is substantially similar to the Participant’s prior position (whether with the Company, a successor or a division or unit thereof created out of the Company or its assets) shall constitute a material adverse change hereunder, provided further that a mere change in reporting relationship alone shall not constitute a material adverse change hereunder;

(b) a requirement that the Participant relocate the Participant’s principal place of work (including an approved home or other remote work location) to a location that is more than fifty (50) miles from the Participant’s then-current principal place of work (other than a relocation that decreases the Participant’s one-way commute); or

(c) any reduction in the Participant’s then-current annual base salary or Target Bonus, unless such reduction is part of a generalized salary or Target Bonus reduction affecting similarly situated Participants.

In order for the Participant to resign for Good Reason, the Participant must provide written notice to the Company of the existence of the Good Reason condition within sixty (60) days after the initial existence of such Good Reason condition. Upon receipt of such notice, the Company

will have thirty (30) days during which it may remedy the Good Reason condition. If the Good Reason condition is not remedied within such thirty (30)-day period, the Participant may resign based on the Good Reason condition specified in the notice effective no later than thirty (30) days following the expiration of the Company's thirty (30)-day cure period.

"Incumbent Directors" means, for any period of 12 consecutive months, individuals who, at the beginning of such period, constitute the Board together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in clause (a) or (c) of the Change in Control definition) whose election or nomination for election to the Board was approved by a vote of at least a majority (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for Director without objection to such nomination) of the Directors then still in office who either were Directors at the beginning of the 12-month period or whose election or nomination for election was previously so approved. No individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be an Incumbent Director.

"Independent Advisors" has the meaning provided in Section 7.2 hereof.

"Non-CIC Severance Benefits" has the meaning provided in Section 4.2 hereof.

"Non-U.S. Participant" has the meaning provided in Section 4.5 hereof.

"Participant" means any Employee who is selected by the Administrator (or designee thereof in accordance with Section 3 hereof) to participate in the Plan and is provided with and countersigns a Participation Notice in accordance with Section 13.2 hereof.

"Participation Notice" has the meaning provided in Section 13.2 hereof.

"Plan" has the meaning provided in the Preamble hereof.

"Prior Period Bonus" means, with respect to any Participant, the Participant's earned but unpaid cash performance bonus, if any, for the Company's applicable performance period (whether based on fiscal year, fiscal quarter, or another measure) (in any case, a "Performance Period") ending immediately prior to the Performance Period in which the Date of Termination occurs. For clarity, if the Date of Termination occurs on or after the date on which the Company pays cash performance bonuses for the Performance Period ending immediately prior to the Performance Period in which the Date of Termination occurs, then there shall be no Prior Period Bonus.

"Pro-Rata Bonus" means, with respect to any Participant, a pro-rated portion of the Participant's cash performance bonus for the Performance Period in which the Date of Termination occurs, based on (a) actual performance results for such Performance Period for

elements of such bonus unrelated to the Participant's individual performance and without regard to any discretionary adjustments that have the effect of reducing or increasing the amount of the performance bonus (other than discretionary adjustments applicable to all bonus plan participants who did not terminate employment), and (b) full satisfaction of elements of such bonus relating to the Participant's individual performance, and determined by multiplying the amount of the bonus that would have otherwise been payable to such Participant in respect of such Performance Period (as determined under the foregoing clauses (a) and (b)) by a fraction, the numerator of which equals the number of days in such Performance Period during which the Participant was employed by the Company or its Subsidiaries, and the denominator of which equals the total number of days in such Performance Period.

"Pro-Rata Target Bonus" means, with respect to any Participant, a pro-rated portion of the Participant's Target Bonus amount for the year in which the Date of Termination occurs, determined by multiplying the Participant's Target Bonus for the year in which the Date of Termination occurs by a fraction, the numerator of which equals the number of days during which the Participant was employed by the Company or its subsidiaries during the calendar year in which the Date of Termination occurs and the denominator of which equals 365 or 366 (as applicable).

"Qualifying Termination" means a termination of the Participant's employment with the Company or a Subsidiary thereof, as applicable, (a) by the Company or such Subsidiary, as applicable, without Cause or (b) by the Participant for Good Reason. Notwithstanding anything contained herein, in no event shall a Participant be deemed to have experienced a Qualifying Termination if (i) such Participant is offered and accepts an employment position with the Company or any Subsidiary, or (ii) in connection with a Change in Control or any other corporate transaction or sale of assets involving the Company or any Subsidiary, such Participant is offered and accepts an employment position with the successor or purchaser entity (or an affiliate thereof), as applicable. A Qualifying Termination shall not include a termination due to the Participant's death or disability.

"Release" has the meaning provided in Section 4.4 hereof.

"Severance Benefits" means the CIC Severance Benefits or the Non-CIC Severance Benefits, as applicable.

"Severance Classification" means, with respect to any Participant, the Participant's Severance Classification as approved by the Administrator and set forth in the individual's Participation Notice.

"Severance Period" means, with respect to any Participant, the number of months approved by the Administrator and set forth in the individual's Participation Notice.

"Statutory Severance" has the meaning provided in Section 4.5 hereof.

“Subsidiary” means any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing at least 50% of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

“Target Bonus” means, with respect to any Participant, the Participant’s annualized target cash performance bonus, if any, for the year in which the Date of Termination occurs, disregarding any reduction that gives rise to Good Reason.

“Total Payments” has the meaning provided in Section 7.1 hereof.

2. Effectiveness of the Plan; Notification. The Plan shall become effective on the Effective Date. The Administrator shall, pursuant to a Participation Notice, notify each Participant that such Participant has been selected to participate in the Plan and of such Participant’s Severance Classification and Severance Period.

3. Administration. The Plan shall be interpreted, administered and operated by the Administrator, which shall have complete authority, subject to the express provisions of the Plan, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Administrator may delegate any of its duties hereunder to a subcommittee, or to such person or persons from time to time as it may designate (other than to any Participant in the Plan). All decisions, interpretations and other actions of the Administrator (including with respect to whether a Qualifying Termination has occurred) shall be final, conclusive and binding on all parties who have an interest in the Plan. In its absolute discretion, the Board may at any time exercise any and all rights and duties of the Administrator under the Plan.

4. Severance Benefits.

4.1 Eligibility. Each Employee who qualifies as a Participant and who experiences a Qualifying Termination is eligible to receive Severance Benefits under the Plan.

4.2 Qualifying Termination Payment. In the event that a Participant experiences a Qualifying Termination (other than a CIC Termination), then, subject to Section 4.5 and Section 6.2 hereof and further subject to the Participant’s execution of a Release that becomes effective and irrevocable in accordance with Section 4.4 hereof, and subject to any additional requirements specified in the Plan (including Sections 5, 7.1, 7.2, 12.1, 12.2, 13.6, 13.7 and 13.13 of the Plan), the Company shall pay or provide to the Participant the following payments and benefits (collectively, the “Non-CIC Severance Benefits”):

(a) *Prior Period Bonus.* The Company shall pay to the Participant an amount equal to the Participant’s Prior Period Bonus, payable in a single lump sum within 10 business days following the date the Release becomes effective and irrevocable (or, if later, the date that the annual cash performance bonus for that year is paid to continuing senior executives).

(b) *Cash Salary Severance*. The Company shall pay to the Participant an amount determined in accordance with the Participant's Severance Classification and denominated as Cash Salary Severance in his or her Participation Notice (the "Cash Salary Severance"). Subject to Section 6.2 hereof, the Cash Salary Severance shall be paid to the Participant in accordance with the Company's usual payroll periods during the Severance Period (based on the Participant's Severance Classification), with the first such installment occurring within 10 business days following the date on which the Release becomes effective and irrevocable (which first installment will include any installments (without interest) that would have occurred prior to such date but for the fact the Release was not yet effective).

(c) *COBRA Benefits*. Subject to the Participant's valid election to continue health care coverage under Section 4980B of the Code, to the extent that the Participant is eligible to do so, then the Company shall reimburse the Participant for the Participant and the Participant's eligible dependents with coverage under its group health plans at the same levels and at the same cost to Participant as would have applied if the Participant's employment had not been terminated based on Participant's elections in effect on the Date of Termination until the earlier of the end of the month during which the Participant's Severance Period (as determined in accordance with the Participant's Severance Classification) ends or the date the Participant becomes covered by a group health insurance program provided by a subsequent employer. Notwithstanding the foregoing, (i) if any plan pursuant to which such continued healthcare benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Code Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (ii) the Company is otherwise unable to continue to cover the Participant under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act or the Patient Protection and Affordable Care Act), then, in either case, an amount equal to each remaining Company reimbursement shall thereafter be paid to the Participant in substantially equal monthly installments over the Participant's Severance Period (or the remaining portion thereof). The benefits described in this Section 4.2(c) are referred to herein as "COBRA Benefits".

(d) *Pro-Rata Bonus*. The Company shall pay to the Participant an amount equal to the Participant's Pro-Rata Bonus, payable at the same time bonuses are paid to the Company's other executives for the Performance Period to which the Pro-Rata Bonus relates (but in no event later than March 15th of the calendar year following the year in which the Date of Termination occurs).

4.3 CIC Termination Payment. In the event that a Participant experiences a CIC Termination, then, subject to Section 4.5 and Section 6.2 hereof and further subject to the Participant's execution of a Release that becomes effective and irrevocable in accordance with Section 4.4 hereof, and subject to any additional requirements specified in the Plan (including Sections 5, 7.1, 7.2, 12.1, 12.2, 13.6, 13.7 and 13.13 of the Plan), then the Company shall pay or provide to the Participant, as applicable, the following payments and benefits (collectively, the "CIC Severance Benefits"):

(a) *Prior Period Bonus; Cash Salary Severance; COBRA Benefits*. The Company shall pay or provide to the Participant, as applicable, the Prior Period Bonus, the Cash Salary Severance and the COBRA Benefits set forth in Sections 4.2(a)-(c) hereof; provided, however, that the Cash Salary Severance and the Severance Period shall be determined in accordance with the Participant's Severance Classification and Severance Period under the heading "CIC Severance Benefits" in the individual's Participation Notice.

(b) *Target Bonus*. In lieu of, and not in duplication of, the Pro-Rata Bonus provided under Section 4.2(d) above, the Company shall pay to the Participant a lump sum amount in cash equal to the Participant's Pro-Rata Target Bonus within 10 business days after the date that the Release becomes effective and irrevocable in accordance with its terms.

(c) *Vesting Acceleration*. The treatment of any equity awards held by the Participant shall be governed by the terms and conditions of the applicable Company equity plan and the related award agreement.

4.4 Release. Notwithstanding anything herein to the contrary, no Participant shall be eligible or entitled to receive or retain any Severance Benefits under the Plan unless the Participant executes a general release of claims in a form prescribed by the Company (the "Release") that becomes effective and, if applicable, irrevocable no more than sixty (60) days after the Date of Termination.

4.5 Non-U.S. Employees. Notwithstanding anything in the Plan to the contrary, any Participant that resides outside of the United States (each, a "Non-U.S. Participant") and is entitled to receive severance, notice or similar termination payments and/or benefits under the laws of the Participant's country of residence upon the Participant's termination of employment with the Company and its Subsidiaries (collectively, "Statutory Severance") and that becomes eligible to receive Severance Benefits under the Plan shall be entitled to receive either (i) the payments and benefits described in Section 4.2 or 4.3 above, as applicable, or (ii) such Non-U.S. Participant's Statutory Severance, whichever is greater.

5. Limitations; Discontinuance or Repayment.

5.1 Limitations. Notwithstanding any provision of the Plan to the contrary, if a Participant's status as an Employee is terminated for any reason other than due to a Qualifying Termination, the Participant shall not be entitled to receive any Severance Benefits under the Plan, and the Company shall not have any obligation to such Participant under the Plan.

5.2 Discontinuance or Repayment. If the Administrator determines at any time during the one-year period commencing on a Qualifying Termination that a Participant committed any act or omission during his or her employment with the Company and its Subsidiaries that would have constituted Cause while he or she was employed by the Company or any Subsidiary, the Company may (a) cease payment of any benefit otherwise payable to a Participant under the Plan and (b) require the Participant to repay any and all Severance Benefits previously provided to

such Participant under the terms of this Plan. The Company and its Subsidiaries shall have the right to seek enforcement of their rights under clause (b) above in any court of competent jurisdiction. To the fullest extent permitted by applicable law (including, without limitation, Code Section 409A), the Administrator may, in its sole discretion, delay the payment of any benefit otherwise payable to a Participant under the Plan to provide a reasonable period of time to conduct or complete an investigation into whether this Section 5.2 is applicable, and if so, how it should be enforced, under the circumstances. Notwithstanding the foregoing, this Section 5.2 shall not apply to any Qualifying Termination that occurs on or after a Change in Control.

6. Section 409A.

6.1 General. To the extent applicable, the Plan shall be interpreted and applied consistent and in accordance with Code Section 409A and Department of Treasury regulations and other interpretive guidance issued thereunder. Notwithstanding any provision of the Plan to the contrary, to the extent that the Administrator determines that any payments or benefits under the Plan may not be either compliant with or exempt from Code Section 409A and related Department of Treasury guidance, the Administrator may in its sole discretion adopt such amendments to the Plan or take such other actions that the Administrator determines are necessary or appropriate to (a) exempt the compensation and benefits payable under the Plan from Code Section 409A and/or preserve the intended tax treatment of such compensation and benefits, or (b) comply with the requirements of Code Section 409A and related Department of Treasury guidance; provided, however, that this Section 6.1 shall not create any obligation on the part of the Administrator to adopt any such amendment or take any other action, nor shall the Company have any liability for failing to do so.

6.2 Potential Six-Month Delay. Notwithstanding anything to the contrary in the Plan, no amounts shall be paid to any Participant under the Plan during the six (6)-month period following such Participant's "separation from service" (within the meaning of Code Section 409A(a)(2)(A)(i) and Treasury Regulation Section 1.409A-1(h)) to the extent that the Administrator determines that paying such amounts at the time or times indicated in the Plan would result in a prohibited distribution under Code Section 409A(a)(2)(B)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Code Section 409A without resulting in a prohibited distribution, including as a result of the Participant's death), the Participant shall receive payment of a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Participant during such six (6)-month period without interest thereon.

6.3 Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of the Plan providing for the payment of any amounts or benefits that constitute "nonqualified deferred compensation" under Code Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any

such provision of the Plan, references to a “termination,” “termination of employment” or like terms shall mean “separation from service”.

6.4 Reimbursements. To the extent that any payments or reimbursements provided to a Participant under the Plan are deemed to constitute compensation to the Participant to which Treasury Regulation Section 1.409A-3(i)(1)(iv) would apply, such amounts shall be paid or reimbursed reasonably promptly, but not later than December 31st of the year following the year in which the expense was incurred. The amount of any such payments eligible for reimbursement in one year shall not affect the payments or expenses that are eligible for payment or reimbursement in any other taxable year, and the Participant’s right to such payments or reimbursement of any such expenses shall not be subject to liquidation or exchange for any other benefit.

6.5 Installments. For purposes of applying the provisions of Code Section 409A to the Plan, each separately identified amount to which a Participant is entitled under the Plan shall be treated as a separate payment. In addition, to the extent permissible under Code Section 409A, the right to receive any installment payments under the Plan shall be treated as a right to receive a series of separate payments and, accordingly, each such installment payment shall at all times be considered a separate and distinct payment as permitted under Treasury Regulation Section 1.409A-2(b)(2)(iii). Whenever a payment under the Plan specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

6.6 Release Timing. To the extent that the Severance Benefits are considered “non-qualified deferred compensation” subject to Code Section 409A, if the period during which a Participant may deliver the Release required hereunder spans two calendar years, then notwithstanding anything contained in Section 4.2 or Section 4.3 of the Plan to the contrary, the payment of those Severance Benefits shall occur (or commence) on the later of (a) the first regularly-scheduled payroll date following January 1 of the second calendar year, or (b) the first regularly-scheduled payroll date following the date the Release becomes effective and irrevocable.

7. Limitation on Payments.

7.1 Best Pay Cap. Notwithstanding any other provision of the Plan, in the event that any payment or benefit received or to be received by a Participant (whether pursuant to the terms of the Plan or any other plan, arrangement or agreement) (all such payments and benefits, including the Severance Benefits, being hereinafter referred to as the “Total Payments”) would be subject (in whole or part), to the excise tax imposed under Code Section 4999 (the “Excise Tax”), then, after taking into account any reduction in the Total Payments provided by reason of Code Section 280G in any other plan, arrangement or agreement, the cash Severance Benefits under the Plan shall first be reduced (on a pro-rata basis), and any non-cash Severance Benefits hereunder shall thereafter be reduced (on a pro-rata basis), to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (a) the net amount of such

Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (b) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Participant would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

7.2 Certain Exclusions. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (a) no portion of the Total Payments, the receipt or retention of which the Participant has waived at such time and in such manner so as not to constitute a “payment” within the meaning of Code Section 280G(b), will be taken into account; (b) no portion of the Total Payments will be taken into account which, in the written opinion of an independent, nationally recognized accounting firm (the “Independent Advisors”) selected by the Company, does not constitute a “parachute payment” within the meaning of Code Section 280G(b)(2) (including by reason of Code Section 280G(b)(4)(A)) and, in calculating the Excise Tax, no portion of such Total Payments will be taken into account which, in the opinion of Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Code Section 280G(b)(4)(B), in excess of the “base amount” (as defined in Code Section 280G(b)(3)) allocable to such reasonable compensation; and (c) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Code Sections 280G(d)(3) and (4).

8. No Mitigation. No Participant shall be required to seek other employment or attempt in any way to reduce or mitigate any Severance Benefits payable under the Plan and the amount of any such Severance Benefits shall not be reduced by any other compensation paid or provided to any Participant following such Participant’s termination of service.

9. Successors.

9.1 Company Successors. The Plan shall inure to the benefit of and shall be binding upon the Company and its successors and assigns. Any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to a majority of the Company’s business and/or assets shall assume and agree to perform the obligations of the Company under the Plan. For all purposes under this Plan, the term “Company” shall include any successor to a majority of the Company’s business and/or assets which assumes and agrees to perform the obligation of the Company under the Plan, or which becomes bound by the terms of the Plan by operation of law.

9.2 Participant Successors. The Plan shall inure to the benefit of and be enforceable by each Participant’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, legatees or other beneficiaries. If a Participant dies while any

amount remains payable to such Participant hereunder, all such amounts shall be paid in accordance with the terms of the Plan to the executors, personal representatives or administrators of such Participant's estate.

10. Notices. All communications relating to matters arising under the Plan shall be in writing and shall be deemed to have been duly given when hand delivered, faxed, emailed or mailed by reputable overnight carrier or United States certified mail, return receipt requested, addressed, if to a Participant, to the address on file with the Company or to such other address as the Participant may have furnished to the other in writing in accordance herewith and, if to the Company, to such address as may be specified from time to time by the Administrator, except that notice of change of address shall be effective only upon actual receipt.

11. Claims Procedure; Arbitration.

11.1 Claims. Generally, Participants are not required to present a formal claim in order to receive benefits under the Plan. If, however, any person (the "Claimant") believes that benefits are being denied improperly, that the Plan is not being operated properly, that fiduciaries of the Plan have breached their duties, or that the Claimant's legal rights are being violated with respect to the Plan, the Claimant must file a formal claim, in writing, with the Administrator. This requirement applies to all claims that any Claimant has with respect to the Plan, including claims against fiduciaries and former fiduciaries, except to the extent the Administrator determines, in its sole discretion that it does not have the power to grant all relief reasonably being sought by the Claimant. A formal claim made pursuant to the second sentence of this Section 11.1 must be filed within ninety (90) days after the date the Claimant first knew or should have known of the facts on which the claim is based, unless the Administrator consents otherwise in writing. The Administrator shall provide a Claimant, on request, with a copy of the claims procedures established under Section 11.2 hereof.

11.2 Claims Procedure. The Administrator has adopted procedures for considering claims (which are set forth in Exhibit A attached hereto), which it may amend or modify from time to time, as it sees fit. These procedures shall comply with all applicable legal requirements. These procedures may provide that final and binding arbitration shall be the ultimate means of contesting a denied claim (even if the Administrator or its delegates have failed to follow the prescribed procedures with respect to the claim). The right to receive benefits under the Plan is contingent on a Claimant using the prescribed claims and arbitration procedures to resolve any claim.

12. Covenants.

12.1 Restrictive Covenants. A Participant's right to receive and/or retain the Severance Benefits payable under this Plan is conditioned upon and subject to the Participant's continued compliance with any restrictive covenants (*e.g.*, confidentiality, non-solicitation, non-competition, non-disparagement) contained in any other written agreement between the

Participant and the Company and/or its Subsidiaries, as in effect on the date of the Participant's Qualifying Termination.

12.2 Return of Property. A Participant's right to receive and/or retain the Severance Benefits payable under the Plan is conditioned upon the Participant's return to the Company of all Company documents (and all copies thereof) and other Company property (in each case, whether physical, electronic or otherwise) in the Participant's possession or control. With respect to non-physical Company property, a Participant may satisfy the requirement of the previous sentence by certifying in writing that all non-physical Company property in the Participant's possession or control has been returned to the Company.

13. Miscellaneous.

13.1 Entire Plan; Relation to Other Agreements. The Plan, together with any Participation Notice issued in connection with the Plan, contains the entire understanding of the parties relating to the subject matter hereof and supersedes any prior agreement, arrangement and understanding between any Participant, on the one hand, and the Company and/or any Subsidiary, on the other hand, with respect to the subject matter hereof. Severance Benefits payable under the Plan are not intended to duplicate any other severance benefits payable to a Participant by the Company. To the extent permitted under Code Section 409A (if applicable), Severance Benefits payable under the Plan to any Participant will be reduced by any severance benefits, pay in lieu of notice or other similar employment termination benefits required to be paid to the Participant by the Company under applicable law or government statutes, including, without limitation, the Worker Adjustment and Retraining Notification Act of 1988, as amended. By participating in the Plan and accepting the Severance Benefits hereunder, the Participant acknowledges and agrees that any prior agreement, arrangement and understanding between any Participant, on the one hand, and the Company and/or any Subsidiary, on the other hand, with respect to the subject matter hereof (including, for clarity, any offer letter or employment or similar agreement providing such Participant with severance payments and/or benefits upon termination of such Participant's employment with the Company or its Subsidiaries) is hereby terminated, revoked and ineffective with respect to the Participant and the Participant shall not be entitled to receive any severance payments or benefits pursuant to any such agreement, arrangement or understanding.

13.2 Participation Notices. The Administrator shall have the authority, in its sole discretion, to select Employees to participate in the Plan. The Administrator shall provide written notice to any such Employee, in substantially the form attached as Exhibit B, or in such other form as may be determined by the Administrator, in its discretion, that the Employee is a Participant in, and eligible to receive Severance Benefits under, the Plan (a "Participation Notice") at or any time prior to the Participant's termination of employment.

13.3 No Right to Continued Service. Nothing contained in the Plan shall (a) confer upon any Participant any right to continue as an employee of the Company or any Subsidiary, (b) constitute any contract of employment or agreement to continue employment for any particular

period, or (c) interfere in any way with the right of the Company to terminate a service relationship with any Participant, with or without Cause.

13.4 Termination and Amendment of Plan. The Plan and any Participation Notice may be amended or terminated by the Administrator at any time and from time to time, in its sole discretion; provided, that no such amendment (other than amendments contemplated by Section 6 or required to comply with applicable law) or termination shall adversely affect the rights of any Participant that is a Participant immediately before the effectiveness of such amendment or termination without such Participant's express written consent. For the avoidance of doubt, with respect to any Participant who has experienced a Qualifying Termination on or prior to any termination or amendment of the Plan or a Participation Notice permitted under the preceding sentence, such amendment or termination may not adversely affect his or her rights to receive the Severance Benefits hereunder (and such Severance Benefits shall continue to be paid in accordance with the terms of the Plan as in effect immediately prior to such amendment or termination).

13.5 Survival. Section 5.2 (Discontinuance or Repayment), Section 7 (Limitation on Payments), Section 11 (Claims Procedure; Arbitration) and Section 12 (Covenants) hereof shall survive the termination or expiration of the Plan and shall continue in effect.

13.6 Severance Benefit Obligations. Notwithstanding anything contained herein, Severance Benefits paid or provided under the Plan may be paid or provided by the Company or any Subsidiary employer, as applicable.

13.7 Withholding. The Company and its Subsidiaries shall have the authority and the right to deduct and withhold an amount sufficient to satisfy federal, state, local and foreign taxes required by law to be withheld with respect to any Severance Benefits payable under the Plan.

13.8 Benefits Not Assignable. Except as otherwise provided herein or by law, no right or interest of any Participant under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of any Participant under the Plan shall be liable for, or subject to, any obligation or liability of such Participant. When a payment is due under the Plan to a Participant who is unable to care for the Participant's affairs, payment may be made directly to the Participant's legal guardian or personal representative.

13.9 Applicable Law. The Plan is intended to be an unfunded "top hat" pension plan within the meaning of U.S. Department of Labor Regulation Section 2520.104-23 and shall be interpreted, administered, and enforced as such in accordance with ERISA. To the extent that state law is applicable, the statutes and common law of the State of Delaware, excluding any that mandate the use of another jurisdiction's laws, will apply.

13.10 Validity. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect.

13.11 Captions. The captions contained in the Plan are for convenience only and shall have no bearing on the meaning, construction or interpretation of the Plan's provisions.

13.12 Expenses. The expenses of administering the Plan shall be borne by the Company or its successor, as applicable.

13.13 Unfunded Plan. The Plan shall be maintained in a manner to be considered "unfunded" for purposes of ERISA. The Company shall be required to make payments only as benefits become due and payable. No person shall have any right, other than the right of an unsecured general creditor against the Company, with respect to the benefits payable hereunder, or which may be payable hereunder, to any Participant, surviving spouse or beneficiary hereunder. If the Company, acting in its sole discretion, establishes a reserve or other fund associated with the Plan, no person shall have any right to or interest in any specific amount or asset of such reserve or fund by reason of amounts which may be payable to such person under the Plan, nor shall such person have any right to receive any payment under the Plan except as and to the extent expressly provided in the Plan. The assets in any such reserve or fund shall be part of the general assets of the Company, subject to the control of the Company.

* * * * *

Exhibit A
Detailed Claims Procedures

Claims for benefits under the Plan shall be administered in accordance with Section 503 of ERISA and the Department of Labor Regulations thereunder. The Administrator shall have the right to delegate its duties under this Exhibit and all references to the Administrator shall be a reference to any such delegate, as well. The Administrator shall make all determinations as to the rights of any Participant, beneficiary, alternate payee or other person who makes a claim for benefits under the Plan (each, a “Claimant”). A Claimant may authorize a representative to act on the Claimant’s behalf with respect to any claim under the Plan. A Claimant who asserts a right to any benefit under the Plan he has not received, in whole or in part, must file a written claim with the Administrator. All written claims shall be submitted to [●].

(a) Regular Claims Procedure. The claims procedure in this subsection (a) shall apply to all claims for Plan benefits.

(1) *Timing of Denial.* If the Administrator denies a claim in whole or in part (an “adverse benefit determination”), then the Administrator will provide notice of the decision to the Claimant within a reasonable period of time, not to exceed ninety (90) days after the Administrator receives the claim, unless the Administrator determines that any extension of time for processing is required. In the event that the Administrator determines that such an extension is required, written notice of the extension will be furnished to the Claimant before the end of the initial ninety (90) day review period. The extension will not exceed a period of ninety (90) days from the end of the initial ninety (90) day period, and the extension notice will indicate the special circumstances requiring such extension of time and the date by which the Administrator expects to render the benefit decision.

(2) *Denial Notice.* The Administrator shall provide every Claimant who is denied a claim for benefits with a written or electronic notice of its decision. The notice will set forth, in a manner calculated to be understood by the Claimant:

- i. the specific reason or reasons for the adverse benefit determination;
- ii. reference to the specific Plan provisions on which the determination is based;
- iii. a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation as to why such information is necessary; and
- iv. an explanation of the Plan’s appeal procedure and the time limits applicable to such procedures, including a statement of the Claimant’s right to bring an action under Section 502(a) of ERISA after receiving a final adverse benefit determination upon appeal.

(3) *Appeal of Denial.* The Claimant may appeal an initial adverse benefit determination by submitting a written appeal to the Administrator within sixty (60) days of receiving notice of the denial of the claim. The Claimant:

- i. may submit written comments, documents, records and other information relating to the claim for benefits;
- ii. will be provided, upon request and without charge, reasonable access to and copies of all documents, records and other information relevant to the Claimant's claim for benefits; and
- iii. will receive a review that takes into account all comments, documents, records and other information submitted by the Claimant relating to the claim for benefits, without regard to whether such information was submitted or considered in the initial benefit determination.

(4) *Decision on Appeal.* The Administrator will conduct a full and fair review of the claim and the initial adverse benefit determination. If any claim is pending, the Administrator holds regularly scheduled meetings at least quarterly. The Administrator shall make a benefit determination no later than the date of the regularly scheduled meeting that immediately follows the Plan's receipt of an appeal request, unless the appeal request is filed within thirty (30) days preceding the date of such meeting. In such case, a benefit determination may be made by no later than the date of the second (2nd) regularly scheduled meeting following the Plan's receipt of the appeal request. The Administrator shall notify the Claimant of the benefit determination as soon as possible after it has been made (but in no event later than five (5) days thereafter).

(5) *Notice of Determination on Appeal.* The Administrator shall provide the Claimant with written or electronic notification of its benefit determination on appeal. In the case of an adverse benefit determination, the notice shall set forth, in a manner intended to be understood by the Claimant:

- i. the specific reason or reasons for the adverse benefit determination;
- ii. reference to the specific Plan provisions on which the adverse benefit determination is based;
- iii. a statement that the Claimant is entitled to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;
- iv. a statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures; and

v. a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(b) Exhaustion; Judicial Proceedings. No action at law or in equity shall be brought to recover benefits under the Plan until the claim and appeal rights described in the Plan have been exercised and the Plan benefits requested in such appeal have been denied in whole or in part. If any judicial proceeding is undertaken to appeal the denial of a claim or bring any other action under ERISA other than a breach of fiduciary claim, the evidence presented may be strictly limited to the evidence timely presented to the Administrator. Any such judicial proceeding must be filed by the earlier of: (a) one (1) year after the Administrator's final decision regarding the claim appeal or (b) one (1) year after the Participant or other Claimant commenced payment of the Plan benefits at issue in the judicial proceeding.

(c) Administrator's Decision is Binding. Benefits under the Plan shall be paid only if the Administrator decides in its sole discretion that a Claimant is entitled to them. In determining claims for benefits, the Administrator has the authority to interpret the Plan, to resolve ambiguities, to make factual determinations, and to resolve questions relating to eligibility for, and the amount of, benefits. Subject to applicable law, any decision made in accordance with the above claims procedures is final and binding on all parties and shall be given the maximum possible deference allowed by law. A misstatement or other mistake of fact shall be corrected when it becomes known, and the Administrator shall make such adjustment on account thereof as it considers equitable and practicable.

* * * * *

Exhibit B
Participation Notice
([•], 202[•])

Hillman Solutions Corp. (the “Company”) maintains the Hillman Solutions Corp. Executive Severance Plan (the “Plan”). The Company is providing this Participation Notice to inform you that you have been designated as a Participant in the Plan, subject to your countersignature of this document as directed below. A copy of the Plan document is attached to this Participation Notice. Capitalized terms used without definition in this Participation Notice have the meaning given to such terms in the Plan.

For purposes of the Plan, you will have the following Severance Classifications:

1. Calculation of Non-CIC Severance Benefit under Section 4.2 of the Plan

Cash Salary Severance	Severance Period
[•] months of Base Salary [[•]% Target Bonus]	[•] months

2. Calculation of CIC Severance Benefit under Section 4.3 of the Plan

Cash Salary Severance	Severance Period
[•] months of Base Salary [•]% Target Bonus	[•] months

By signing this Participation Notice, you acknowledge and agree that (a) you have received and read a copy of the Plan and have agreed to be bound by the terms and conditions of the Plan, and (b) that the Plan supersedes any and all offer letters or employment agreements between you and the Company or a Subsidiary that provide for severance payments and benefits[, including, without limitation, the employment agreement between you and the Company dated as of [•], which agreement shall be terminated, in its entirety, as of the date set forth above and without any further action or notice].

Please note that your participation in the Plan shall only become effective upon your agreement to the terms and conditions of the Plan. If you want to accept participation in the Plan, you must execute this Participation Notice and see that it is returned in person or via email to the Company’s [•] at [•] so that it is received no later than [•], 202[•].

This Participation Notice may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

(Signatures are on the following page)

IN WITNESS WHEREOF, the parties have executed this Participation Notice as of the date first set forth above.

HILLMAN SOLUTIONS CORP.

By:
Its:

AGREED TO AND ACCEPTED BY:

[Name]

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; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

/s/ Douglas J. Cahill

Douglas J. Cahill

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert O. Kraft, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 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; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

/s/ Robert O. Kraft

Robert O. Kraft
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the thirteen and thirty-nine weeks ended September 30, 2023 (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 8, 2023

**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 30, 2023 (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 8, 2023