

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998

Commission file number 1-13293

SunSource Inc.

(Exact name of registrant as specified in its charter)

Delaware

23-2874736

(State or other jurisdiction of
incorporation or organization)

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

3000 One Logan Square
Philadelphia, Pennsylvania

19103

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (215) 282-1290

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

Title of Class	Name of Each Exchange on Which Registered
----- Common Stock, par value \$.01 per share	----- New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the Common Shares held by non-affiliates of the registrant on March 25, 1999 was \$75,337,000. On March 25, 1999 there were 6,740,208 Common Shares outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 1999 are incorporated by reference in Part III of this Form 10-K.

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PART I

Item I - Business

General

SunSource Inc., a Delaware corporation (the "Company" or "SunSource"), is one of the largest providers of value-added services and products to retail and industrial markets in North America. The Company operates its three businesses through indirect wholly-owned subsidiary corporations which are SunSource Industrial Services Company Inc. ("SunSource Industrial Services Company" or "Industrial Services"), The Hillman Group, Inc. ("Hillman") and Harding Glass, Inc. ("Harding"). These operating units represent businesses within the distribution industry which are characterized by a potential for value-added services, economies of scale and opportunities for further consolidation, as

follows:

Industrial Services. SunSource Industrial Services Company, with sales of \$492 million in 1998, provides a broad range of products and services throughout North America, operating in three business segments which are Technology Services, Expediter and Integrated Supply. The Company believes that the Technology Services segment is a leading provider of systems and parts and engineering services for hydraulic, pneumatic, electronic and related systems to major industrial concerns, as well as small and medium-size businesses. Technology Services provides services, including engineering and design of both products and processes and the assembly and repair of complex systems, which enable its customers to outsource engineering and other functions which they previously performed in-house. The Expediter segment provides personalized, small parts inventory management services to low volume customers. The Integrated Supply segment provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies. The Expediter and Integrated Supply segments enable their customers to reduce inventory investment and the associated expenses of purchasing, receiving, disbursing and accounting for parts and materials.

Hardware Merchandising. Hillman, with sales of \$126 million in 1998, provides small hardware items and merchandising services to retail hardware outlets through a nationwide sales and service organization. Hillman offers a full range of fasteners, letters, numbers, signs, keys, rope and chain accessories and many other inexpensive specialty goods, which are "must-have" items for hardware retailers that cannot be managed economically by the retailer's own employees because of the large number of items and their low prices.

Glass Merchandising. Harding, with sales of \$95 million in 1998, operates one of the largest networks of full service retail glass shops in the United States with approximately 125 retail locations, including 1999 acquisitions to-date. Harding sells and installs automotive glass and also sells, fabricates and installs flat glass. Customers include individual retail consumers, insurance companies and commercial accounts.

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The Company's current organization consists of a corporate headquarters and the three businesses, as follows:

<TABLE>

<CAPTION>

	Principal Location -----	Year Acquired/ Organized -----
SunSource Headquarters <S>	Philadelphia, PA	1975 <C>
SunSource Industrial Services Company, Inc.	Chicago, IL	1996
Technology Services Companies		
- SunSource Technology Services Inc.	Chicago, IL	(1)
- Hydra Power de Mexico, S.A. de C.V.	Tlalnepantla, C.P., Mexico	1992
Expediter Companies		
- Kar Products Inc. ("Kar")	Chicago, IL	1977
- A&H Bolt & Nut Co., Ltd. ("A&H")	Windsor, Ontario	1989
Integrated Supply Companies		
- SunSource Inventory Management Company, Inc. ("SIMCO")	Lenexa, KS	1992/1981
- SIMCO de Mexico, S.A. de C.V.	Mexico City, Mexico	1992
Hardware Merchandising		
- The Hillman Group, Inc.	Cincinnati, OH	1982
Glass Merchandising		
- Harding Glass, Inc.	Kansas City, MO	1980

</TABLE>

(1) Consists of various companies acquired from 1976 through 1991.

Industry Overview

The Company operates in large, fragmented industries characterized by multiple channels of supply. These channels of supply are currently experiencing significant changes driven by the higher quality and widespread availability of management information systems. With better information, manufacturers, distributors and customers are all able to track their expenses, investments and returns on investments more accurately. The distribution industry is driven by the following trends which are rendering the traditional producer-controlled channels obsolete and subject to being replaced by new channels organized around customer requirements and value-added services.

(i) Manufacturers are increasing their reliance on distributors in order to enhance their profitability and improve their returns on capital.

(ii) Customers are increasing their reliance on value-added distributors as their contacts with the manufacturers diminish or cease altogether.

(iii) Customers are outsourcing non-core functions to high quality service providers.

(iv) Channels of distribution are in the process of consolidation.

(v) Managerial skills required for success in industrial distribution are changing dramatically.

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SunSource, through its applications engineers and technical support personnel, provides customized solutions to complex problems encountered by its customers. The Company believes that its Industrial Services business differentiates itself from other industrial distributors by providing superior technical and problem-solving capabilities in addition to an extensive product offering and broad array of related services, such as engineering design and integrated supply arrangements. In addition, the Company operates certain businesses focused on the retail sector, delivering merchandising systems, point-of-sale displays, product support through a field service force, national account sales and services and installation (Hillman and Harding).

Risk Factors

Restructuring

In December 1996, the Company announced a three-year restructuring plan to integrate and consolidate the sales, distribution and administrative operations of its five domestic Technology Services divisions. The Company expects the restructuring plan to result in the elimination of approximately 175 employees in Technology Services and produce certain net annualized cost savings of approximately \$5.0 million per year upon its completion. Technology Services consists of hydraulic and pneumatic distributors that were acquired by the Company between 1976 and 1991. Until the restructuring, each of the Technology Services divisions was operated on a decentralized basis.

The restructuring plan includes the consolidation of all financial, information system and other administrative responsibilities for Technology Services in one location, which is expected to be completed in 1999. The restructuring of the sales organization is expected to be completed by mid-1999. Consolidation of the distribution network is partially complete and scheduled for full completion early in 2000, shortly beyond the projected three-year time frame of the plan, due to the need for additional logistical studies of the geographic placement of new distribution facilities. The failure to complete the restructuring or successfully integrate the Technology Services divisions would have an adverse impact on the Company's ability to fully achieve the net cost savings indicated above. There can be no assurance that the Company will be able to complete the plan effectively or on a timely basis.

Changing Industry Environment

The industrial distribution industry is undergoing significant change. Historically, industrial distributors have served as suppliers of industrial products and as extensions of manufacturers' sales forces, selling products through the distribution channels to original equipment manufacturers, retailers, end users and other customers. In recent years, both manufacturers and customers have been increasingly relying on suppliers such as the Company to reduce purchasing costs and provide a broad range of value-added services, including inventory management programs, integrated supply arrangements, electronic ordering capabilities, engineering design and technical support services. In addition, customers' desire to consolidate their supplier relationships has required the suppliers to achieve purchasing efficiencies, expand their geographic coverage and increase product and service offerings through acquisitions of other distributors. These changes in the industrial distribution business are causing the industry to become more competitive. There can be no assurance that the Company will be able to compete effectively in or adapt to the changing industry environment.

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Risks Associated with Acquisitions

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

successfully integrate acquired businesses into its operations. The failure to complete or successfully integrate prospective acquisitions may have an adverse impact on the Company's growth strategy.

The Company is not currently a party to any agreement or understanding regarding a material acquisition but is pursuing discussions with a number of prospective sellers of businesses.

Competition

The distribution industry is highly competitive, with the principal methods of competition being price, quality of service, quality of products, product availability, credit terms and the provision of value-added services, such as engineering design, integrated supply and inventory management. The Company encounters competition from a large number of regional and local distributors and from several national distributors, some of which have greater financial resources than the Company and offer a greater variety of products.

Seasonality and Industry Cycles

The Company has in the past experienced seasonal fluctuations in sales and operating results from quarter to quarter. Typically, the first calendar quarter is the weakest due to the effect of weather on construction activity which produces a slowdown of sales of material and equipment in the construction market. Fluctuations in the Company's quarterly operating results could result in significant volatility in, and otherwise adversely affect, the market price of the Common Shares.

Some of the principal markets for the products and services offered by the Company are subject to cyclical fluctuations that generally affect demand for industrial, commercial and consumer durable goods. Cyclical fluctuations can affect a number of factors such as pricing, availability and demand for the Company's products, growth rates in the markets served by the Company's customers, the delivery and performance of vendors, and the availability of suitable acquisition candidates. Changes in general economic conditions could have a material adverse effect on the Company's business, results of operations and financial condition.

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Dependence on Information Systems; Year 2000 Issue

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

The Company faces the "Year 2000" issue. The Year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year, resulting in incorrect calculations for the year 2000 and beyond. The Company's issues relate not only to its own systems being Year 2000 compliant, but also the systems of its suppliers and customers. The Company presently believes that, with modifications to existing software and converting to new software, the Year 2000 issue will not pose significant operational problems for its computer systems as so modified or converted. However, if such modifications and conversions are not completed in a timely manner, or if the Company's suppliers and customers fail to address the problem, the Year 2000 issue could have a material adverse effect on the operations of the Company. Refer to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding the Year 2000 issue.

Segment Information

Refer to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" for Segment financial data for the three years ended December 31, 1998.

Industrial Services (Technology Services, Expediter and Integrated Supply)

SunSource Industrial Services Company provides a single nationwide source for a broad array of industrial products and supporting technical services. SunSource Industrial Services Company operates in three segments, comprised of Technology Services, Expediter and Integrated Supply. The common strategy of these segments is to capitalize on the increasing awareness of many industrial companies of their inefficiencies in performing activities that are ancillary to their principal business. These segments include repairing equipment, running preventive maintenance programs, maintaining in-house engineering capabilities and inventory management. In most instances, the only alternative available to many industrial companies for such services has been small, local firms, many of

which lack the resources necessary to assure the quality of services that they provide. SunSource Industrial Services Company's customers are located throughout the United States, Mexico and Canada and include major industrial concerns, as well as small and medium-size businesses.

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Technology Services

Technology Services, with sales of approximately \$322 million in 1998, offers a full range of technology-based products and services to its customers. Its product lines include hydraulic, pneumatic, electronic and filtration parts and equipment. Services include engineering design, equipment repair and product upgrades.

Technology Services seeks to build strong relationships with its customers by providing technological/problem-solving capabilities along with quality products. Technology Services relies on its engineering and fabricating capabilities to provide customized solutions for specific applications requiring product engineering, assembly or fabrication. To help a customer better understand how it is performing relative to best industry practices, Technology Services can perform a technology review of the customer's facilities covering areas such as electronic systems, hydraulics, pneumatics, repair activities and inventory management. Technology Services can demonstrate to its customers those areas in which they meet best industry practices and, when they do not, offer detailed, cost-efficient steps to improve their performance to meet those standards. Technology Services also conducts multiple-day training programs to help customers stay current with evolving technologies relevant to their operations.

Technology Services has benefitted from the trend for manufacturers to move towards increased standardization of products. The result is that many such products have to be modified and used in combination with other components in order to meet customers' performance requirements. Technology Services recognized this trend as an opportunity to set up a formal system to customize standardized products to meet the more specialized needs of its customers. Management believes that there is a growing market for such customized solutions among medium and smaller original equipment manufacturers ("OEM") who do not have the capabilities to develop such products.

Since 1991, Technology Services has opened 26 repair centers throughout the United States to provide customers with convenient and reliable sources for the repair of worn-out hydraulic power equipment. Repair centers have been useful in gaining market share as they have helped Technology Services achieve an expanded relationship with many of its customers. They also provide Technology Services with an opportunity to win new customers because many of the local distributors do not have the resources to provide comparable repair services. Technology Services plans to continue its successful program of establishing service centers for the repair and overhaul of hydraulic equipment in major industrial markets around the country.

The six distribution companies which today comprise Technology Services were acquired by the Company between 1976 and 1991. The acquired companies typically enjoyed profitable market niches created either through exclusive territories granted by their vendors or the unique services they offered. Until recently, Technology Services operated each of its divisions on a decentralized basis with each division having its own president and vice president of sales. In December 1996, the Company announced a three-year restructuring plan to integrate and consolidate the five domestic Technology Services divisions. The integration of the finance, information systems and administrative functions of Technology Services is expected to be completed in 1999.

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The restructuring of the sales organization is expected to be completed by mid-1999 after which the sales force will focus on account management and expanded customer relationships in a defined geography. The outside sales representatives will be supported by technical product specialists to assist in the delivery and application of product. Technology Services is also in the process of consolidating 36 inventory stocking locations into fewer than ten facilities which the Company believes will result in significantly lower operating costs and better product availability. This process is partially complete and is scheduled for full completion early in 2000. Centralized purchasing and inventory management is expected to result in improved fill rates for customers while at the same time reducing Technology Services' inventory investment, leveraging its purchasing power with many suppliers and reducing suppliers' operating costs.

Products and Suppliers. Technology Services believes that it carries the most diverse selection of fluid power and related technical products of any distributor in the United States, totaling an estimated 100,000 items in five major product categories. Typically, hydraulic systems are employed for dealing with heavy loads in applications such as mining, manufacturing, construction or agriculture. An example of a hydraulic application is the system that controls the positioning of the scraping blade of a road grader - an integrated system of motors, pumps, valves, tubing, sensors and electronic controls. Pneumatic systems are similar to hydraulic systems except that air or some other gas is

substituted for hydraulic fluid. Pneumatic systems are preferred for lighter weight applications such as light manufacturing and packaging lines.

Technology Services has a broad supply base which includes almost all major manufacturers of fluid power and related technical products in the United States. Technology Services' top ten suppliers account for less than 30% of its 1998 sales. Because of the fragmented nature of the industry, manufacturers of this type of equipment historically have awarded their franchises on a limited geographical basis. Technology Services has secured exclusive franchises within certain geographic areas from significant suppliers such as Vickers, Hydroline, Trabon, Versa, SMC, Denison, Norgren, Mosier and Hansen. Two of Technology Services' larger suppliers are Sauer-Sunstrand and Commercial, whose products are distributed in most of Technology Services' territories.

In recent years there has been considerable consolidation among suppliers, a trend which management believes will continue and benefit Technology Services. In addition, Technology Services seeks to provide valuable market and product information that enhances its relationships with its key suppliers by helping them improve their product offering in response to changing market demands.

Markets and Customers. Technology Services currently serves over 35,000 customers, the top ten of which accounted for approximately 11% of its 1998 sales. Approximately 60% of sales are to OEM customers who incorporate the equipment or system purchased from Technology Services into their final products. The remaining 40% of sales are to maintenance, repair and operation ("MRO") customers who use Technology Services products as part of their production process.

Within the MRO and OEM markets, Technology Services sells to construction and mining equipment manufacturers, industrial wholesale distributors, metalworking equipment manufacturers, farm and garden equipment manufacturers, industrial specialized machinery manufacturers and automobile and auto parts manufacturers.

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Sales and Marketing. Technology Services markets its products nationwide, principally through a network of outside sales representatives supported by customer service representatives and a telemarketing operation. In order to become more responsive to the increasing demands of customers, Technology Services has devoted substantial resources to make its sales force more specialized both in terms of technical training and industry knowledge.

Technology Services employs approximately 315 outside sales representatives. Each customer has a primary sales representative who might be assisted by technology specialists or industry specialists. Technology specialists are available in the fields of hydraulics, pneumatics, mobile equipment, lubrication, filtration, automation and other specialties while industry specialists bring particular expertise in industries such as pulp and paper, construction equipment, injection molding or heavy metal working. Technology Services is in the process of adding additional industry specialists to its sales organization.

To support the outside sales representatives, Technology Services employs approximately 235 customer service representatives who collectively function to take orders from customers on the telephone, answer questions and solve problems. Technology Services also employs approximately 20 people in its telemarketing group which is responsible for customers with sales potential not large enough to justify the cost of service by an outside sales representative. Technology Services has established an electronic data interchange ("EDI") capability for use with selected customers and vendors and is in the early stages of establishing a presence on the Internet.

Competition. The great majority of Technology Services' competitors are relatively small companies with sales of less than \$10 million from one or two facilities. Many of these companies offer considerable depth in certain product lines, together with related technical support. Technology Services competes with these companies on price, the strength of its product offering and an extensive range of ancillary technical services. The largest national competitor is Motion Industries which competes on the basis of price and product availability. Another national competitor is Applied Industrial Technologies, Inc., formerly known as Bearings, Inc.

Expediter (Kar and A&H)

The Expediter segment of SunSource Industrial Services Company provides inventory management services to small and medium-size accounts. The Expediter segment, with sales of \$125 million in 1998, offers personalized, small parts inventory management service to the low volume customer. The Expediter sales force relieves the customer of the inconvenience and expense of purchasing numerous, small, inexpensive maintenance parts and provides assurance against the expense and inconvenience of stock outs. Sales in this market segment tend to be of relatively small dollar value items with limited technology content but high service demands. The Company believes that its Expediter business has a competitive advantage in this market segment due to its large sales force, a broad inventory of parts for diverse applications, a reputation for high-quality products, a responsive physical distribution system and a computerized material management system which permits 98% of all orders to be shipped within 24 hours. In 1998, the Expediter segment sold more than 25,000 products to over 50,000

customers in the United States and Canada.

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Products and Suppliers. The Expediter segment packages and inventories over 25,000 items in nine major product categories. The largest category is fasteners, which accounted for approximately 30% of 1998 Expediter sales. The Expediter segment purchases the parts it needs from over 600 regular vendors, none of which account for greater than 2% of this segment's annual purchases. This segment has long-standing relationships with a majority of its suppliers and continually seeks to upgrade vendor performance by measuring it and educating vendors on the Expediter segment's quality and service standards. A majority of the products sold by the Expediter segment are packaged by vendors under the private brand labels of Kar Products, Inc. and A&H Bolt and Nut Co. (as "The Fastener Centre").

To maintain its reputation for leading product lines and "one-stop shopping," the Expediter segment emphasizes new product innovation and is an active participant in trade shows and trade publications. The Expediter segment works with its vendors to introduce more than 500 new products per year.

Markets and Customers. Customers of the Expediter segment tend to be smaller companies that make frequent small purchases. A typical expediter customer purchases less than \$10,000 per year from this segment and includes truck fleet operators, construction and mining operations, industrial plants, paper plants, welding shops, hospitals, schools, government facilities and automobile dealerships.

Sales and Marketing. The Expediter sales representatives serve their customers by providing merchandising systems, helping control inventory and physically stocking and organizing products. Items typically include nuts, bolts, small cutting tools, lubricants and related items. The service provided to the customer is to insure that all of these small consumables remain in stock, thereby enabling the customer to avoid the expense of maintaining inventories, placing purchase orders and receiving materials. Even more importantly, the customer's highly trained technicians do not have to waste time and money tracking down missing parts of nominal dollar value. Larger accounts are offered programmed inventory maintenance service ("PIMS") to ensure that inventory is maintained at appropriate levels. PIMS sales account for approximately 20% of total Expediter sales. The Expediter segment also offers customized product literature which is targeted to selected niche markets.

The Expediter sales force consists of approximately 750 sales representatives, each of whom sells the entire product line and serves an average of 65 customer accounts. Ten to twelve sales representatives in a geographical area report to a district manager, who in turn reports to one of ten regional vice presidents. Sales management support includes training on new product applications and technical information to assist customers in solving operational and maintenance problems. The marketing department provides support in the form of product line management, promotional programs, catalogs and related materials. Logistics support is provided by seven strategically located distribution centers and a computerized material management system which assures fast, accurate and complete shipments.

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Competition. The Expediter segment competes primarily with other national expediters that similarly provide a high level of service, and to a lesser extent with more narrowly focused regional or small local distributors competing mainly on the basis of low price with minimal service. The four largest national expediters are Premier Industrial, Bowman Products, Curtis Industries and Lawson Products, none of which has a significant market share. SunSource Industrial Service Company's Expediter business serves all segments of the highly fragmented MRO market and has less than 1% market share. The Company believes that its Expediter segment can capture additional market share by increasing the number of its qualified sales representatives and has a program in place to improve the quality and training of its sales representatives.

Integrated Supply (SIMCO and SIMCO de Mexico)

The Integrated Supply segment of SunSource Industrial Services Company, with sales of \$46 million in 1998, is focused on major industrial manufacturing customers. In some instances, Integrated Supply will take over complete responsibility for a customer's purchases of maintenance, repair and operating supplies. In those cases, Integrated Supply places the purchase orders, receives the material and dispenses it to the customer's employees from the customer's tool cribs. The advantage to the customer is substantial reduction in the total cost of procuring and handling the thousands of items which are routinely used by a large facility, while at the same time improving the availability of these materials.

Products and Suppliers. The products and suppliers used by the Integrated Supply segment vary considerably depending on the nature of the customer's manufacturing activity. Integrated Supply seeks to maximize its purchasing power by aggregating purchases of common items used by multiple customers and also by

purchasing through the other SunSource businesses. Integrated Supply often obtains lower prices and provides improved availability for many products without changing the customer's vendors.

Markets and Customers. Integrated Supply customers tend to be large industrial facilities which purchase in excess of \$1 million per year from this segment. Integrated Supply's major industrial customers include Colgate Palmolive, Mercedes Benz and Marley Cooling Tower.

Sales and Marketing. Integrated Supply approaches its larger integrated supply customers by offering to perform a survey of their existing procurement practices. The goal of the study is to determine whether the customer's total costs can be reduced by utilizing the outsourcing services offered by Integrated Supply. Typically, savings occur in the customer's purchasing department, in its tool cribs or other dispensing locations within its facility and in lower inventory carrying costs. The net result of a decision to outsource to Integrated Supply is typically lower total costs, substantial reduction in inventory investment and improved product availability.

Competition. The competition for the Integrated Supply segment comes from a large number of companies following a variety of strategies. Some competitors seek to be perceived as an integrated supplier by continually increasing the number of product lines offered. Other competitors provide staff to dispense product in a customer's plant. The Company's Integrated Supply segment also competes with "strategic alliances" among established distributors of traditional product lines.

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Hardware Merchandising (Hillman)

The Company believes that Hillman, with sales of \$126 million in 1998, is the leading supplier of merchandising services, fasteners and related small hardware repair items to retail outlets in the United States. Through its sales and service force, Hillman provides hardware retailers in all 50 states and in Mexico, Central and South America with an extensive line of fasteners and related hardware items. More importantly, Hillman complements its extensive product selection with value-added services for the retailer.

Fasteners and related hardware items typically account for approximately 25% of a hardware store's traffic, but less than 5% of its revenues. A typical hardware store maintains in inventory thousands of different items, many of which generate small dollar sales but large profits. It is difficult for a retailer to monitor economically all stock levels and to reorder the products from multiple vendors. The problem is compounded by the necessity of receiving small shipments of inventory at different times and having to stock the goods. However, failure to have these small items consistently available will have an adverse effect on store traffic, thereby denying the retailer the opportunity to sell items that generate higher dollar sales.

Hillman's service representatives regularly visit retail outlets to review stock levels and to reorder those items in need of replacement. Thousands of items can thus be actively managed with the retailer experiencing a substantial reduction in paperwork and labor costs. Hillman's service representatives also assist in organizing the products in a user-friendly manner. Hillman complements its broad range of products with value-added merchandising services such as displays, product identification stickers, retail price stickers, store rack and drawer systems, assistance in rack positioning and store layout and inventory and restocking services. Hillman periodically introduces new package designs and color-coding for ease of shopping by hardware store customers, and also modifies rack designs to improve attractiveness of individual store displays. Furthermore, Hillman provides the retailer with inventory management software that ties to the retailer's point-of-sale system. In effect, Hillman functions as a merchandising manager for the hardware store. Hillman supports these services with high order fill rates and rapid delivery from its eight distribution centers across the United States. Orders are shipped within 48 hours with a 96% order fill rate.

Products and Suppliers. Hillman buys its products from approximately 500 vendors, the largest of which accounted for 14.2% of Hillman's 1998 purchases and the top ten of which accounted for less than 49% of Hillman's 1998 total purchases. Hillman's wide variety of products includes standard and specialty nuts, bolts, screws, washers and anchors, plus brass, stainless steel, plastic and miscellaneous fasteners. Management believes that Hillman's selection of over 40,000 fastener items is the largest in the industry. Non-fastener products include locks, keys, letters, numbers, signs, rope and chain accessories and an extensive list of special-purpose items having a relatively limited product line such as corks, electrical connectors, flashlight bulbs, specialty fuses, and picture hangers. Hillman buys approximately half of its purchases directly from foreign suppliers and coordinates its overseas purchasing with the Company's Expediter and Integrated Supply segments. The balance of purchases are made from domestic manufacturers and master distributors.

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To assure quality from its vendors, Hillman conducts annual on-site evaluations

and random sampling of products and communicates the results to vendors. Hillman also tracks the performance of its vendors based on delivery time and accuracy of shipments.

Markets and Customers. Hillman services approximately 9,100 full service retail outlets. Hillman historically has serviced individual dealers of the larger cooperatives, such as Tru-Serv, Ace and Do it Best. Hillman sells directly to the cooperative's retail locations and also supplies many fastener items to the cooperative's central warehouses. These central warehouses continue to distribute to their smaller members that do not have the purchase volume to justify direct service from Hillman. These arrangements with the cooperatives reduce credit risk and logistic expense for Hillman and reduce central warehouse inventory and delivery costs for the cooperatives.

Hillman is also increasing its focus on regional and national lumber yards and home centers, particularly companies with three to fifteen locations. Management believes that the dynamics which make its services attractive to hardware retailers are present with these larger customers as well. At the present time, Hillman sells approximately \$17 million to this market segment. Management has established a special sales and service force to further penetrate this market segment.

Hillman also sells to approximately 5,000 smaller hardware outlets and over 6,000 non-hardware accounts that are not large enough to qualify for Hillman's full service program, through its Tele-Source division.

Sales and Marketing. Hillman believes that it is able to be more responsive to customers' needs than its competitors because it employs one of the largest direct national sales and service organizations in the industry. Hillman's sales force consists of over 200 people, managed by 23 field sales managers. Each sales representative is responsible for approximately 50 full service accounts that are called on by such representative every two weeks on average. The service organization consists of 80 full-time and 20 part-time people, managed by 13 field managers. Hillman's National Accounts group focuses on "Big Box" retailers, large national chains and grocery stores. In addition, the sales force is supported by Hillman's Inside Sales and Customer Service group that is responsible for the expediting of orders, quoting special items and issuing credits. With the efforts of the Marketing Department, the sales force not only sells products, but can sell merchandising and technological capabilities as well. The Marketing Department provides the support through the development of sales collateral, promotional items, merchandising aids and marketing services, such as advertising and trade show management. Hillman's EDI system is used by a number of its large customers.

Competition. The principal competitors for Hillman's core business are Midwest Fasteners, Serv-A-lite, Elco and Sharon Bolt & Screw, the latter two of which carry mainly fastener products. Hillman competes primarily on the strength of the merchandising services it provides, as well as product availability, price and breadth of product line. Management estimates that Hillman sells to approximately 65% of the full service retail outlets that comprise its core market. The smaller hardware outlets who purchase products but not services from Hillman also purchase products from local and regional distributors and cooperatives. Competition in this segment is primarily on the basis of price and availability.

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The primary competitors in the home center, regional and national lumberyard markets are Crown Bolt with an estimated 50% market share and Elco and The Newell Group. Hillman estimates its share in this market to be less than 10%. Competition is based primarily on in-store service and price. Other competitors are local and regional distributors.

Glass Merchandising (Harding)

Harding, with sales of approximately \$95 million in 1998, is one of the largest networks of full service retail glass shops in the United States. Harding operates in the following businesses: retail automotive and flat glass, insulating glass, small contract glazing and the wholesale distribution of automotive and flat glass.

Harding provides retail glass products and related services through a network of approximately 125 retail locations throughout the United States, including 1999 acquisitions to-date. Customers include individuals, insurance companies and commercial accounts. The retail glass market is highly fragmented within the U.S. market, consisting primarily of small, privately owned companies with one or two locations. The industry is in the early stages of consolidation and Harding believes that it is well positioned to capitalize on this opportunity due to its substantial purchasing power and its comprehensive management information systems.

As a result of emphasizing the higher margin retail business and de-emphasizing lower margin businesses, such as large contract glazing, Harding has increased its overall gross margins from 34.9% in 1994 to 40.0% in 1998. Harding is positioned as a full-service glass retailer offering one of the broadest product lines in the retail glass industry as well as installation services for automotive glass, windows and commercial store fronts. The role of the

fabrication and wholesale activities is to ensure that the full service shops receive the products they require at the lowest total cost.

Harding's new management information system links all of its formerly independent locations and improves its ability to manage operations. The system also allows Harding to centralize its purchasing function, thereby enabling it to take advantage of its significant purchasing power. Another important benefit is that acquired businesses can immediately begin following Harding's standardized business practices. The Company believes that this will allow Harding to integrate acquisitions substantially faster than previously and reduce the dependence on key employees at any location.

Products and Suppliers. Harding maintains in inventory over 8,000 items and many more products can be fabricated to meet customer requirements. Harding purchases both automotive and flat glass from four leading national manufacturers, as well as from regional glass companies and local distributors. These four manufacturers account for approximately 25% of Harding's purchases. In addition to flat and automotive glass, Harding purchases a number of other items, including sheet mirror, framed mirror, shower door frames and accessories from a variety of manufacturers and distributors. Harding has in inventory over 90% of the products ordered by its customers.

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Markets and Customers. Approximately 37% of retail autoglass sales are attributable to insurance companies while the remaining sales are divided among individuals, autobody shops, rental car agencies and car dealerships. Retail flat glass sales are split fairly evenly between individual consumers and small contract jobs under \$5,000. Wholesale autoglass sales are primarily to glass shops, while wholesale flat glass sales are divided among independent retail glass shops, window manufacturers and large contract glaziers. Harding's top ten customers accounted for approximately 10% of 1998 sales.

Sales and Marketing. The majority of Harding's retail customers are located within ten miles of a store and typically order in person or via phone. The retail marketing effort relies on the strategic location of the stores as well as advertising in the local media. Harding's retail organization also maintains a 33 person sales force of whom 22 sell both flat and automotive glass and 11 focus exclusively on flat glass.

The retail sales force calls on replacement automotive glass users such as auto body shops, rental car agencies, automotive dealerships and insurance agents who direct insured claims to approved suppliers. Sales management calls on regional and national fleet accounts, insurance companies and network providers in order to become an approved or preferred supplier. Network providers are companies that handle the entire glass replacement process for many insurance companies.

Harding's wholesale operation has a five person sales force, all of whom sell both flat and automotive glass. Sales representatives call on flat glass customers such as window manufacturers, glass shops, and other large users of glass such as contract glaziers.

Competition. Because of the diversity of markets and geographic locations it serves, Harding has numerous competitors at the retail level. Harding's retail competitors can be categorized as follows: national automotive chains, large regional glass retailers and local independent glass shops. Harding, with its broad offering of both automotive and flat glass, has positioned itself as one of the largest comprehensive glass retailers. At the wholesale level, Harding faces competition from national, regional and local competitors. In addition, in recent years, the major manufacturers of automotive and flat glass have been taking steps to integrate vertically into wholesale distribution, thereby assuring themselves of greater control over the sale of their products. The Company believes that Harding is currently the largest full service retail glass shop business in the United States with approximately 125 retail locations. Although a number of chains are larger than Harding, they deal primarily in auto glass replacement and are not full service shops. Competition for Harding's full service shops comes mainly from single location operations or small chains. Harding's purchasing power and comprehensive information system give it significant advantages over these competitors.

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Insurance Arrangements

Under the Company's current insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of expected claims. Since October 1991, the Company has retained the exposure on certain expected losses related to worker's compensation, general liability and automobile. The Company also retains the exposure on expected losses related to health benefits of certain employees. The Company believes that its present insurance is adequate for its businesses. See Note 17 of Notes to Consolidated Financial Statements of the Company as of and for the three years ended December 31, 1998.

Employees

As of December 31, 1998, the Company employed approximately 4,070 employees, of which approximately 1,800 were sales personnel, approximately 1,400 were employed as warehouse and delivery personnel, and approximately 870 held administrative positions. The Company has collective bargaining agreements with 5 unions representing a total of approximately 75 employees. In the opinion of management, employee relations are good.

Backlog

The Company's sales backlog was \$66.4 million as of December 31, 1998, and \$68.3 million as of December 31, 1997. On average, the Company's backlog is less than one month's sales.

Item 2 - Properties.

The Company currently has approximately 189 warehouse and stocking facilities located throughout the United States, Canada and Mexico. Most of these include sales offices. Approximately 14% of these facilities are owned and the remainder are leased. The Company's principal properties are warehouse facilities, as follows:

Division -----	Location -----	Description -----
Hillman	Cincinnati, Ohio	250,000 sq.ft. (leased)
Harding	Denver, Colorado	184,000 sq.ft. (owned)
Kar	Itasca, Illinois	80,000 sq.ft. (owned)

In the opinion of management, the Company's existing facilities are in good condition.

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Item 3 - Legal Proceedings.

Litigation originally instituted on February 27, 1996 is pending in the Court of Common Pleas of Montgomery County, Pennsylvania in which Dorman Products of America, Ltd. ("Dorman"), and its parent, R&B, Inc. ("R&B"), allege that misrepresentations of certain facts were made by the Company, upon which R&B allegedly based its offer to purchase the assets of the Company's Dorman Products division. Dorman and R&B seek damages of approximately \$21.0 million. In the opinion of management, the ultimate resolution of this matter will not have a material effect on the consolidated financial position, operations or cash flows of the Company.

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

Not applicable.

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Executive Officers of the Company

The following table sets forth certain information regarding the Company's executive officers.

Name - - - -	Age ---	Position -----
Donald T. Marshall	65	Chairman of the Board and Chief Executive Officer

John P. McDonnell	64	President and Chief Operating Officer; Chief Executive Officer, SunSource Industrial Services Company
Joseph M. Corvino	44	Vice President - Finance; Chief Financial Officer; Treasurer and Secretary
Max W. Hillman, Jr.	52	Chief Executive Officer, Hillman
Harold J. Cornelius	50	Chief Executive Officer, Harding

All executive officers are currently elected for a one-year term by the Board of Directors. There are no family relationships between any of the Company's executive officers and directors.

The following is a summary of the business experience of the executive officers listed above during at least the last five years. Periods prior to the Conversion on September 30, 1997 relate to the Company's predecessor.

Donald T. Marshall has been the Chairman and Chief Executive Officer since December 1988.

John P. McDonnell has been the President and Chief Operating Officer since December 1994. Mr. McDonnell served as Group Vice President from December 1987 to December 1994.

Joseph M. Corvino has been Vice President-Finance, Chief Financial Officer, Treasurer and Secretary since December 1995. Mr. Corvino served as Vice President and Controller from May 1993 to December 1995 and as Controller from December 1985 to May 1993.

Max W. Hillman, Jr. has been the Chief Executive Officer of Hillman since December 1996. Mr. Hillman served as Group Vice President from December 1991 to December 1996.

Harold J. Cornelius has been the Chief Executive Officer of Harding since December 1996. Mr. Cornelius served as Group Vice President from December 1988 to December 1996.

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PART II

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

Market Prices

As a result of the Company's September 30, 1997 conversion from partnership to corporate form (the "Conversion"), the Common Shares began trading on the New York Stock Exchange on October 1, 1997, under the symbol "SDP". The following table sets forth the high and low closing sale prices on the New York Stock Exchange composite Tape for the Common Shares since that date:

1998	HIGH	LOW
----	----	---
First Quarter	\$29 1/2	\$23 5/16
Second Quarter	29 3/8	21 3/4
Third Quarter	21 3/4	15
Fourth Quarter	21 9/16	14
1997		

Fourth Quarter	\$25 13/16	\$23 1/2

As a result of the Conversion, each Class B limited partnership interest of the Partnership was exchanged on September 30, 1997 for 0.25 of a Common Share, effectively a one-for-four reverse split. The following table shows the quarterly range of high and low closing sales prices on the New York Stock Exchange Composite Tape for the Class B limited partnership interests for the periods indicated, adjusted for the one-for-four reverse split:

1997	HIGH	LOW
----	----	---
First Quarter	\$18	\$16 1/2
Second Quarter	20 1/2	16
Third Quarter	23 1/2	19

As of March 25, 1999 there were approximately 750 holders of record of the

Common Shares. The total number of Common Shares outstanding as of March 25, 1999 was 6,740,208.

Stock Repurchase

On August 6, 1998, the Company's Board of Directors authorized \$15.0 million for management to repurchase up to 10% of the Company's outstanding common stock through open market transactions and private block trades dependent upon market conditions. The Company had reacquired and placed into treasury 461,100 Common Shares through December 31, 1998 at a cost of \$8.4 million and has reacquired 18,000 Common Shares from January 1, 1999 through March 16, 1999, at a cost of \$0.3 million. The Company suspended the repurchase program on March 16, 1999, pending release of its earnings for the first quarter of 1999, but intends to continue the repurchase program provided the investment is beneficial to the Company's shareholders.

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Offering

On March 25, 1998 the Company closed an offering of its Common Shares (the "Offering"). The Company issued and sold 500,000 Common Shares in addition to Common Shares sold by certain selling stockholders in the Offering. The underwriters in the Offering exercised their option to purchase 296,408 additional Common Shares of the Company to cover over-allotments on March 27, 1998.

Dividends

The Company paid a cash dividend of \$0.10 per Common Share on January 7, 1999. On March 29, 1999, the Board of Directors declared a dividend of \$0.10 per Common Share payable on April 19, 1999 to holders of record as of April 8, 1999. The Company expects to declare future quarterly dividends on the Common Shares of \$0.40 per Common Share annually, subject to the discretion of the Board of Directors and dependent upon, among other things, the Company's future earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

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Item 6 - Selected Financial Data.

The following table sets forth selected consolidated financial data of the Company and the predecessor Partnership as of and for the five years ended December 31, 1998. Data for all periods shown are derived from financial statements of the Company and the Partnership which have been audited by PricewaterhouseCoopers LLP, independent accountants, as indicated in their reports thereon. See accompanying Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the Conversion and Refinancing as well as acquisitions and divestitures that affect comparability.

(dollars in thousands, except for partnership interest and share data)

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Income Statement Data for Years Ended December 31:

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$712,470	\$694,707	\$646,503	\$626,863	\$734,299
Gross profit	291,168	280,307	258,314	249,556	282,782
Income from operations	41,211	36,108	25,002	31,558	36,011
Gain on sale of divisions	--	--	--	20,644	3,523
Distributions on guaranteed preferred					
beneficial interests	12,232	3,058	N/A	N/A	N/A
Provision (benefit) for income taxes	8,324	(6,680)	(1,140)	537	100
Income before extraordinary loss and cumulative effect of change in accounting principle	13,817	32,532	19,267	44,745	29,544

Extraordinary loss	--	(3,392)	--	(629)	--
Net income	13,817	29,140	19,267	44,116	29,544
Basic and diluted net income per common share	\$ 2.00	N/A	N/A	N/A	N/A
Pro forma net income per common share	N/A	\$1.88	N/A	N/A	N/A
Earnings per limited partnership interest:					
Income before extraordinary loss					
- Class A	N/A	N/A	\$1.10	\$ 1.10	\$ 1.10
- Class B	N/A	N/A	\$0.32	\$ 1.48	\$ 0.79
Extraordinary loss					
- Class A	N/A	N/A	\$ --	\$ --	\$ --
- Class B	N/A	N/A	\$ --	\$ (0.03)	\$ --
Net income					
- Class A	N/A	N/A	\$1.10	\$ 1.10	\$ 1.10
- Class B	N/A	N/A	\$0.32	\$ 1.45	\$ 0.79
Cash provided by operations	\$18,376	\$ 27,913	\$ 23,298	\$ 17,050	\$ 17,704
Dividends declared per common share	\$ 0.40	\$ 0.10	N/A	N/A	N/A
Cash distributions declared per limited partnership interest					
- Class A	N/A	N/A	\$1.10	\$ 1.10	\$ 1.10
- Class B	N/A	N/A	\$0.33	\$ 0.67	\$ 0.49
Balance Sheet Data at December 31:					
Total assets	\$341,568	\$306,142	\$262,555	\$254,591	\$266,186
Long-term debt and capitalized lease obligations	95,842	93,728	69,150	63,934	75,168

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

General

SunSource Inc. (the "Company") is one of the largest providers of value-added services and products to retail and industrial markets in North America. The Company is organized into three businesses which are SunSource Industrial Services Company, Hillman and Harding.

SunSource Industrial Services Company operates in three segments which are Technology Services, Expediter and Integrated Supply. Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. The Expediter segment provides personalized, small parts inventory management services to low volume customers. The Integrated Supply segment provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies.

Hillman operates in the Hardware Merchandising Segment, providing small hardware and related items and merchandising services to retail outlets, primarily hardware stores, home centers and lumberyards.

Harding operates in the Glass Merchandising Segment, selling retail and wholesale automotive and flat glass and providing auto glass installation and small contract glazing services to individual consumers, insurance companies, autobody shops, and other customers through a large network of retail glass shops.

Stock Repurchase

On August 6, 1998, the Company's Board of Directors authorized \$15.0 million for management to repurchase up to 10% of the Company's outstanding common shares through open market transactions and private block trades dependent upon market conditions. The Company has reacquired and placed into treasury 479,100 common shares through March 16, 1999, at an average cost of \$18.12 per common share.

The Company intends to continue the repurchase program provided the investment is beneficial to the Company's shareholders.

Public Offering

On March 27, 1998, the Company closed an offering of its Common Shares (the "Offering"). Of the 2,284,471 shares sold in the Offering, 796,408 shares ("Primary") were issued and sold by the Company and 1,488,063 shares ("Secondary") were sold by selling stockholders, affiliates of Lehman Brothers, Inc. The Company did not receive any of the proceeds from the Secondary shares sold by the selling stockholders. The Company used the net proceeds raised (of approximately \$20.8 million) from the Primary shares sold in the Offering to repay borrowings under its revolving credit facility.

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Restructuring

In December 1996, the Company recorded restructuring charges of \$6.0 million (on a pre-tax basis) related to a restructuring and consolidation of Technology Services (approximately \$4.4 million) and the one-time write-off of certain non-performing assets of Harding (approximately \$1.6 million). The restructuring plan is expected to result in the elimination of approximately 175 employees in the Technology Services divisions and result in net cost savings of approximately \$5.0 million annually upon its completion. The restructuring plan is a three-year project that will consolidate all financial, information systems and administrative responsibilities for Technology Services in a centralized location which is expected to be completed in 1999. The restructuring of the Technology Services sales organization is expected to be completed by mid-1999. Consolidation of the distribution network is partially complete and is scheduled for full completion early in 2000, shortly beyond the projected three-year time frame of the plan, due to the need for additional logistical studies of the geographic placement of new distribution facilities. Of the \$4.2 million of restructuring charges that will result in cash payments, amounts paid by the Company during the years ended December 31, 1996, 1997 and 1998 were \$0.2 million, \$1.8 million and \$0.8 million, respectively. Of the remaining balance of \$1.4 million, approximately \$1.2 million is expected to be paid during 1999 and \$0.2 million in 2000.

Acquisitions

During 1997, the Company resumed its strategy to acquire retail glass shops for integration with Harding. From August 31, 1997 through December 31, 1997, Harding acquired the assets of three retail glass shops which contributed \$1.7 million in sales for the twelve months ended December 31, 1998.

During 1998, Harding acquired the assets of eleven retail glass shops which had sales aggregating approximately \$17.6 million for the twelve-month period prior to acquisition and approximately \$5.9 million from the date acquired through December 31, 1998. These acquisitions expand Harding's business into the Arizona, New Mexico, Texas, Georgia, New Hampshire and Northern California markets.

On February 9, 1999, Harding acquired all of the outstanding common stock of Pritchard Glass, Inc., which concurrently acquired all of the outstanding common stock of Premier Glass Services, Inc. Sales of Pritchard and Premier aggregated approximately \$25 million for the twelve-month period prior to acquisition. This acquisition adds twenty-one retail glass shops, expanding Harding's business into the North and South Carolina markets.

In addition, during 1999 to-date, Harding has acquired the assets of two retail glass shops which had sales aggregating approximately \$2.0 million for the twelve-month period prior to acquisition. These acquisitions expand Harding's business into the Columbus, Georgia and Las Vegas, Nevada markets.

On April 22, 1998, Hillman acquired the assets of a manufacturer of letters, numbers and signs which had sales of approximately \$1.0 million for the twelve-month period prior to acquisition.

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On May 6, 1998, Hillman acquired the assets of the franchise and independent hardware segment of Axxess Technologies, Inc., including its PMI division, a distributor of keys, letters, numbers and signs and other products to retail hardware stores throughout the United States. Sales from the acquired operations were approximately \$17.0 million in 1997. Hillman integrated the sales force and operations of the acquired business with its existing operations.

On October 21, 1998, Hillman acquired the assets of SIGN-KO, a Dallas-based manufacturer and distributor of letters, numbers, signs and related products. SIGN-KO serves a customer base that includes large home improvement retailers and independent hardware stores. Sales from the acquired operations were approximately \$3.0 million in 1997.

Sales from hardware-related companies acquired by Hillman during 1998 aggregated approximately \$21.0 million for the twelve-month period prior to acquisition and generated sales of \$10.3 million from the date acquired through December 31, 1998.

Net cash consideration paid for the businesses acquired by the Company in 1998, 1997 and 1996, including transaction costs, was \$22.8 million, \$0.8 million and \$0.7 million, respectively, plus the assumption of certain liabilities of \$3.1 million, \$0.2 million and \$0.1 million, respectively.

Net cash consideration paid for the businesses acquired by the Company to-date in 1999, including transaction expenses, was \$12.4 million (of which \$0.8 million is held in escrow pending the resolution of post-closing adjustments), the repayment of outstanding debt of \$3.3 million plus the assumption of certain liabilities estimated at \$1.2 million.

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Results of Operations

Segment Sales and Profitability for the Three Years Ended December 31, 1998

<TABLE>
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	1998		Year Ended December 31, 1997		1996	
		% Total Sales		% Total Sales		% Total Sales
(dollars in thousands)						
Sales						
SunSource Industrial Services						
Technology Services	\$321,526	45.1%	\$322,148	46.4%	\$299,068	46.3%
Expediter	124,536	17.5%	125,911	18.1%	121,389	18.8%
Integrated Supply (1)	45,626	6.4%	54,420	7.8%	43,392	6.7%
Industrial Services	491,688	69.0%	502,479	72.3%	463,849	71.7%
Hillman (2) (3)	125,830	17.7%	103,970	15.0%	92,285	14.3%
Harding (4)	94,952	13.3%	88,258	12.7%	90,369	14.0%
Consolidated Net Sales	\$712,470	100.0%	\$694,707	100.0%	\$646,503	100.0%
Gross Profit		%Sales		%Sales		%Sales
SunSource Industrial Services						
Technology Services (5)	\$ 86,257	26.8%	\$ 85,896	26.7%	\$ 77,367	25.9%
Expediter	88,175	70.8%	90,171	71.6%	87,839	72.4%
Integrated Supply	12,265	26.9%	13,669	25.1%	11,436	26.4%
Industrial Services	186,697	38.0%	189,736	37.8%	176,642	38.1%
Hillman (3)	66,485	52.8%	54,901	52.8%	46,127	50.0%
Harding	37,986	40.0%	35,670	40.4%	35,545	39.3%
Consolidated Gross Profit	\$291,168	40.9%	\$280,307	40.3%	\$258,314	40.0%
EBITA (6)						
SunSource Industrial Services						
Technology Services	\$ 13,583	4.2%	\$ 14,825	4.6%	\$ 13,690	4.6%
Expediter	20,215	16.2%	20,697	16.4%	18,770	15.5%
Integrated Supply	2,299	5.0%	3,292	6.0%	2,008	4.6%
Industrial Services	36,097	7.3%	38,814	7.7%	34,468	7.4%
Hillman	12,130	9.6%	10,833	10.4%	7,130	7.7%
Harding	4,128	4.3%	2,224	2.5%	3,211	3.6%
Total operations before corporate expenses	52,355	7.3%	51,871	7.5%	44,809	6.9%
Corporate expenses	(7,268)	(1.0)%	(8,062)	(1.2)%	(6,257)	(0.9)%
Total operations after corporate expenses	45,087	6.3%	43,809	6.3%	38,552	6.0%
Provision for litigation matters - divested operations	(1,600)	(0.2)%	--	--	--	--

Consolidated EBITA	\$ 43,487	6.1%	\$ 43,809	6.3%	\$ 38,552	6.0%
	=====		=====		=====	

</TABLE>

-
- (1) Includes sales related to contracts canceled in 1998 and 1997 of \$5,975, \$15,925, and \$16,877 for the twelve months ended December 31, 1998, 1997 and 1996, respectively.
 - (2) Includes sales from acquired businesses of \$10,322 for the twelve months ended December 31, 1998.
 - (3) Includes a reduction in sales and gross profit of \$4,680, \$3,424 and \$2,751 for the twelve months ended December 31, 1998, 1997 and 1996, respectively, to conform to current accounting for customer rebates.
 - (4) Includes sales from acquired businesses of \$5,874 for the twelve months ended December 31, 1998. Also includes sales from branches closed during the three years ended December 31, 1998 of \$541, \$2,116 and \$5,978 for the twelve months ended December 31, 1998, 1997 and 1996, respectively.
 - (5) Includes commission income of \$618, \$453 and \$471 for the twelve months ended December 31, 1998, 1997 and 1996, respectively to conform to current accounting.
 - (6) "EBITA" (earnings before interest, taxes and amortization) is defined as income from operations before amortization, excluding \$2,491 and \$3,330 of management fees, \$263 and \$196 of expenses related to minority ownership and \$3,053 and \$2,150 of transaction costs related to the Company's conversion from partnership to corporate form (the "Conversion"), for the twelve months ended December 31, 1997 and 1996, respectively. The 1996 period also excludes a charge of \$5,950 related to the restructuring of Technology Services.

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Years Ended December 31, 1998 and 1997

Net sales increased \$17.8 million or 2.6% in 1998 to \$712.5 million from \$694.7 million in 1997. Sales variances by segment are as follows:

	Sales Increase Amount (In thousands)	(Decrease) %
	-----	-----
SunSource Industrial Services Company		
Technology Services	\$ (622)	(0.2)%
Expediter	(1,375)	(1.1)%
Integrated Supply	(8,794)	(16.2)%

Industrial Services	(10,791)	(2.1)%
Hillman	21,860	21.0%
Harding	6,694	7.6%

Total Company	\$ 17,763	2.6%
	=====	

Technology Services sales decreased \$0.6 million or 0.2% in 1998 to \$321.5 million from \$322.1 million in 1997 due primarily to the restructuring of the sales force as well as the effects of the Asian economic crisis on its original equipment manufacturing customers. Expediter sales decreased \$1.4 million or 1.1% in 1998 to \$124.5 million from \$125.9 million in 1997 due to competitive pricing pressures as well as continued deterioration in the Canadian dollar. Integrated Supply sales decreased \$8.8 million or 16.2% in 1998 to \$45.6 million from \$54.4 million in 1997 due primarily to a net decrease of \$10.0 million resulting from contracts which were canceled in 1998 and 1997. Excluding terminated contracts, Integrated Supply sales increased 3.0% in the comparison period.

Hillman's sales increased \$21.9 million or 21.0% in 1998 to \$125.8 million from \$104.0 million in 1997 due to market penetration of new product lines in the amount of \$5.4 million, sales from newly acquired businesses of \$10.3 million and the balance of \$6.2 million in growth from new accounts and expansion of existing product lines.

Harding's sales increased \$6.7 million or 7.6% in 1998 to \$95.0 million from \$88.3 million in 1997 due to an increase of \$7.0 million as a result of newly acquired retail glass shops and an increase in retail and contract sales of \$4.0 million, offset by a decrease of \$2.6 million in wholesale glass and other product line sales as a result of the planned withdrawal from certain non-strategic markets. In addition, the discontinuation of certain low-margin product lines resulted in reduced sales of \$1.7 million. Growth in Harding's retail glass shops is expected to continue as a result of internal sales programs and the recent acquisitions.

The Company's sales backlog on a consolidated basis was \$66.4 million as of

December 31, 1998, compared with \$68.3 million at December 31, 1997, a decrease of 2.8%.

Total Company cost of sales increased \$6.9 million or 1.7% in 1998 to \$421.3 million from \$414.4 million in 1997 due primarily to increased sales levels in the comparison period.

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The Company's consolidated gross margin was 40.9% in 1998 compared with 40.3% in 1997. SunSource Industrial Services Company's gross margin was 38.0% in 1998 compared with 37.8% in 1997, an increase of 0.2%. Technology Services' gross margin increased 0.1% in 1998 due to tighter pricing controls. The Expediter activity's gross margin declined 0.8% in 1998 due to competitive pricing pressures and higher freight costs. The Integrated Supply activity's gross margin increased 1.8% in 1998 due to sales mix. Hillman's gross margin remained constant with 1997. Harding's gross margin decreased 0.4% in 1998 due to an increase in contract sales at lower gross margins than the overall retail business.

The Company's selling, general and administrative ("S,G&A") expenses increased by \$9.1 million or 3.9% to \$241.5 million in 1998 from \$232.4 million in 1997. Selling expenses increased \$5.0 million supporting increased 1998 sales levels and increased marketing efforts at Hillman and Harding. Warehouse and delivery expenses increased \$1.8 million or 4.3%. The increase in general and administrative expenses of \$2.3 million or 3.1% is net of expense reductions of \$1.5 million associated with the replacement of cash basis deferred compensation awards with stock options.

S,G,&A expenses as a percentage of sales increased compared with 1997, as follows:

	Twelve Months	
	1998	1997
	----	----
Selling Expenses	17.0%	16.7%
Warehouse and Delivery Expenses	6.2%	6.1%
General and Administrative Expenses	10.7%	10.6%
	----	----
Total S,G&A Expenses	33.9%	33.4%
	=====	=====

EBITA from operations after corporate expenses was \$45.1 million for the twelve months ended December 31, 1998, compared with \$43.8 million for the same prior-year period.

The Company's consolidated operating profit margin (EBITA, as a percentage of sales) after corporate expenses remained constant at 6.3% in 1998 compared with the prior year. SunSource Industrial Services Company's operating profit margin declined to 7.3% in 1998 from 7.7% in 1997, primarily reflecting reduced 1998 sales and increased expenses related to the reorganization of sales and administrative functions in the Technology Services segment. Integrated Supply's operating profit margin decreased to 5.0% in 1998 from 6.0% in 1997 due primarily to the previously mentioned canceled contracts. Hillman's operating profit margin declined in 1998 to 9.6% from 10.4% in 1997 due to increased selling expenses for new field staff related primarily to acquisition activities. Harding's operating profit margin improved in 1998 to 4.3% from 2.5% in 1997 due to reduced general and administrative expenses and increased sales activity through internal growth and acquisitions.

Depreciation expense increased \$1.0 million to \$5.0 million in 1998 from \$4.0 million in 1997 due primarily to the acquisition activity at Hillman and Harding and an overall increase in the depreciable fixed asset base due to investment in the Company's core businesses.

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Under partnership form, the management fee due the General Partner amounted to \$3.3 million annually. Upon Conversion, the management fee is retained by a wholly-owned subsidiary of the Company and is eliminated in consolidation. The amount for 1997 of \$2.5 million is based on nine months only through the Conversion date.

Other income, net, increased \$0.8 million in 1998 to \$0.4 million from expense of \$0.4 million in 1997 due primarily to the elimination of expenses related to minority ownership as a result of the Conversion and other non-recurring expenses related to divested operations.

The Company recorded a provision of \$1.6 million for outstanding litigation matters related to divested businesses in the third quarter of 1998.

The Company pays interest to the Trust on the Junior Subordinated Debentures in the amount of 11.6% per annum on their face amount of \$105.4 million. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the years ended December 31, 1998 and 1997, the Company paid \$12.2 million and \$3.1 million, respectively, in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust. The 1997 amount of \$3.1 million represents payments made from the Conversion date through December 31, 1997. On an annual basis, the interest payments and Trust distributions amount to \$12.2 million.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian and Mexican operations as accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") 109, "Accounting for Income Taxes". Deferred income taxes represent differences between the financial statement and tax bases of assets and liabilities as classified on the Company's balance sheet. The Company's combined effective tax rate was 37.6% for the year ended December 31, 1998, including the effect of favorable non-recurring prior-year income tax adjustments related to the Conversion. The Company expects its effective tax rate to be about 42% in the future due to the implementation of recently identified state and local tax planning strategies. See Note 5 of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 1998, for income taxes and related disclosures.

Years Ended December 31, 1997 and 1996

Net sales increased \$48.2 million or 7.5% in 1997 to \$694.7 million from \$646.5 million in 1996. Sales variances by segment are as follows:

	Sales Increase Amount (In thousands)	(Decrease) %
	-----	-----
SunSource Industrial Services Company		
Technology Services	\$ 23,080	7.7%
Expediter	4,522	3.7%
Integrated Supply	11,028	25.4%

Industrial Services	38,630	8.3%
Hillman	11,685	12.7%
Harding	(2,111)	(2.3)%

Total Company	\$ 48,204	7.5%
	=====	

Technology Services sales increased \$23.1 million or 7.7% in 1997 to \$322.2 million from \$299.1 million in 1996 due to continued strength in existing product markets, new product line additions and sales territory expansion. Expediter sales increased \$4.5 million or 3.7% in 1997 to \$125.9 million from \$121.4 million in 1996 due to sales growth of 3.0% in the U.S. marketplace and 8.3% in Canada as a result of general economic strength.

Integrated supply sales increased \$11.0 million or 25.4% in 1997 to \$54.4 million from \$43.4 million in 1996 due primarily to an increase in the number of in-plant inventory management programs.

Hillman's sales increased \$11.7 million or 12.7% in 1997 to \$104.0 million from \$92.3 million in 1996 due to contributions from acquisitions in the amount of approximately \$5.0 million and the balance of \$6.7 million in growth from new accounts, expansion of existing product lines and market penetration of new product lines.

Harding's sales declined \$2.1 million or 2.3% in 1997 to \$88.3 million from \$90.4 million in 1996 due to a decrease of \$2.0 million in wholesale glass, brokerage and other product line sales as a result of the planned withdrawal from certain non-strategic markets. In addition, the discontinuation of certain low margin product lines resulted in reduced sales of \$0.4 million, offset by an increase in retail glass and contract sales of \$0.3 million from 1996.

Total Company cost of sales increased \$26.2 million or 6.8% in 1997 to \$414.4 million from \$388.2 million in 1996 due primarily to increased sales levels in the comparison period.

The Company's consolidated gross margin was 40.3% in 1997 compared with 40.0% in 1996. SunSource Industrial Services Company's gross margin was 37.8% in 1997 compared with 38.1% in 1996, a decrease of 0.3%. Technology Services' gross margin increased 0.8% in 1997 due to labor efficiencies in its service and repair business and lower freight costs. The Expediter activity's gross margin declined 0.8% in 1997 due to competitive pricing pressures. The Integrated Supply activity's gross margin declined 1.3% in 1997 due to changes in sales mix as a result of new in-plant inventory management programs.

Hillman's gross margin increased 2.8% due primarily to reduced packaging costs in 1997 which were much higher in 1996 as a result of costs associated with the integration of the Curtis acquisition and for other business expansion programs. Harding's gross margin increased 1.1% due to improved purchasing management and the discontinuation of lower margin product lines.

The Company's S,G&A expenses increased by \$15.9 million or 7.4% to \$232.3 million in 1997 from \$216.4 million in 1996. Selling expenses increased \$6.4 million supporting increased 1997 sales levels in the SunSource Industrial Services Company and increased marketing efforts at Harding. Warehouse and delivery expenses increased \$2.8 million due to expansion programs by certain operating units and the addition of several large in-plant accounts by Integrated Supply. General and administrative expenses increased \$6.7 million consisting of: (i) an increase of \$5.3 million to support the overall increase in 1997 sales levels and the increased number of systems accounts in the Integrated Supply business, and (ii) an increase of \$1.6 million in corporate expenses compared to 1996 which included an expense reduction of \$1.5 million as a result of incentive-based compensation plans and a non-recurring reduction in insurance reserves of \$0.2 million.

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S,G,&A expenses as a percentage of sales remained constant overall with 1996, as follows:

	Twelve Months	
	1997	1996
Selling Expenses	16.7%	16.1%
Warehouse and Delivery Expenses	6.1%	6.3%
General and Administrative Expenses	10.6%	11.1%
	-----	-----
Total S,G&A Expenses	33.4%	33.5%
	=====	=====

Depreciation expense increased \$0.4 million to \$4.0 million in 1997 from \$3.6 million in 1996 due primarily to an increase in the depreciable fixed asset base.

The Company's consolidated operating profit margin ("EBITA, as a percentage of sales") after corporate expenses improved in 1997 to 6.3% from 5.9% in 1996. SunSource Industrial Services Company improved its operating profit margin to 7.7% in 1997 from 7.4% in 1996 primarily as a result of expense efficiencies. Hillman improved its operating profit margin significantly in 1997 to 10.4% from 7.7% in 1996 due to improved packaging productivity in 1997 as previously discussed. Harding's operating profit margin declined in 1997 to 2.5% from 3.6% in 1996 due to significant investments in sales and marketing efforts in 1997 and reduced sales as a result of discontinuation of certain low margin product lines and markets served.

Under partnership form, the management fee due the General Partner amounted to \$3.3 million annually. Upon Conversion, the management fee was retained by a wholly-owned subsidiary of the Company and eliminated in consolidation. The amount for 1997 of \$2.5 million is based on nine months only through the Conversion date.

Other expense, net, increased \$0.5 million to \$0.4 million in 1997 from \$0.1 million of income in 1996 due primarily to favorable non-recurring legal settlements and post-closing adjustments recorded in 1996 which were related to divisions sold in prior years.

The Company pays interest to the Trust on the Junior Subordinated Debentures in the amount of 11.6% per annum on their face amount of \$105.4 million. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the year ended December 31, 1997, the Company paid \$3.1 million in interest on the Junior Subordinated Debentures, equivalent to the amount distributed by the Trust from the Conversion date through December 31, 1997. On an annual basis the interest payments and Trust distributions amount to \$12.2 million.

Liquidity and Capital Resources

Earnings before interest, taxes, depreciation and amortization ("EBITDA"), excluding the \$1.6 million litigation charge recorded in 1998, increased \$2.3 million or 4.8% to \$50.1 million in 1998 from \$47.8 million in 1997. The Company's net interest coverage ratio for the year ended December 31, 1998, improved slightly to 2.29X (earnings before interest, litigation charge, distributions on Trust Preferred Securities and income taxes over net interest expense and distributions on Trust Preferred Securities), from 2.26x on a pro forma basis in 1997.

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The Company's cash position of \$2.8 million as of December 31, 1998, decreased

\$2.8 million from the balance at December 31, 1997. Cash was provided during this period primarily from operations (\$18.4 million), net borrowings on the bank revolver (\$2.0 million), proceeds from the sale of property and equipment (\$0.5 million), and net proceeds from the Offering (\$20.8 million). Cash was used during this period predominantly for acquisitions (\$22.8 million), cash distributions to investors (\$4.8 million), capital expenditures (\$7.1 million), purchase of treasury stock (\$8.4 million), investment in life insurance (\$0.9 million) and other items, net (\$0.5 million).

The Company's working capital position of \$121.6 million at December 31, 1998, represents an increase of \$0.7 million from the December 31, 1997 level of \$120.9 million. The Company's current ratio decreased to 2.25x at December 31, 1998 from 2.41x at December 31, 1997, principally due to increases in accounts payable and accrued liabilities, offset by investments in accounts receivable and inventories.

As of December 31, 1998, the Company had \$36.6 million available under its credit facilities. The Company had \$95.8 million of outstanding long-term debt at December 31, 1998, consisting of the \$60.0 million Senior Note at 7.66%, bank borrowings totaling \$35.0 million at an effective interest rate of 6.49%, and capitalized lease obligations of \$0.8 million at various interest rates. An indirect, wholly-owned Canadian subsidiary of the Company had a \$2.5 million Canadian dollar line of credit for working capital purposes, of which no amount was outstanding at December 31, 1998.

As of December 31, 1998, the Company's total debt (including dividends payable) as a percentage of its consolidated capitalization (total debt, Trust Preferred Securities and stockholders' equity) was 41.5% compared with 45.6% as of December 31, 1997. The Company's consolidated capitalization (including dividends payable) as of December 31, 1998, was \$232.8 million compared to \$212.1 million at December 31, 1997.

The Company spent \$7.1 million for capital expenditures in 1998, an increase of \$2.2 million from 1997, which is primarily attributable to higher investments in computer hardware of \$1.2 million and plant equipment of \$1.0 million.

The Company paid \$2.1 million on February 27, 1998, for remaining tax distributions due to Class B interest holders of the predecessor partnership, related to taxable income for the nine months ended September 30, 1997.

On December 16, 1998, the Board of Directors declared a dividend of \$0.10 per Common Share which was paid on January 7, 1999, to holders of record as of December 28, 1998. The Company expects to declare future quarterly dividends on the Common Shares to aggregate \$0.40 per Common Share annually, subject to the discretion of its Board of Directors and dependent upon, among other things, the Company's future earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

The Company has deferred tax assets aggregating \$15.1 million as of December 31, 1998, as determined in accordance with SFAS 109. Management believes that the Company's deferred tax assets will be realized through the reversal of existing temporary differences between the financial statement and tax bases, as well as through future taxable income.

Year 2000 Issue

The Company believes that both its proprietary and purchased computer software systems are an integral part of its business and growth strategies. The Company depends on these computer-based information technology ("IT") systems generally to process orders, to manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations and to provide superior service to its customers.

Each of the Company's five segments have distinct IT systems and therefore each has its own plan for addressing the Year 2000 issue ("Y2K"). One individual in the Company's Industrial Services business is responsible for the Y2K plans in the Technology Services, Expediter and Integrated Supply segments. Hillman and Harding each have one individual responsible for the Y2K plans in their businesses. These individuals are required to provide senior management of the Company with a detailed quarterly update on the status of their Y2K plans. The individual responsible for the Y2K plan at SunSource Industrial Services resigned in October. A replacement filled the position on November 25, 1998 and this change has not caused any significant delay in implementing its Y2K plan.

State of Readiness

The following discussion relates primarily to the Company's IT systems. The Company recognizes that other machinery and equipment may possibly have Y2K exposure due to the use of micro-controllers ("non-IT" systems). In general, however, the Company's exposure to non-IT systems is limited because most of its operations do not require machinery and equipment with imbedded micro-controllers.

- o The Expediter Segment has evaluated all its IT systems and has identified those requiring remediation. The mainframe and financial computer hardware and related operating systems have been determined to be Y2K compliant. Expediter's critical proprietary application software programs require full remediation. This process has been out-sourced to an independent consultant, is approximately 50% complete and is targeted for completion and testing by the end of the third quarter of 1999. Expediter's assessment of critical hardware and software purchased from third party vendors resulted in a determination that certain file server and personal computer ("PC") hardware and software applications such as inventory planning and purchasing, and its financial software, were not Y2K compliant. Expediter recently began to upgrade or replace these systems and expects to complete this process with full testing by the fourth quarter of 1999.
- o Technology Services is in the process of converting all of its operating units to a third-party purchased computer system as part of the restructuring of this segment. The new computer hardware, operating system and application software have all been certified by the vendor as being Y2K compliant. The conversion project is approximately 60% complete and is targeted for full completion and testing by mid-1999. Technology Services has also identified other purchased software programs used in conjunction with the primary system which must be upgraded to Y2K compliant versions. These upgrades are expected to be installed during the second quarter of 1999.

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- o The critical third-party IT system for Integrated Supply's domestic operations has a Y2K compliant version that was installed during the first quarter of 1999. Certain other software applications used in conjunction with this system require upgrades which are also targeted for installation by the end of the second quarter of 1999. Certain hardware used by Integrated Supply requires an upgrade which is expected to be implemented by the end of the second quarter of 1999.
- o Most of the Company's international activities are conducted using IT systems covered by the foregoing discussion. The separate operating systems at Integrated Supply's Mexican operations are expected to be upgraded to Y2K compliant versions by mid-1999. The Company's net sales from foreign operations is less than 7% of its consolidated net sales.

Hillman

Hillman has completed remediation (including full testing) on approximately 93% of its proprietary software programs. The remaining 7% of these programs include lower priority programs (e.g., display only) which are expected to be completed by mid-1999. Hillman's critical purchased software applications and hardware have been certified by the vendors to be compliant, except for several applications (i.e. payroll, telephone and shipping) which are expected to be upgraded or replaced by mid-1999.

Harding

Harding's critical purchased point-of-sale software application is Y2K compliant and its related hardware operating system has a Y2K compliant release which Harding has recently started installing at each of its locations; this process is expected to be completed by the end of the third quarter of 1999. Harding's purchased financial software requires a version update to become Y2K compliant which is expected to be installed by the end of April 1999. Harding completed the necessary upgrades for network servers and PC hardware during the first quarter of 1999. An assessment of Y2K compliance for each site's telephone system is expected by the end of the second quarter of 1999 with corrective action for any non-compliant systems scheduled for completion by the end of the third quarter of 1999.

Acquisitions

All of the Company's recent acquisitions have been evaluated for Y2K compliant systems and four have been identified as not having Y2K compliant systems. Three of these systems will be integrated into existing systems that are already Y2K compliant by the end of the third quarter of 1999. The other system requires certain hardware replacements and software upgrades which are expected to be completed by the end of July 1999. Prospectively, the Company will require certification of Y2K compliance as part of its purchase agreements.

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Costs to Address Year 2000 Issues

The Company's Y2K costs incurred through December 1998 are approximately \$0.7

million. Approximately 80% of these costs are related to remediation of internally designed software applications. Y2K costs of \$1.0 million are expected to be incurred during 1999, with approximately 20% for remediation of internally designed software applications, resulting in projected aggregate costs of \$1.7 million for the entire Y2K project. The source of the funds for these Y2K costs will be from the Company's operating cash flows.

Risks of Year 2000 Compliance and Contingency Plans

The Company believes that its most significant risk associated with the Y2K issue is that certain vendors may not be able to supply products to the Company's operating businesses. The Company believes that this situation would only result in a temporary interruption in service for the following reasons:

- o The Company does not have any single supplier that provides more than 8% of its total annual purchases.
- o The Company's purchasing functions and distribution centers are geographically diversified which allows greater access to various suppliers.

As a preemptive measure, the Company's businesses have requested Y2K compliance letters from their major suppliers and have issued second requests where necessary. The Company has received responses from approximately 80% of its suppliers. At this time, no significant Y2K issues have been communicated from major suppliers that have responded. The Company recognizes, however, that certain suppliers may not respond to these requests and therefore the Company may not be able to fully evaluate the extent of its risk in this area. To limit the risk of supply shortages in early 2000, however, the Company's businesses plan to increase inventory levels for selected product lines as a measure to ensure proper fill rates.

The Company also recognizes the risk that unresolved Y2K issues within its customer base could result in the Company not being able to sell its products to such customers, or to collect accounts receivable from them. The Company believes that such risk is significantly limited due to the fact that no individual customer accounts for more than 7% of the Company's revenue.

While the Company expects all of the critical components of its businesses' computer systems will be Y2K compliant and tested prior to December 31, 1999, it is possible that certain corrective action or testing may not be completed as planned. In the event that this occurs, the Company's businesses expect to be prepared to implement procedures from their existing business continuation plans which may be necessary in order to minimize potential disruptions to their operations.

The Year 2000 disclosures contained in this report involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect management's current views and are based upon certain assumptions. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. Furthermore, the Company disclaims any obligation or intent to update any such forward-looking statement to reflect future events or developments.

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Inflation

Inflation in recent years has had a modest impact on the operations of the Company. Continued inflation, over a period of years at higher than current rates, would result in significant increases in inventory costs and operating expenses. However, such higher cost of sales and operating expenses can generally be offset by increases in selling prices, although the ability of the Company's operating divisions to raise prices is dependent on competitive market conditions.

Subsequent Event

After the close of business, on December 31, 1998, the Company reorganized its primary operating subsidiary, SDI Operating Partners, L.P. (the "Operating Partnership"), by contributing its assets and liabilities to newly-formed corporate subsidiaries organized according to the Company's current operating structure (the "Reorganization"). The Reorganization allows the Company to implement certain state and local tax planning strategies, to offer its key employees incentive stock options and align its operating businesses in corporate form. As a result of the Reorganization, the Operating Partnership and its general partner, SDI Partners I, L.P. cease to exist.

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

Not Applicable.

Item 8 - Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

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Report of Independent Accountants

The Board of Directors
SunSource Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SunSource Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of operations and cash flows for each of the three years in the period ending December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

March 26, 1999

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SUNSOURCE INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (dollars in thousands)

<TABLE>

<CAPTION>

ASSETS	December 31, 1998	December 31, 1997
-----	-----	-----
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 2,796	\$ 5,638
Accounts receivable, net of allowance for doubtful accounts of \$2,489 and \$2,195, respectively	88,629	82,501
Inventories	112,497	103,369
Deferred income tax asset	9,886	10,791
Other current assets	5,421	4,559
	-----	-----
Total current assets	219,229	206,858
Property and equipment, net	26,770	21,939
Goodwill, net of accumulated amortization of \$16,428 and \$14,367, respectively	77,544	62,588
Other intangibles, net of accumulated amortization of \$15,125 and \$14,910, respectively	1,807	784
Deferred income tax asset	5,202	5,014
Cash surrender value of life insurance policies	10,262	8,407
Other assets	754	552
	-----	-----
Total assets	\$ 341,568	\$ 306,142
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 58,353	\$ 50,125
Notes payable	1,770	2,080
Current portion of capitalized lease obligations	276	156
Dividends / distributions payable	676	2,995
Deferred income tax liability	929	935
Accrued expenses:		
Salaries and wages	8,379	6,891
Income and other taxes	4,194	4,286
Other accrued expenses	23,050	18,452
	-----	-----
Total current liabilities	97,627	85,920
Senior notes	60,000	60,000
Bank revolving credit	35,000	33,000
Capitalized lease obligations	566	572
Deferred compensation	11,802	10,451
Other liabilities	308	787
	-----	-----
Total liabilities	205,303	190,730
	-----	-----
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	115,551	115,903
	=====	=====
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$.01 par, 1,000,000 shares authorized, none issued	--	--
Common stock, \$.01 par, 20,000,000 shares authorized, 7,217,263 and 6,418,936 shares issued, respectively	72	64
Additional paid-in capital	21,099	--

Retained earnings	12,748	1,735
Unearned compensation	(229)	--
Accumulated other comprehensive income	(4,596)	(2,290)
Treasury stock, at cost, 461,100 shares in 1998, none in 1997	(8,380)	--
	-----	-----
Total stockholders' equity (deficit)	20,714	(491)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 341,568	\$ 306,142
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

(dollars in thousands, except for partnership interest and share amounts)

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales	\$ 712,470	\$ 694,707	\$ 646,503
Cost of sales	421,302	414,400	388,189
	-----	-----	-----
Gross profit	291,168	280,307	258,314
	-----	-----	-----
Operating expenses:			
Selling, general and administrative expenses	241,479	232,353	216,434
Management fee to general partner	--	2,491	3,330
Depreciation	5,016	4,009	3,603
Amortization	2,276	1,894	1,924
	-----	-----	-----
Total operating expenses	248,771	240,747	225,291
	-----	-----	-----
Provision for litigation matters - divested operations	1,600	--	--
Transaction and other related costs	--	3,053	2,150
Restructuring charges	--	--	5,950
Other income (expense), net	414	(399)	79
	-----	-----	-----
Income from operations	41,211	36,108	25,002
Interest expense, net	6,838	7,198	6,875
Distributions on guaranteed preferred beneficial interests	12,232	3,058	--
	-----	-----	-----
Income before provision for income taxes	22,141	25,852	18,127
Provision (benefit) for income taxes	8,324	(6,680)	(1,140)
	-----	-----	-----
Income before extraordinary loss	13,817	32,532	19,267
Extraordinary loss from early extinguishment of debt (note 6)	--	(3,392)	--
	=====	=====	=====
Net income	\$ 13,817	\$ 29,140	\$ 19,267
	=====	=====	=====
Basic and diluted net income per common share (note 1)	\$2.00	N/A	N/A
Pro forma net income per common share* (note 1)	N/A	\$1.88	N/A
Weighted average number of outstanding common shares (note 1)	6,907,318	6,418,936	N/A
Net income allocated to partners:			
General partner	N/A	N/A	\$ 193

Class A limited partners	N/A	N/A	\$ 12,210

Class B limited partners	N/A	N/A	\$ 6,864

Earnings per limited partnership interest:			
Income before extraordinary loss			
- Class A interest	N/A	N/A	\$ 1.10
- Class B interest	N/A	N/A	\$ 0.32
Extraordinary loss			
- Class A interest	N/A	N/A	--
- Class B interest	N/A	N/A	--
Net income			
- Class A interest	N/A	N/A	\$ 1.10

- Class B interest	N/A	N/A	\$ 0.32
Weighted average number of outstanding limited partnership interests:			
- Class A interests	N/A	N/A	11,099,573
- Class B interests	N/A	N/A	21,675,746

</TABLE>

* Includes the effects of the Conversion and Refinancing only.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

39
SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(dollars in thousands)

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 13,817	\$ 29,140	\$ 19,267
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,292	5,903	5,547
Extraordinary loss	--	3,392	--
Restructuring charges	--	--	5,950
Transaction costs	--	3,053	2,150
Provision for deferred compensation	--	2,649	1,071
Decrease (increase) in deferred income taxes, net	711	(8,912)	(2,163)
Increase in cash value of life insurance	(846)	(525)	(157)
Changes in current operating items:			
Increase in accounts receivable	(3,616)	(3,627)	(2,465)
Increase in inventories	(7,303)	(848)	(7,572)
Decrease (increase) in other current assets	(792)	175	70
Increase in accounts payable	5,798	1,325	6,062
Increase (decrease) in income taxes payable	134	1,136	(32)
Decrease in accrued interest	--	(473)	(47)
Decrease in accrued restructuring charges and transaction costs	(1,099)	(4,569)	(1,899)
Increase (decrease) in other accrued liabilities	5,633	1,459	(2,737)
Other items, net	(1,353)	(1,365)	253
	-----	-----	-----
Net cash provided by operating activities	18,376	27,913	23,298
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale of property and equipment	485	802	62
Payments for acquired businesses	(22,807)	(793)	(683)
Capital expenditures	(7,078)	(4,933)	(4,341)
Investment in life insurance policies	(903)	(3,316)	(1,400)
Other, net	20	144	(39)
	-----	-----	-----
Net cash used for investing activities	(30,283)	(8,096)	(6,401)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from issuance of common stock	20,813	--	--
Proceeds from issuance of senior notes	--	60,000	--
Borrowings under the bank credit agreement, net	2,000	22,000	11,000
Purchase of treasury stock at cost	(8,380)	--	--
Cash distributions / dividends to investors	(4,848)	(13,901)	(25,641)
Cash distributions paid on Class A exchange	--	(14,429)	--
Prepayment of senior notes	--	(63,934)	--
Repayment of senior notes	--	--	(6,395)
Prepayment penalties and related costs	--	(4,278)	--
Other, net	(520)	(1,303)	(95)
	-----	-----	-----
Net cash provided by (used for) financing activities	9,065	(15,845)	(21,131)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(2,842)	3,972	(4,234)
	-----	-----	-----
Cash and cash equivalents at beginning of period	5,638	1,666	5,900
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 2,796	\$ 5,638	\$ 1,666
	=====	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL FOR THE YEAR ENDED
 DECEMBER 31, 1996 AND CHANGES IN STOCKHOLDERS' EQUITY
 (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1998
 (dollars in thousands)

<TABLE>
 <CAPTION>

		PARTNERS' CAPITAL				
		General Partner	Class A Limited	Class B Limited	Class B Treasury	Cumulative Foreign Translation Adjustment
		-----	-----	-----	-----	-----
<S>	<C> <C>	<C>	<C>	<C>	<C>	<C>
Partners' Capital - December 31, 1995		\$ 963	\$ 67,642	\$ 29,252	\$ (1,514)	\$ (1,400)
Net income		193	12,210	6,864	-	-
Cash distributions paid and/or declared to partners		(196)	(12,210)	(7,076)	-	-
Change in cumulative foreign translation adjustment, net of tax		-	-	-	-	(109)
		-----	-----	-----	-----	-----
Partners' Capital - December 31, 1996		960	67,642	29,040	(1,514)	(1,509)
Net income		260	9,157	16,633	-	-
Cash distributions paid and/or declared to partners		(150)	(8,140)	(6,730)	-	-
Change in cumulative foreign translation adjustment, net of tax		-	-	-	-	(167)
		-----	-----	-----	-----	-----
Partners' Capital - September 30, 1997		1,070	68,659	38,943	(1,514)	(1,676)
Conversion adjustments:						
Common stock				(64)		
Paid-in capital		(1,070)	(68,659)			
Comprehensive income						1,676
Retained earnings				(38,879)	1,514	
Minority ownership (a)						
Class A exchange (b)						
Goodwill - Minority interest (c)						
		-----	-----	-----	-----	-----
Stockholders' Deficit - September 30, 1997		\$ -	\$ -	\$ -	\$ -	\$ -
		=====	=====	=====	=====	=====
Net income						
Change in cumulative foreign translation adjustment, net of tax						
Adjustment to cash distributions declared to partners						
Dividends declared on common stock						
		-----	-----	-----	-----	-----
Stockholders' Deficit - December 31, 1997						
Net income						
Change in cumulative foreign translation adjustment, net of tax						
Comprehensive income						
Issuance of 796,408 shares of common stock in public offering						
Issuance of 1,988 shares of common stock to certain non-employee directors						
Dividends declared on common stock						
Stock options granted at a discount						
Repurchase of 461,100 shares of common stock						
		-----	-----	-----	-----	-----
Stockholders' Equity - December 31, 1998						

</TABLE>
 [RESTUBBED]
 <TABLE>
 <CAPTION>

		STOCKHOLDERS' EQUITY (DEFICIT)				
		Common Stock	Additional Paid-in Capital	Retained Earnings / Accumulated Deficit)	Unearned Compensation	Accumulated Other Comprehensive Income (d)
		-----	-----	-----	-----	-----
<S>	<C> <C>					
Partners' Capital - December 31, 1995						
Net income						
Cash distributions paid and/or declared to partners						
Change in cumulative foreign translation adjustment, net of tax						

Partners' Capital - December 31, 1996					
Net income					
Cash distributions paid and/or declared to partners					
Change in cumulative foreign translation adjustment, net of tax	-	-	-	-	-
	-----	-----	-----	-----	-----
Partners' Capital - September 30, 1997	-	-	-	-	-
Conversion adjustments:					
Common stock	64				
Paid-in capital		68,659	1,070		
Comprehensive income					(1,676)
Retained earnings			37,365		
Minority ownership (a)			1,082		
Class A exchange (b)		(68,659)	(61,761)		
Goodwill - Minority interest (c)			20,759		
	-----	-----	-----	-----	-----
Stockholders' Deficit - September 30, 1997	64	-	(1,485)	-	(1,676)
Net income			3,090		
Change in cumulative foreign translation adjustment, net of tax					(614)
Adjustment to cash distributions declared to partners			772		
Dividends declared on common stock			(642)		
	-----	-----	-----	-----	-----
Stockholders' Deficit - December 31, 1997	64	-	1,735	-	(2,290)
Net income			13,817		
Change in cumulative foreign translation adjustment, net of tax					(2,306)
Comprehensive income					
Issuance of 796,408 shares of common stock in public offering	8	20,806			
Issuance of 1,988 shares of common stock to certain non-employee directors		39			
Dividends declared on common stock			(2,804)		
Stock options granted at a discount		254		(229)	
Repurchase of 461,100 shares of common stock					
	-----	-----	-----	-----	-----
Stockholders' Equity - December 31, 1998	\$ 72	\$ 21,099	\$ 12,748	\$ (229)	\$ (4,596)
	=====	=====	=====	=====	=====

</TABLE>
[RESTUBBED]
<TABLE>
<CAPTION>

	Treasury Stock	Total Partners' Capital / Stockholders' (Deficit) Equity
	-----	-----
<S>		<C>
Partners' Capital - December 31, 1995		\$ 94,943
Net income		19,267
Cash distributions paid and/or declared to partners		(19,482)
Change in cumulative foreign translation adjustment, net of tax		(109)

Partners' Capital - December 31, 1996		94,619
Net income		26,050
Cash distributions paid and/or declared to partners		(15,020)
Change in cumulative foreign translation adjustment, net of tax	-	(167)
	-----	-----
Partners' Capital - September 30, 1997	-	105,482
Conversion adjustments:		
Common stock		-
Paid-in capital		-
Comprehensive income		-
Retained earnings		-
Minority ownership (a)		1,082
Class A exchange (b)		(130,420)
Goodwill - Minority interest (c)		20,759
	-----	-----
Stockholders' Deficit - September 30, 1997	-	(3,097)
Net income		3,090
Change in cumulative foreign translation adjustment, net of tax		(614)
Adjustment to cash distributions declared to partners		772
Dividends declared on common stock		(642)
	-----	-----

Stockholders' Deficit - December 31, 1997	-	(491)

Net income		13,817
Change in cumulative foreign translation adjustment, net of tax		(2,306)

Comprehensive income		11,511

Issuance of 796,408 shares of common stock in public offering		20,814
Issuance of 1,988 shares of common stock to certain non-employee directors		39
Dividends declared on common stock		(2,804)
Stock options granted at a discount		25
Repurchase of 461,100 shares of common stock	(8,380)	(8,380)
	-----	-----
Stockholders' Equity - December 31, 1998	\$ (8,380)	\$ 20,714
	=====	=====

</TABLE>

- (a) Minority ownership included as other liabilities by the Partnership.
- (b) Each Class A limited partnership interest was exchanged for \$1.30 in cash plus 0.38 share of Trust Preferred Securities recorded at fair value based on the price of the Class A interests upon close of trading on the New York Stock Exchange on September 30, 1997 of \$11.75. This fair value of \$115,991 is recorded by the Company as Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Debentures.
- (c) Goodwill related to the exchange of the GP minority interest (See Note 1).
- (d) Cumulative foreign translation adjustment represents the only item of other comprehensive income.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of SunSource Inc. (the "Company"), its predecessor, SunSource L.P. (the "Partnership"), and its wholly-owned subsidiaries including SDI Operating Partners, L.P. (the "Operating Partnership") and SunSource Capital Trust (the "Trust"). All inter-company balances and transactions have been eliminated.

Effective the close of business on December 31, 1998, the Company reorganized the Operating Partnership by contributing its assets and liabilities to newly-formed, indirect, wholly-owned corporate subsidiaries organized according to the Company's current operating structure (the "Reorganization"). As a result of the Reorganization, the Operating Partnership and its general partner, SDI Partners I, L.P. (the "G.P.") cease to exist. In connection with the Reorganization, the Company amended its debt financing agreements (see Notes 9 and 10).

Nature of Operations:

The Company is one of the leading providers of value-added services and products to retail and industrial markets in North America. The Company is organized into three businesses which are SunSource Industrial Services Company, Inc. ("SunSource Industrial Services Company"), The Hillman Group Inc. ("Hillman") and Harding Glass Inc. ("Harding").

SunSource Industrial Services Company operates in three business segments: (1) Technology Services, operating as SunSource Technology Services Company, Inc.; (2) Expediter, operating as Kar Products, Inc.; (3) Integrated Supply, operating as SunSource Inventory Management Company, Inc. Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. The Expediter segment provides personalized, small parts inventory management services to low volume customers. The Integrated Supply segment provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies.

Hillman operates in the Hardware Merchandising Services Segment, providing small hardware-related items and merchandising services to retail outlets, primarily hardware stores, home centers and lumberyards.

Harding operates in the Glass Merchandising Segment, selling retail and

wholesale automotive and flat glass and providing auto glass installation and small contract glazing services to individual consumers, insurance companies, autobody shops, and other customers through a large network of retail glass shops.

Technology Services, Expediter and Integrated Supply accounted for 45%, 18% and 6%, respectively, of the Company's consolidated 1998 net sales and Hillman and Harding accounted for 18% and 13%, respectively. On a consolidated basis, the Company has over 200,000 customers, the largest of which accounted for less than 7% of 1998 net sales. The Company's foreign sales in Canada and Mexico accounted for less than 10% of its consolidated 1998 net sales. The average single sale in 1998 was less than three hundred dollars. Sales performance is tied closely to the overall performance of the non-defense-goods producing sector of Gross Domestic Product in the United States.

SUNSOURCE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
 (dollars in thousands, except per share amounts)

1. Basis of Presentation, continued:

Conversion to Corporate Form

On September 25, 1997, the limited partners of the Partnership approved the conversion of the Partnership to a corporation effective at the close of business on September 30, 1997 (the "Conversion"). In connection with the Conversion, the Company refinanced all of its outstanding bank revolving credit and senior note debt (the "Refinancing"). As a result of the Conversion, the Class A limited partnership interests in the Partnership were converted into cash and Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Debentures (the "Trust Preferred Securities", which were issued by the Trust), and the Class B limited partnership interests in the Partnership were converted into common stock of the Company and the general and limited partnership interests in the GP, which was also the general partner of the Partnership, were exchanged with the Company for 1,000,000 shares of its common stock.

The exchange represented by the GP's 1% ownership interest in the Company was subject to purchase accounting in accordance with Accounting Principles Bulletin ("APB") No. 16 and resulted in the Company recording goodwill in the amount of \$20,759 at September 30, 1997. The Company incurred transaction and other costs related to the Conversion of \$5,171, of which \$4,668 represents transaction costs and \$503 a charge for deferred compensation accelerated as a result of the Conversion. Cash payments in 1998, 1997 and 1996 were \$238, \$2,698 and \$1,732, respectively.

Restructuring Charges:

In December 1996, the Company recorded a provision for restructuring charges in the amount of \$5,950 for Technology Services and Harding in accordance with the provisions of Emerging Issues Task Force ("EITF") Abstract 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." Restructuring charges for Technology Services in the amount of \$4,400 included termination benefits for 175 employees and other exit costs. Restructuring charges for Harding in the amount of \$1,550 represent primarily the write-off of assets in connection with the Company's decision to withdraw from certain geographic markets which was completed in 1997. The following table summarizes activity in the restructuring liability for Technology Services by balance sheet classification for the twelve months ended December 31, 1998:

<TABLE>
 <CAPTION>

	Termination Benefits	Other Exit Costs	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
Current - other accrued expenses:			
Balance at December 31, 1997:	\$ 1,278	\$ 484	\$ 1,762
Reduction for payments	(738)	(123)	(861)
Reclassified from long-term	259	138	397
	-----	-----	-----
Balance at December 31, 1998:	\$ 799	\$ 499	\$ 1,298
	=====	=====	=====
Long-term - other liabilities:			
Balance at December 31, 1997:	\$ 409	\$ 238	\$ 647
Long-term - reclassified to current	(259)	(138)	(397)
	-----	-----	-----
Balance at December 31, 1998:	\$ 150	\$ 100	\$ 250
	=====	=====	=====

</TABLE>

Termination payments to-date represent severance payments and other support costs for approximately 90 employees; other exit costs include legal and consulting costs to execute termination activities and facility shut-down costs.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

2. Summary of Significant Accounting Policies:

Cash Equivalents:

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

Inventories:

Inventories, which consist of products purchased for resale, are valued at the lower of cost or market, cost being determined principally on the first-in, first-out method.

Property and Equipment:

Property and equipment, including assets acquired under capital leases, is carried at cost and includes expenditures for new facilities and major renewals. Maintenance and repairs are charged to expense as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and the resulting gain or loss is reflected in current operations.

Depreciation:

For financial accounting purposes, depreciation, including that related to plant and equipment acquired under capital leases, is computed on the straight-line method over the estimated useful lives of the assets, generally three to twenty-five years, or, if shorter, over the terms of the related leases.

Goodwill and Other Intangible Assets:

Goodwill related to the excess of acquisition cost over the fair value of net assets acquired and the goodwill associated with the GP Exchange discussed in Note 1 is amortized on a straight-line basis over forty years. Other intangible assets arising principally from acquisitions are amortized on a straight-line basis over periods ranging from three to ten years.

Long-Lived Assets:

Under the provisions of Statement of Financial Accounting Standard ("SFAS") 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company has evaluated its long-lived assets and certain identifiable intangibles for financial impairment, and will continue to evaluate them, based on the estimated future cash flows, as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. See Note 1, "Restructuring Charges" for information on the write-down of assets at Harding in 1996.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

2. Summary of Significant Accounting Policies, continued:

Income Taxes:

Deferred income taxes are computed using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. As a result of the Conversion, the Company recognized additional deferred income tax benefits which were not previously available to the Partnership due to its partnership status.

Retirement Benefits:

Certain employees are covered under profit-sharing retirement plans ("defined contribution plans") for which contributions are determined on an annual basis in accordance with the requirements of each plan. Defined benefit plan contributions covering certain employees are funded, at a minimum, in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended.

In accordance with collective bargaining agreements, annual contributions to multi-employer pension plans are made. These contributions, which are based on fixed contributions per month for each hour worked, are charged to income as incurred.

Certain employees are covered under post-retirement benefit plans for which benefits are determined in accordance with the requirements of each plan.

Fair Value of Financial Instruments:

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

Translation of Foreign Currencies:

The translation of applicable foreign-currency-based financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The changes in the cumulative foreign translation adjustment for each period relate to translation adjustments in their entirety.

Exchange adjustments resulting from foreign currency transactions are recognized in net income and were immaterial for the three years ended December 31, 1998.

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

3. Acquisitions:

During 1996, the Company acquired the assets of a hydraulic parts distributor which were integrated into its Technology Services segment

During 1998 and 1997, Harding acquired the assets of eleven and three retail glass shops, respectively, which were integrated into its existing operations.

During 1998, Hillman acquired the assets of three companies which supply keys, letters, numbers and signs and other products to retail hardware stores, which were integrated into its existing operations.

For the years ended December 31, 1998, 1997 and 1996, respectively, net cash consideration paid for the acquired businesses, including transaction costs, was \$22,807, \$793 and \$683, including goodwill of \$18,210, \$429, and \$141 and the assumption of certain liabilities of \$3,085, \$236 and \$58.

These acquisitions have been accounted for as purchases and, accordingly, the results of operations have been included in the accompanying consolidated financial statements from the date of acquisition. The following disclosures indicate the Company's estimate of financial results had these acquisitions been consummated on January 1, 1997:

	Pro forma	
	1998	1997*
Net sales	\$733,539	\$726,534
Income before extraordinary items	15,431	11,770
Net income	15,431	11,770
Basic and diluted earnings per share	\$2.23	\$1.83

* Includes the effects of the Conversion and Refinancing.

4. Related Party Transactions:

Previously under partnership form, the GP earned a management fee annually from the Operating Partnership equal to 3% of the aggregate initial capital investment of the holders of Class A interests. Management fees earned in each of years 1997 and 1996 were \$2,491 and \$3,330, respectively. The 1997 management fee was pro-rated through the Conversion and paid in full on September 30, 1997. The management fee for 1996 was paid in full in March 1997.

From January 1, 1996 through September 30, 1998, a member of the Company's Board of Directors was a partner in a law firm which represents the Company in various matters and with which the Company had a leasing arrangement for office space during 1996 and through September 1997. Payments to this law firm were \$389, \$811 and \$407 in 1998, 1997 and 1996, respectively. Amounts payable to this law firm were \$109, \$10 and \$25 at December 31, 1998, 1997 and 1996, respectively.

An affiliate of a firm which owned beneficially more than 5% of the Company's Common Shares during 1998 performed investment banking services for the Company in 1998 and 1996. Payments for these services were \$361 in 1998 and \$125 in 1996.

A member of the Company's Board of Directors is an officer of a firm which performed investment banking services for the Company in 1998 and 1996. Payments for these services were \$361 in 1998 and \$2 in 1996.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

5. Income Taxes:

The components of the provision (benefit) for income taxes are as follows for the three years ended:

Current:	December 31,		
	1998	1997	1996
Federal	\$ 4,021	\$ 770	\$ --
State and local	915	457	418
Foreign	1,731	1,005	605
Total current	6,667	2,232	1,023
Deferred:			
Federal	1,635	183	\$(1,919)
State and local	187	42	(244)
Foreign	(165)	428	--
Total deferred	1,657	653	(2,163)
Deferred tax benefit upon conversion	--	(9,565)	--
Provision (benefit) for income taxes	\$ 8,324	\$(6,680)	\$(1,140)

Upon the Conversion, the Company recorded additional deferred tax assets of \$9,565 not previously available under partnership form. The table below reflects the significant components of the company's net deferred tax assets:

Deferred tax assets:	December 31,	
	1998	1997
Inventory	\$ 4,917	\$ 5,180
Deferred compensation	3,592	3,827
Casualty loss liability	1,046	1,560
Goodwill	274	--
Prepayment penalty	835	1,059
Bad debt reserve	931	936
Vacation pay liability	644	998
Restructuring reserve	604	780
Net operating loss - Mexico	512	489
Transaction costs	731	777
Litigation reserves	624	--
All other	378	199

Deferred tax assets	\$15,088	\$15,805
Deferred tax liabilities:		
Costs of goods sold - Mexico	(929)	(935)
Net deferred tax assets	\$14,159	\$14,870

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

5. Income Taxes, continued:

Below is a reconciliation of U.S. Federal income tax rates to the effective tax rates for the twelve months ended December 31, 1998 and the period from the Conversion through December 31, 1997:

	12 Months Ended 12/31/98	3 Months Ended 12/31/97
U.S. federal income tax rate	35.0%	35.0%
Foreign income tax rates in excess of U.S. federal income tax rates	1.8%	8.9%
State and local income taxes, net of U.S. federal income tax benefit	3.8%	4.2%
Non-deductible expenses	4.9%	4.3%
Tax benefits associated with the conversion, net	(7.9)%	--
Recognition of deferred tax benefits relating to cumulative temporary differences	--	(10.2%)
Effective income tax rate	37.6%	42.2%

6. Extraordinary Losses:

In 1997, in connection with the Refinancing, the Company paid prepayment penalties of \$4,343 and recorded an extraordinary loss of \$3,392 (net of deferred tax benefits of \$951) due to the early extinguishment of all of the Company's previously outstanding Series A 9.08% and Series B 8.44% Senior Notes.

7. Property and Equipment:

Property and equipment consist of the following at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	Estimated Useful Life (Years)	December 31, 1998	1997
<S>		<C>	<C>
Land	N/A	\$ 3,058	\$ 3,196
Buildings and leasehold improvements	10-30	18,425	18,367
Machinery and equipment	3-10	27,286	20,493
Furniture and fixtures	3-5	12,010	10,592
		60,779	52,648
Less accumulated depreciation		34,009	30,709
		\$26,770	\$21,939

</TABLE>

8. Notes Payable:

Notes payable consisted of the following at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

December 31,

	1998	1997
	----	----
<S>	<C>	<C>
Trade notes associated with glass inventory financing	\$ 974	\$1,099
Notes associated with casualty insurance financing	796	981
	-----	-----
	\$1,770	\$2,080
	=====	=====

</TABLE>

The weighted average interest rate on the outstanding notes payable borrowings at December 31, 1998 and 1997 was 2.57% and 2.83%, respectively.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

9. Lines of Credit:

On September 30, 1997, the Operating Partnership entered into a five-year bank credit agreement with five lenders (the "Credit Agreement"). In connection with the Reorganization, the Credit Agreement was amended and restated as of December 31, 1998 (the "Amended Credit Agreement"), at which time one of the five lenders withdrew from the Credit Agreement, temporarily reducing the amount of the facility to \$75,000. On January 6, 1999, a new lender joined the Amended Credit Agreement which restored the facility to \$90,000. The Company and its newly formed domestic corporate subsidiaries are co-borrowers under the Amended Credit Agreement. The Amended Credit Agreement provides borrowings on a revolving credit basis at interest rates based on the London Interbank Offered Rate ("LIBOR") plus a margin of between 1.00% and 1.50% (the "LIBOR Margin") based on certain leverage ratios as stated in the Credit Agreement, or prime. Letters of credit commitment fees are based on the LIBOR Margin when issued.

As of December 31, 1998, the LIBOR rate was 5.16%, the LIBOR Margin was 1.25% and the prime rate was 7.75%. The Company's weighted-average interest rate for borrowings under its revolving credit facility was 7.05%, 7.79% and 8.82% for the years ended December 31, 1998, 1997 and 1996, respectively. As of December 31, 1998, the Company had \$36,577 available under the temporarily reduced facility of \$75,000. The \$38,423 outstanding consists of bank borrowings at LIBOR amounting to \$35,000 as reflected on the Company's consolidated balance sheet at December 31, 1998, and letter of credit commitments aggregating \$3,423. Amounts outstanding under the Amended Credit Agreement are due upon its termination on September 30, 2002.

The Amended Credit Agreement, among other provisions, contains financial covenants requiring the maintenance of specific coverage ratios and levels of financial position and restricts incurrence of additional debt and the sale of assets. The Company is able to utilize any unused capacity under the revolving credit line for acquisitions. If the Company sells a significant amount of assets as defined in the Amended Credit Agreement, it must make an offer of prepayment of note principal to the lenders determined on an applicable share basis with the senior noteholder under the Amended Noteholder Agreement (see Note 10).

The Company has another credit facility available in the amount of \$500 for letters of credit of which no amount was outstanding at December 31, 1998. The letters of credit commitments are issued at varying rates. This facility, renewable annually, is not subject to compensating balance requirements or unused commitment fees.

An indirect, wholly-owned Canadian subsidiary of the Company has a \$2,500 Canadian dollar line of credit with a local lender for working capital purposes of which no amount was outstanding at December 31, 1998. This facility, which is renewable annually, provides bank borrowings at an interest rate of prime plus 1/4 of 1%.

10. Long-Term Debt:

On September 30, 1997, the Company issued \$60,000 of senior notes through a private placement with an institutional investor. The senior notes are payable in full on September 30, 2002 and were issued at a fixed rate of 7.66%. A surcharge rate of 7.91% was in effect from September 30, 1997 through December 31, 1997, as provided in the Noteholder Agreement (the "Noteholder Agreement").

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

10. Long-Term Debt, continued:

In connection with the Reorganization, the Noteholder Agreement was amended and restated (the "Amended Noteholder Agreement"). The Company and its newly formed domestic corporate subsidiaries are co-obligors under the Amended Noteholder Agreement. Interest is required to be paid quarterly on March 30, June 30, September 30 and December 30 on the outstanding principal of the senior notes. Optional prepayments, in multiples of \$100, may be made at anytime, as a whole or in part, with accrued interest thereon plus a penalty ("Make-Whole Amount"), if any, as defined in the Amended Noteholder Agreement.

The Amended Noteholder Agreement, among other provisions, contains financial covenants requiring the maintenance of specific coverage ratios and levels of financial position and restricts incurrence of additional debt and the sale of assets. If the Company sells a significant amount of assets as defined in the Amended Noteholder Agreement, it must make an offer of prepayment of note principal to the senior noteholder determined on an applicable share basis with the lenders under the Credit Agreement. The prepayment offer must also include accrued interest thereon as defined in the Amended Noteholder Agreement. A Make Whole Amount is not required to be paid on the first \$15,000 of net cash proceeds from certain dispositions accepted as a prepayment by the senior noteholder or upon a change in control as defined in the Amended Noteholder Agreement.

As of December 31, 1998, the estimated fair value of the Company's senior notes is approximately \$65,000 as determined in accordance with SFAS 107. The Company discounted the future cash flows of its senior notes based on borrowing rates for debt with similar terms and remaining maturities. The fair value estimate is made at a specific point in time and is subjective in nature and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

11. Leases:

Certain warehouse and office space and equipment are leased under capital and operating leases with terms in excess of one year. Future minimum lease payments under noncancellable leases consisted of the following at December 31, 1998:

	Capital Leases	Operating Leases
	-----	-----
1999	\$ 302	11,972
2000	302	9,754
2001	230	7,256
2002	8	5,661
2003	--	5,197
Later years	--	9,659
	-----	-----
Total minimum lease payments	\$ 842	\$49,499
		=====
Less amounts representing interest	(155)	

Present value of Net Minimum Lease payments (including \$276 currently payable)	\$ 687	
	=====	

Total rental expenses for all operating leases amounted to \$15,350 in 1998, \$15,921 in 1997, and \$15,239 in 1996.

SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

12. Deferred Compensation Plans:

The Company has adopted several deferred compensation plans since 1979, whereby certain officers and employees earned performance-based compensation, payment of which was deferred until future periods. The Long-Term Performance Award Plan was effective through December 31, 1986 and was replaced by the Deferred Compensation for Division Presidents Plan which was adopted in 1987 and amended thereafter. The Long-Term Performance Share Plan was adopted January 1, 1994 and amended thereafter.

The Company also adopted the Deferred Compensation Plan for Key Employees of SDI Operating Partners, L.P. (the "Key Employees Plan") on January 1, 1996 to allow participants eligible for accelerated payments under the change in control provisions of the other deferred compensation plans an election to continue to

defer their balances. A change of control occurred on September 30, 1997 as a result of the Conversion whereby all awards earned through December 31, 1996 became fully vested and eligible for distribution. However, certain employees elected to continue to defer their awards under the Key Employees Plan. Upon approval of the SunSource Inc. 1998 Equity Compensation Plan (the "Equity Compensation Plan") by shareholders of the Company on April 28, 1998, awards under the Deferred Compensation for Division Presidents and the Long-Term Performance Share Plan ceased as of December 31, 1997. The Equity Compensation Plan replaces the cash basis deferred compensation awards with stock options.

Effective October 1, 1998, the provisions of the Key Employees Plan which also provide eligible employees of the Company the opportunity to defer receipt of all or a portion of their salary and bonuses were amended to facilitate such deferrals. The plan, as amended and restated, has been renamed the SunSource Inc. Deferred Compensation Plan for Key Employees.

There were no amounts charged to income under the Company's deferred compensation plans in 1998. The amounts charged to income in 1997 and 1996 were \$3,152 and \$1,071, respectively. The 1997 charge includes \$503 which is classified in transaction and other related costs on the accompanying statement of income for the year ended December 31, 1997, since this charge would not have been incurred had the Conversion not been consummated. During the three years ended December 31, 1998, distributions from the deferred compensation plans aggregated \$26 in 1998, \$2,876 in 1997 and \$1,160 in 1996. The Company's deferred compensation liabilities amounted to \$11,802 as of December 31, 1998 and \$10,451 as of December 31, 1997.

The Company has established a Rabbi Trust (the "Rabbi Trust") to assist in funding the liabilities of its deferred compensation plans. The Rabbi Trust holds insurance policies purchased by the Company on the lives of certain participants in the deferred compensation plans. The Rabbi Trust is the sole beneficiary of these insurance policies of which the cash surrender value aggregated \$10,262 at December 31, 1998. Prior to a change in control and upon direction from the Company in writing, the Rabbi Trust shall pay to the Company all or a portion of the proceeds of any death benefits payable under any insurance policy held by the Rabbi Trust in excess of any benefits payable under the Company's deferred compensation plans with respect to the insured participant.

SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

13. Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Debentures:

In connection with the Conversion, Class A interests of the Partnership were exchanged for Trust Preferred Securities of the Trust, as discussed in Note 1. The Trust was organized in connection with the Conversion for the purpose of (a) issuing its Trust Preferred Securities to the Company in consideration of the deposit by the Company of Junior Subordinated Debentures in the Trust as trust assets, and its Trust Common Securities to the Company in exchange for cash and investing the proceeds thereof in an equivalent amount of Junior Subordinated Debentures and (b) engaging in such other activities as are necessary or incidental thereto.

The Trust had no operating history prior to the issuance of the Trust Preferred Securities. The terms of the Junior Subordinated Debentures include those stated in the Indenture (the "Indenture") between the Company and the indenture trustee, and those made part of the Indenture by the Trust Indenture Act.

The Company has guaranteed on a subordinated basis the payment of distributions on the Trust Preferred Securities and payments on liquidation of the Trust and redemption of Trust Preferred Securities (the "Preferred Securities Guarantee"). The sole assets of the Trust are the Junior Subordinated Debentures and the obligations of the Company under the Indenture, the Preferred Securities Guarantee and the Junior Subordinated Debentures in the aggregate constitute a full and unconditional guarantee by the Company of the Trust's obligations under the Trust Preferred Securities.

The Trust Preferred Securities have equity characteristics but creditor's rights and are therefore classified between liabilities and stockholders' deficit on the balance sheet. On September 30, 1997, the Trust Preferred Securities were recorded at fair value of \$115,991 based on the price of the Class A interests of \$11.75 upon close of trading on the New York Stock Exchange on that date. The Trust Preferred Securities have a liquidation value of \$25.00 per security. The excess of fair value of the Trust Preferred Securities on September 30, 1997 over their liquidation value of \$105,446, or \$10,545 is amortized over the life of the Trust Preferred Securities. The fair value of the Trust Preferred

Securities on December 31, 1998 was \$122,845, based on the closing price on the New York Stock Exchange of \$29.125 per security on that date.

The interest payments on the Junior Subordinated Debentures underlying the Trust Preferred Securities, aggregating \$12,232 per year, are deductible for federal income tax purposes under current law and will remain an obligation of the Company until the Trust Preferred Securities are redeemed or upon their maturity in 2027.

14. Stockholders' Equity (Deficit):

Treasury Stock

On August 6, 1998, the Company's Board of Directors authorized \$15,000 for management to repurchase up to 10% of the Company's outstanding common stock through open market transactions and private block trades, dependent upon market conditions. At December 31, 1998, the number of shares purchased under this authorization was 461,100 at an aggregate cost of \$8,380. These shares are held in treasury.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

14. Stockholders' Equity (Deficit), continued:

Public Offering

On January 22, 1998, the Company filed a registration statement on Form S-2 with the United States Securities and Exchange Commission, which was amended thereafter, for an offering of Common Shares of the Company (the "Offering"). The registration statement became effective on March 19, 1998 and the Offering closed in its entirety on March 27, 1998. Of the 2,284,471 shares sold in the Offering, 796,408 shares were issued and sold by the Company and 1,488,063 shares were sold by the selling stockholders, affiliates of Lehman Brothers Inc. The Company received net cash proceeds of \$20,813 from the 796,408 shares sold in the Offering. The Company recorded an increase of \$8 in Common Stock and \$20,805 in Additional Paid-in Capital.

Common Shares Issued to Certain Non-Employee Directors

Under the Company's Stock Compensation Plan for Non-Employee Directors, certain non-employee directors were issued 1,988 Common Shares through December 31, 1998. Prospectively, under the terms of the plan, non-employee directors will be issued Common Shares on a quarterly basis to cover at least 50% and up to 100% of their annual retainer fee. The number of shares to be issued will be dependent upon the market price of the Common Shares, the number of directors receiving shares, and the percentage of their annual retainer above 50% that each director elects to receive in Common Shares.

Stock Options

On April 28, 1998, the Company adopted the 1998 Equity Compensation Plan (the "Plan"), after approval by shareholders at the 1998 Annual Meeting. Grants under the Plan may consist of options intended to qualify as incentive stock options ("ISO"), or non-qualified stock options that are not intended to so qualify ("NQSO"). In addition, grants may also consist of grants of restricted stock, stock appreciation rights (SAR's), or performance units. The option price of any ISO will not be less than the fair market value on the date the option is granted (110% of fair value in certain instances). The option price of a NQSO may be greater than, equal to, or less than the fair market value on the date the option is granted (but not less than 85% of the fair market value). The amount of options available for the Plan is calculated annually and cumulatively at the rate of 5% of shares outstanding per year. The maximum number of shares available under the Plan is 25% of the total outstanding shares or 2,000,000 million Common Shares.

The Plan is administered by a committee of the Board of Directors. The Committee determines the term of each option, provided, however, that the exercise period may not exceed ten years from the date of grant, and for ISO's, in certain instances, may not exceed five years. The options granted under the Plan vest based on the results of financial performance. If threshold financial performance targets are not met, 100% of the options vest on the ninth anniversary of the grant. If threshold performance targets are met, stock options become fully vested within 3 or 5 years from the date of grant, depending on performance.

The Company computes earnings per share in accordance with SFAS 128, "Earnings per Share". SFAS 128 requires the presentation of basic and diluted earnings per share for companies with complex capital structures. As noted above under "Stock Options", certain executives and key employees were granted a total of 211,495 options to purchase the Company's Common Shares during 1998 having a potentially dilutive effect on earnings per share. Currently, due to market conditions, the shares granted under the Plan do not have a material dilutive effect on earnings per share for the twelve months ended December 31, 1998.

Due to the fact that the Company was not a corporation for the full year ended December 31, 1997, a pro forma net income per Common Share has been presented for the twelve months ended December 31, 1997. Pro forma net income per Common Share assumes the Conversion and Refinancing occurred at the beginning of 1997 and accordingly excludes the extraordinary loss of \$0.53 per Common Share. The 1997 pro forma earnings per share presented herein does not include the effect of the Offering which increased the number of Common Shares outstanding and provided cash which reduced the Company's bank revolving debt and interest expense.

The number of outstanding Common Shares as of December 31, 1998 was 6,756,163. The weighted average number of Common Shares outstanding for the twelve months ended December 31, 1998 was 6,907,318, including the shares sold in the Offering and the shares issued to non-employee directors, net of the 461,100 shares repurchased and held in treasury.

Common Stock Dividend

The Board of Directors of the Company declared on December 16, 1998 a cash dividend of \$0.10 per Common Share which was paid on January 7, 1999 to holders of record as of December 28, 1998.

15. Allocation of Partnership Taxable Income:

Prior to the Conversion, for the shortened Partnership tax year from January 1, 1997 through September 30, 1997, the Partnership earned federal taxable income of \$0.5605 per Class B limited partnership interest. For 1996 federal taxable income amounted to \$0.70, per B interest.

Under the Partnership Agreement, holders of B interests were entitled to receive annual cash distributions sufficient to cover their tax liabilities on taxable income allocated to the B interests. For 1997 and 1996 these cash distributions amounted to \$6,136 or \$0.2775 per B interest and \$7,663 or \$0.3465 per B interest, respectively.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

16. Retirement Benefits:

Certain of the Company's subsidiaries provide defined benefit pension plans and post-retirement benefits to employees. The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans:

Benefit Obligation:	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Benefit obligation - beginning of year	\$23,961	\$23,856	\$ 454	\$ 477
Service cost	1,000	920	--	--
Interest cost	1,752	1,702	84	32
Amendments	--	--	734	--
Actuarial (gain) loss	1,777	290	42	(5)
Benefits paid	(1,729)	(2,807)*	(82)	(50)
Benefit obligation - end of year	\$26,761	\$23,961	\$ 1,232	\$ 454
Fair Value of Plan Assets:				
Fair value of plan assets - beginning of year	\$28,597	\$26,519	\$ --	\$ --
Actual return on plan assets	4,432	4,708	--	--
Expenses	(24)	(24)	--	--
Plan participant contributions	199	201	--	--
Benefits paid	(1,729)	(2,807)*	--	--

Fair value of plan assets - end of year	\$31,475	\$28,597	\$ --	\$ --
	=====	=====	=====	=====

</TABLE>

* includes non-recurring lump-sum settlements to certain employees of \$1,483.

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>	<C>
Funded Status of Plans:				
Funded status of the plans	\$ 4,714	\$ 4,636	\$ (1,232)	\$ (1,205)
Unrecognized actuarial (gain) loss	(3,466)	(3,312)	45	20
Unrecognized prior service cost	(279)	(303)	678	734
Unrecognized net transition asset	(1,180)	(1,414)	--	--
	-----	-----	-----	-----
Accrued benefit cost				
recognized in the balance sheet	\$ (211)	\$ (393)	\$ (509)	\$ (451)
	=====	=====	=====	=====

Net periodic pension costs include the following components:

Net Periodic Pension Cost (Benefit):	1998	1997	1996
	-----	-----	-----
Service cost	\$ 1,000	\$ 920	\$ 879
Interest cost	1,752	1,702	1,656
Expected return on plan assets	(2,727)	(3,160)	(2,750)
Amortization of net asset	(234)	(234)	(234)
Amortization of prior service cost	(24)	(24)	(24)
Recognized net actuarial loss	52	769	493
	-----	-----	-----
Net periodic pension cost (benefit)	\$ (181)	\$ (27)	\$ 20
	=====	=====	=====

Net post-retirement costs include the following components:

Net Periodic Post-retirement Cost:			
Service cost	\$ 84	\$ 32	\$ 34
Amortization of prior service cost	56	--	--
	-----	-----	-----
Net post-retirement cost	\$ 140	\$ 32	\$ 34
	=====	=====	=====

</TABLE>

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

16. Retirement Benefits, continued:

Assumptions:	1998	1997	1996
	-----	-----	-----
Discount rate	7.00%	7.25%	7.25%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
Expected long-term rate of return			
on plan assets	9.75%	9.75%	9.75%
Health care cost trend rate on covered charges	8.50%	9.50%	9.50%

The health care cost trend rate, or the expected rate of increase in health-care costs, is assumed to gradually decrease to 6.5% by 2004.

The impact of a 1% change in health care inflation on post-retirement benefits is as follows:

	Trend +1%	Trend -1%
	-----	-----
December 31, 1998 projected benefit obligation	\$ 112	\$ (99)
1998 service and interest cost	\$ 8	\$ (7)

Certain employees of the Company's Kar Products, Inc., SunSource Technology Services Inc. and its divested operations are covered by defined benefit retirement plans. Assets of the defined benefit plans consist of insurance contracts and assets managed under a commingled trust agreement. The trust assets are invested primarily in equity and fixed income holdings. Certain employees of the Company's SunSource Technology Services Inc. subsidiary are covered by post-retirement benefits.

Costs (income) charged to operations under all retirement benefit plans are as follows:

	1998	1997	1996
	-----	-----	-----
Defined contribution plans	\$3,052	\$1,154	\$1,327
Multi-employer pension plans	217	253	189
Defined benefit plans	(181)	(27)	20
	-----	-----	-----

Total	\$3,088	\$1,380	\$1,536
	=====	=====	=====

The Company's share of unfunded vested liabilities under multi-employer pension plans and its benefit contributions to multi-employer health and welfare plans are not material.

17. Commitments and Contingencies:

Performance and bid bonds are issued on the Company's behalf during the ordinary course of business through surety bonding companies as required by certain contractors. As of December 31, 1998, the Company had outstanding performance and bid bonds aggregating \$1,155.

Letters of credit are issued by the Company during the ordinary course of business through major domestic banks as required by certain vendor contracts, legal proceedings and acquisition activities. As of December 31, 1998, the Company had outstanding letters of credit in the aggregate amount of \$373 related to these activities.

As of December 31, 1998, the Company has guaranteed approximately \$772 worth of lease obligations, principally relating to businesses previously divested. The Company is not currently aware of any existing conditions which would cause a financial loss related to these guarantees.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

17. Commitments and Contingencies, continued:

Under the Company's insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of normal claims. Beginning in 1991, the Company has retained risk on certain expected losses from both asserted and unasserted claims related to worker's compensation, general liability and automobile as well as the health benefits of certain employees. Provisions for losses expected under these programs are recorded based on an analysis of historical insurance claim data and certain actuarial assumptions. As of December 31, 1998, the Company has provided insurers letters of credit aggregating \$3,050 related to certain insurance programs.

Litigation originally instituted on February 27, 1996 is pending in the Court of Common Pleas of Montgomery County, Pennsylvania in which Dorman Products of America, Ltd. ("Dorman"), and its parent, R&B, Inc. ("R&B"), allege that misrepresentations of certain facts were made by the Company, upon which R&B allegedly based its offer to purchase the assets of the Dorman Products division of the Company. Dorman and R&B seek damages of approximately \$21,000.

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

18. Statements of Cash Flows:

Supplemental disclosures of cash flow information are presented below:

	1998	1997	1996
	-----	-----	-----
Cash paid during the period for:			
Interest	\$ 7,725	\$ 7,357	\$ 6,769
	=====	=====	=====
Income taxes	\$ 8,190	\$ 1,433	\$ 1,189
	=====	=====	=====
Non-cash investing activities:			
Acquisitions (see Note 3):			
Fair value of assets acquired,			
including goodwill	\$ 25,892	\$ 1,029	\$ 758
Less liabilities assumed	(3,085)	(236)	(58)
Post-closing adjustments	--	--	(17)
	-----	-----	-----
Cash paid for acquired businesses	\$ 22,807	\$ 793	\$ 683
	=====	=====	=====

Non-cash financing activities:
Accrued and unpaid dividends

on common shares	\$	676	\$	642	\$	--
Accrued and unpaid partnership distributions	\$	--	\$	2,353	\$	1,857
Exchange of 11,099,573 Class A limited partnership interests for 4,217,837 Trust Preferred Securities	\$	--	\$	115,991	\$	--
Exchange of 21,675,246 Class B limited partnership interests for 5,418,936 common shares	\$	--	\$	38,943	\$	--
Exchange of GP's Minority Interest for 1,000,000 common shares	\$	--	\$	21,841	\$	

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

19. Quarterly Data (unaudited):

1998	Fourth	Third	Second	First
----	-----	-----	-----	-----
Net sales (1)	\$168,769	\$183,593	\$188,931	\$171,177
Gross profit (1)	72,047	75,814	75,494	67,813
Net income	3,031	4,550	4,615	1,621
Net income per Common Share	\$.44	\$.64	\$.64	\$.25
1997				
Net sales (1)	\$168,190	\$177,578	\$180,696	\$168,243
Gross profit (1)	68,424	71,936	73,000	66,947
Income before extraordinary loss (2)	3,090	15,673	9,193	4,576
Extraordinary loss (Note 6)	--	(3,392)	--	--
Net income (2)	3,090	12,281	9,193	4,576
Net income per common share	\$.48	N/A	N/A	N/A
Pro forma net income per common share	N/A	\$.58	N/A	N/A
Net income (loss) per limited partnership interest				
- Class A	N/A	N/A	\$.28	\$.27
- Class B	N/A	N/A	\$.28	\$.07

(1) Includes amounts reclassified to conform to current accounting.

(2) Includes \$2,428, \$275 and \$350 of non-recurring conversion and other related costs recorded in the third, second and first quarters, respectively and reflects operations on a partnership basis prior to the Conversion and Refinancing transactions (see Note 1).

20. Concentration of Credit Risk:

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to sales and trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

21. Segment Information:

In June 1997, the FASB issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," which replaces previous generally accepted accounting principles on segment reporting. Adoption of SFAS 131 is required beginning with 1998 reporting. Previously reported information has been restated

to conform to reporting under SFAS 131.

The Company has five reportable segments (see Note 1 "Nature of Operations") which are disaggregated based on the products and services provided, markets served, marketing strategies and delivery methods.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales are immaterial. The Company measures segment profitability and allocates corporate resources based on each segment's Earnings Before Interest, Taxes and Amortization ("EBITA") which is defined as income from operations before amortization. The Company also measures the segments on performance on their tangible asset base. The table below provides the Company's segment disclosures and is followed by reconciliations of the segment amounts to the consolidated amounts where appropriate:

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net Sales			
Technology Services	\$ 321,526	\$ 322,148	\$ 299,068
Expediter	124,536	125,911	121,389
Integrated Supply	45,626	54,420	43,392
Hardware Merchandising	125,830	103,970	92,285
Glass Merchandising	94,952	88,258	90,369
	-----	-----	-----
Consolidated net sales	\$ 712,470	\$ 694,707	\$ 646,503
	=====	=====	=====
Gross Profit			
Technology Services	\$ 85,639	\$ 85,443	\$ 76,896
Expediter	88,175	90,171	87,839
Integrated Supply	12,265	13,669	11,436
Hardware Merchandising	66,485	54,901	46,127
Glass Merchandising	37,986	35,670	35,545
	-----	-----	-----
Segment gross profit	\$ 290,550	\$ 279,854	\$ 257,843
	=====	=====	=====
EBITA			
Technology Services	\$ 13,583	\$ 14,825	\$ 13,690
Expediter	20,215	20,697	18,770
Integrated Supply	2,299	3,292	2,008
Hardware Merchandising	12,130	10,833	7,130
Glass Merchandising	4,128	2,224	3,211
	-----	-----	-----
Segment profit	\$ 52,355	\$ 51,871	\$ 44,809
	=====	=====	=====

</TABLE>

SUNSOURCE INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
 (dollars in thousands, except per share amounts)

21. Segment Information, continued:

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Tangible Assets			
Technology Services	\$ 85,460	\$ 90,597	\$ 81,720
Expediter	42,479	41,991	42,274
Integrated Supply	15,343	13,138	13,813
Hardware Merchandising	59,487	40,579	41,322
Glass Merchandising	27,642	23,879	24,427
	-----	-----	-----
Segment tangible assets	\$ 230,411	\$ 210,184	\$ 203,556
	=====	=====	=====

Capital Expenditures			
Technology Services	\$ 2,058	\$ 2,045	\$ 1,200
Expediter	1,693	622	786
Integrated Supply	209	266	282
Hardware Merchandising	2,396	1,754	1,985
Glass Merchandising	850	373	640
	-----	-----	-----
Segment capital expenditures	\$ 7,206	\$ 5,060	\$ 4,893
	=====	=====	=====
Depreciation			
Technology Services	\$ 1,607	\$ 1,438	\$ 1,323
Expediter	981	886	897
Integrated Supply	154	107	72
Hardware Merchandising	1,347	747	451
Glass Merchandising	824	730	775
	-----	-----	-----
Segment depreciation	\$ 4,913	\$ 3,908	\$ 3,518
	=====	=====	=====
Geographic Segment Data:			
Net Sales			
United States	\$ 662,277	\$ 640,875	\$ 606,734
Canada	32,968	34,022	30,888
Mexico	17,225	19,810	8,881
	-----	-----	-----
Consolidated net sales	\$ 712,470	\$ 694,707	\$ 646,503
	=====	=====	=====
Reconciliation of Segment Profit to			
Income Before Income Taxes and			
Extraordinary Loss:			
Segment profit - EBITA	\$ 52,355	\$ 51,871	\$ 44,809
Amortization	(2,276)	(1,894)	(1,924)
Corporate expenses	(7,268)	(8,062)	(6,257)
	-----	-----	-----
Income before non-recurring charges	42,811	41,915	36,628
Non-recurring charges:			
Provision for litigation matters -			
divested operations	(1,600)	--	--
Transaction and other costs	--	(3,053)	(2,150)
Management fee	--	(2,491)	(3,330)
Restructuring	--	--	(5,950)
Minority ownership expense	--	(263)	(196)
	-----	-----	-----
Income from operations	41,211	36,108	25,002
Interest expense, net	(6,838)	(7,198)	(6,875)
Distribution on guaranteed			
preferred beneficial interests	(12,232)	(3,058)	--
	-----	-----	-----
Income before income taxes and			
extraordinary items	\$ 22,141	\$ 25,852	\$ 18,127
	=====	=====	=====

</TABLE>

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SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
(dollars in thousands, except per share amounts)

21. Segment Information, continued:

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Reconciliation of Segment Tangible			
Assets to Total Assets:			
Segment tangible assets	\$ 230,411	\$ 210,184	\$ 203,556
Goodwill	77,544	62,588	43,036
Other intangible assets	1,322	170	503
Deferred income taxes	15,088	15,805	5,007
Cash value of life insurance	10,262	8,407	4,566
Other corporate assets	6,941	8,988	5,887
	-----	-----	-----
Total assets	\$ 341,568	\$ 306,142	\$ 262,555
	=====	=====	=====
Reconciliation of Segment			
Capital Expenditures to			
Total Capital Expenditures:			
Segment capital expenditures (1)	\$ 7,206	\$ 5,060	\$ 4,893
Corporate capital expenditures	196	130	71
	-----	-----	-----

Total capital expenditures	\$ 7,402	\$ 5,190	\$ 4,964
	=====	=====	=====

(1) Includes \$324, \$257 and \$623 of assets acquired under capital leases in 1998, 1997 and 1996, respectively.

Reconciliation of Segment Depreciation

to Total Depreciation:

Segment depreciation	\$ 4,913	\$ 3,908	\$ 3,498
Corporate depreciation	103	101	105
	-----	-----	-----
Total depreciation	\$ 5,016	\$ 4,009	\$ 3,603
	=====	=====	=====

22. Subsequent Events:

From January 1, 1999 through March 25, 1999, Harding has acquired twenty-three retail glass shops for a net cash consideration, including estimated transaction expenses, of \$12,417 and the assumption of certain liabilities estimated at \$1,156. These acquisitions resulted in estimated goodwill of \$8,415 and the repayment of \$3,306 of outstanding debt. Sales from these acquisitions aggregated approximately \$27,000 for the twelve-month period prior to acquisition.

On January 15, 1999, the Company's SunSource Industrial Services Company, Inc. subsidiary entered into a long-term lease for warehouse and office space which expires on March 10, 2009. The lease provides for annual rental payments of \$712 for years one through three, \$762 for years four through six and \$816 for years seven through ten.

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SUNSOURCE INC. AND SUBSIDIARIES

Schedule I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(dollars in thousands)

<TABLE> <CAPTION> Balance Sheets as of December 31	1998	1997	1996
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Assets			
Cash	\$ 1	\$ 1	\$
Deferred income taxes	14,576	15,316	
Investment in SDI Operating Partners, L.P.	122,148 (1)	100,893 (1)	
94,619			
Investment in SunSource Capital Trust	3,261	3,356	
-----	-----	-----	-----
Total assets	\$ 139,986	\$ 119,566	\$
94,619	=====	=====	
=====			
Liabilities			
Current liabilities	\$ 461	\$ 893	\$
Junior subordinated debentures - common	3,261	3,261	
Junior subordinated debentures - preferred	115,551	115,903	
-----	-----	-----	-----
Total liabilities	119,273	120,057	
-----	-----	-----	-----
Partners' capital:			
General partner	--	--	
960			
Limited partners - Class A interests	--	--	

67,642			
Limited partners - Class B interests	--	--	
29,040			
Class B interests held in treasury	--	--	
(1,514)			
Cumulative foreign translation adjustment	--	--	
(1,509)			

Total partners' capital	--	--	
94,619			

Stockholders' equity (deficit):			
Preferred stock	--	--	
--			
Common stock	72	64	
--			
Retained earnings	12,747	1,735	
--			
Paid in capital	21,099	--	
--			
Unearned compensation	(229)	--	
--			
Cumulative foreign translation adjustment	(4,596)	(2,290)	
--			
Treasury stock	(8,380)	--	
--			

Total stockholders' equity (deficit)	20,713	(491)	
--			

Total liabilities, partners' capital and			
stockholders' equity (deficit)	\$ 139,986	\$ 119,566	\$
94,619			
	=====	=====	

</TABLE>

(1) Represents an indirect investment through two wholly-owned subsidiaries.

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SUNSOURCE INC. AND SUBSIDIARIES

Schedule I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(continued)

(dollars in thousands)

<TABLE>				
<CAPTION>				
Statements of Income for the Years Ended December 31	1998	1997	1996	
-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>
Equity in net income:				
SDI Operating Partners, L.P.	\$ 32,657	(1) \$ 33,562	(1) \$	
19,267				
SunSource Capital Trust	--	95		
--				
Administrative expense	(201)	--		
--				
Interest expense, net	(11,881)	(3,065)		
--				
Provision for income taxes	(6,758)	(1,452)		
--				

Net income	\$ 13,817	\$ 29,140	\$	
19,267				
	=====	=====		

Net income allocated to partners:				
General partner	N/A	N/A	\$	
193				
Class A interests	N/A	N/A	\$	
12,210				
Class B interests	N/A	N/A	\$	

6,864

Net income per common share	\$ 2.00	N/A	N/A
	=====		
Pro forma net income per common share (note 1)	N/A	\$ 1.88	N/A
		=====	
Statements of Cash Flows for the Years Ended December 31	1998	1997	1996
-----	-----	-----	-----
Cash provided by operations	\$ --	\$ --	\$ --

Cash provided from (used for) investment in SDI Operating Partners, L.P.	(7,585)	28,191	
25,385			
Cash provided from investment in SunSub A Inc.	12,232	3,058	

Cash provided by issuance of common stock	20,813	--	

Cash used for purchase of treasury stock, at cost	(8,380)	--	

Cash distributions to investors (25,385)	(4,848)	(28,191)	
Cash distributions to holders of trust preferred securities	(12,232)	(3,058)	
-			
	-----	-----	-----

Increase (decrease) in cash	\$ --	\$ --	\$ --

	=====	=====	

</TABLE>

(1) Includes an indirect investment through two wholly-owned subsidiaries from October 1, 1997 through December 31, 1997.

This financial information should be read in conjunction with the consolidated financial statements of the Company.

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SUNSOURCE INC. AND SUBSIDIARIES

Schedule II - VALUATION ACCOUNTS

(dollars in thousands)

<TABLE>

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	Deducted From Assets in Balance Sheet			
	Allowance for Doubtful Accounts	Allowance for Obsolete Inventories	Accumulated Amortization of Goodwill	Accumulated Amortization of Intangibles
	-----	-----	-----	-----
<S> <C> <C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	1,827	3,410	11,739	13,724
Additions charged to cost and expenses	1,280	1,440	1,409	648
Deductions	899 (A)	1,010 (A)	269 (B)	--
	-----	-----	-----	-----
Balance, December 31, 1996	2,208	3,840	12,879	14,372
Additions charged to cost and expenses	1,711	1,797	1,488	538
Deductions	1,724 (A)	1,272 (A)	--	--
	-----	-----	-----	-----
Balance, December 31, 1997	2,195	4,365	14,367	14,910
Additions charged to cost and expenses	1,693	1,413	2,061	215
Addition due to deferred recognition of tax benefit from Conversion	--	--	--	--
Deductions	1,399 (A)	1,478	--	--
	-----	-----	-----	-----
Balance, December 31, 1998	\$ 2,489	\$ 4,300	\$ 16,428	\$ 15,125

</TABLE>

Notes:

- (A) Includes write-off of accounts receivable (net of bad debt recoveries) and inventories.
- (B) Includes write-off of Goodwill in accordance with FAS 121, Impairment of Long-Lived Assets.

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

Not applicable.

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PART III

Item 10 - Directors and Executive Officers of the Registrant.

Information under the heading "Election of Directors" in the Proxy Statement for the annual meeting of stockholders to be held April 27, 1999 (the "1999 Annual Proxy Statement") is incorporated by reference herein.

Item 11 - Executive Compensation

Information under the heading "Executive Compensation" in the 1999 Annual Proxy Statement is incorporated by reference herein.

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

Information under the heading "Security Ownership of Certain Beneficial Owners and Management" in the 1999 Annual Proxy Statement is incorporated by reference herein.

Item 13 - Certain Relationships and Related Transactions.

Information under the heading "Certain Transactions" in the 1999 Annual Proxy Statement is incorporated by reference herein.

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PART IV

Item 14 - Exhibits, Financial Statement Schedules, and Reports

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

1. Financial Statements.

The information concerning financial statements called for by Item 14 of Form 10-K is set forth in Part II, Item 8 of this annual report on Form 10-K.

2. Financial Statement Schedules.

The information concerning financial statement schedules called for by Item 14 of Form 10-K is set forth in Part II, Item 8 of this annual report on Form 10-K.

3. Exhibits, Including Those Incorporated by Reference.

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

Plan of Acquisition, Reorganization, Arrangement,
Liquidation or Succession

2.1 Agreement and Plan of Conversion dated as of
July 31, 1997 (4) (Exhibit 2.1)

Articles of Incorporation and By-Laws

3.1 Amended Bylaws of the Company dated as of
September 24, 1998 (1) (Exhibit 3.1)

3.2 Amended and Restated Certificate of
Incorporation of the Company (5) (Exhibit 3.1)

3.3 Bylaws of the Company (5) (Exhibit 3.2)

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Instruments Defining the Rights of Security Holders,
Including Indentures

4.1 Amended and Restated Declaration of Trust (5) (Exhibit
4.1)

4.2 Indenture between the Company and the Bank of New York (5)
(Exhibit 4.2)

4.3 Preferred Securities Guarantee (5) (Exhibit 4.3)

4.4 Rights Agreement between the Company and the Registrar and
Transfer Company (5) (Exhibit 10.5)

4.5 **Amended and Restated Note Purchase Agreement dated
December 31, 1998 between Teachers Insurance and Annuity
Association and SunSource Inc. and its Subsidiaries,
Exhibit 10.2

Material Contracts

10.1 **Second Amended and Restated Credit Agreement dated
December 31, 1998, among First Union National Bank, for
itself and as agent, The Bank of Nova Scotia, for itself
and as documentation agent, and SunSource Inc. and its
Subsidiaries Exhibit 10.1

10.2 *Deferred Compensation Plan for Key Employees of SDI
Operating Partners, L.P. (2) Exhibit 10.1

10.3 *SunSource Inc. 1998 Equity Compensation Plan (3) Exhibit
10.1

10.4 *SunSource Inc. Stock Compensation Plan for Non-Employee

Directors (3) Exhibit 10.2

- 10.5 *Sun Distributors Incentive Compensation Plan. (6)
(Exhibit 10.5)
- 10.6 *Sun Distributors, Inc. Long-Term Performance Award Plan.
(As Amended June 1985) (6) (Exhibit 10.6)
- 10.7 *SDI Operating Partners, L.P. Deferred Compensation Plan
for Division Presidents (As amended September 13, 1993).
(7) (Exhibit 10.7)
- 10.8 *SDI Operating Partners, L.P. Long-Term Performance Share
Plan dated January 1, 1994. (7) (Exhibit 10.8)
- 10.9 *Deferred Compensation Plan for Key Employees of SDI
Operating Partners, L.P. (2) (Exhibit 10.4)

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Subsidiaries of the Registrant

**21.1 Subsidiaries

Independent Accountants

**23.1 Consent of PricewaterhouseCoopers LLP

Financial Data Schedules

**27.1 Summary financial information as of and for the year
ended December 31, 1998.

- (1) Filed as an exhibit to Quarterly Report on Form
10-QA for the Quarter ended September 30, 1998.
- (2) Filed as an exhibit to Registration Statement No.
333-63409 on Form S-8.
- (3) Filed as an exhibit to Quarterly Report on Form 10-Q
for the Quarter ended March 31, 1998.
- (1) Filed as an exhibit to Registration Statement No.
333-19077 on Form S-4.
- (2) Filed as an exhibit to Registration Statement No.
333-44733 on Form S-2.
- (3) Filed on March 31, 1993, as an exhibit to Annual
Report on Form 10K for the year ended December 31,
1992.
- (4) Filed on March 31, 1994, as an exhibit to Annual
Report on Form 10K for the year ended December 31,
1993.

* Management contract or compensatory plan or
arrangement required to be filed as an Exhibit
pursuant to Item 14(c) of this report.

** Filed herewith.

(b) Reports on Form 8-K.

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUNSOURCE INC.

Date: March 29, 1999

By:/s/ Donald T. Marshall

Donald T. Marshall
Title: Chairman and Chief
Executive Officer

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

Each person in so signing also makes, constitutes and appoints Donald T. Marshall and Joseph M. Corvino, and each of them, his true and lawful attorney-in-fact, in his name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any or all amendments to this report.

Signature -----	Capacity -----	Date ----
/s/ Donald T. Marshall ----- Donald T. Marshall	Principal Executive Officer and Director	March 29, 1999
/s/ Joseph M. Corvino ----- Joseph M. Corvino	Principal Financial Officer	March 29, 1999
/s/ John J. Dabrowski ----- John J. Dabrowski	Principal Accounting Officer	March 29, 1999
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/s/ O. Gordon Brewer, Jr. ----- O. Gordon Brewer, Jr.	Director	March 29, 1999
/s/ Norman V. Edmonson ----- Norman V. Edmonson	Director	March 29, 1999
/s/ Arnold S. Hoffman ----- Arnold S. Hoffman	Director	March 29, 1999
/s/ Robert E. Keith, Jr. ----- Robert E. Keith, Jr.	Director	March 29, 1999
/s/ John P. McDonnell ----- John P. McDonnell	Director	March 29, 1999
/s/ Donald A. Scott ----- Donald A. Scott	Director	March 29, 1999
/s/ Geoffrey C. Shepard ----- Geoffrey C. Shepard	Director	March 29, 1999

/s/ Francis G. Ziegler

Director

March 29, 1999

Francis G. Ziegler

SUNSOURCE INC.
AND ITS SUBSIDIARIES SET FORTH
ON SCHEDULE 1 HERETO, AS OBLIGORS,
AND ITS SUBSIDIARIES SET FORTH
ON SCHEDULE 2 HERETO, AS GUARANTORS

AMENDED AND RESTATED
NOTE PURCHASE AGREEMENT

Dated as of December 31, 1998

7.66% Senior Notes due 2002

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SUNSOURCE INC.
AND ITS SUBSIDIARIES SET FORTH ON
SCHEDULE 1 HERETO, AS OBLIGORS, AND
ITS SUBSIDIARIES SET FORTH ON SCHEDULE 2
HERETO, AS GUARANTORS
One Logan Square
Philadelphia, Pennsylvania 19103

AMENDED AND RESTATED
NOTE PURCHASE AGREEMENT

Philadelphia, Pennsylvania
as of December 31, 1998

TEACHERS INSURANCE AND
ANNUITY ASSOCIATION OF AMERICA
730 Third Avenue
New York, NY 10017

Ladies and Gentlemen:

SUNSOURCE INC., a Delaware corporation (the "Company"), and the Subsidiaries of the Company set forth on Schedule 1 hereto (the "Subsidiaries" and collectively with the Company, the "Obligors"), and certain Subsidiaries of the Company set forth on Schedule 2 hereto (the "Guarantors"), hereby agree with you as follows:

BACKGROUND.

The Company is a Delaware corporation, and each Obligor (other than the Company) is either a direct or indirect subsidiary of the Company.

SDI Operating Partners, L.P., a Delaware limited partnership ("SDI"), issued Sixty Million Dollars (\$60,000,000) in privately-placed notes pursuant to the Existing Note Purchase Agreement, such notes having the benefit of a guarantee from, among others, the Company.

SunSource Investment Company, Inc. ("SSICI") is a newly-formed, wholly-owned holding company of the Company. SunSub A will become

a direct wholly-owned subsidiary of SSICI, which is a direct subsidiary of the Company, in the 1998 Conversion. SunSub B has agreed to merge with and into SunSub A, which will cause the existence of SDI

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and its general partner, SDI Partners I, L.P., a Delaware limited partnership and a guarantor under the Existing Note Purchase Agreement ("SDIPI"), to cease and the assets and liabilities of SDI to be owned by SunSub A. SunSub A is forming four wholly-owned subsidiaries and will contribute the assets and liabilities of SDI to them pursuant to the 1998 Conversion.

This Agreement amends and restates, replaces and supersedes the Existing Note Purchase Agreement. All amounts outstanding under the Existing Note Purchase Agreement are and shall be deemed to be outstanding under this Agreement as of the Closing Date, and from and after the Closing Date, the Obligors jointly and severally irrevocably and unconditionally assume the obligations of SDI under the Existing Note Purchase Agreement and the notes issued thereunder (in each case as amended and restated by this Agreement).

SECTION 1. ISSUANCE OF NOTES.

1.1. Authorization. The Company and the Obligors, on a joint and several basis, have duly authorized an issue of \$60,000,000 aggregate principal amount of their 7.66% Senior Notes due 2002 (the "Notes"). Each Note shall be substantially in the form annexed hereto as Exhibit A. As used herein, (i) the term "Notes" shall include all notes originally issued pursuant to this Agreement and all notes delivered in substitution or exchange for any of said notes pursuant to this Agreement and, where applicable, shall include the singular number as well as the plural and (ii) the term "Note" shall mean one of the Notes.

1.2. Issuance of Note; the Closing. The Obligors, on a joint and several basis, shall issue to you and, subject to the terms and conditions hereof, you shall acquire from the Obligors, Notes in the aggregate principal amount of \$60,000,000, at a price equal to 100% of such amount. The closing of the issuance of Note by you hereunder shall be held at 10:00 a.m., Philadelphia time, on December 31, 1998 (the "Closing Date") at the office of Pepper Hamilton LLP, 3000 Two Logan Square, 18th and Arch Streets, Philadelphia, PA 19103. On the Closing Date, the Obligors will deliver to you one or more Notes, in any denominations (multiples of \$1,000), in the aggregate principal amount to be acquired by you, all as you may specify by timely notice to the Company (or, in the absence of such notice, one Note to be purchased by you registered in your name), duly executed and dated the Closing Date, against your delivery to the Obligors of such purchase price.

1.3. Representations of the Purchaser. You represent to the Obligors as follows:

(a) You are acquiring the Notes to be acquired by you on the Closing Date for investment and not with a view to the distribution or sale of the Notes, subject, however, to any requirement of law that your property be at all times within your control.

(b) The source of your funds to pay the purchase price of the Notes is an "insurance company general account" (as the term is defined in Prohibited Transaction Exemption 95-60 (issued by the Department of Labor on July 12, 1995)) in respect of which the

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reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in said Prohibited Transaction Exemption 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with your state of domicile.

(c) You understand that the Notes have not been registered under the Securities Act of 1933, as amended, and may be resold only if registered pursuant to the provisions of the Securities Act of 1933, as amended, or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

1.4. Surcharge Rate. Notwithstanding the interest rate set forth in Paragraph 1.1 hereof and in the Notes, the Company shall pay interest

on the Notes at the rate of 7.91% (the "Surcharge Rate") if for the Rolling Period ended on or immediately prior to the date of the interest payment then being made, the Leverage Ratio is equal to or greater than 2.75 to 1.

SECTION 2. REPRESENTATIONS OF THE COMPANY AND SUBSIDIARIES.

Each Obligor represents and warrants to you, as to itself and each Subsidiary party hereto, and each Subsidiary party hereto represents and warrants to you as to itself that:

2.1. Organization and Good Standing. Each Obligor and each Subsidiary is a corporation duly formed and validly existing under the laws of its state of formation, and has the power and authority to carry on its business as now conducted. Each Obligor and each Subsidiary is qualified to do business in all other states in which the failure to qualify would have a Material Adverse Effect.

2.2. Power and Authority; Validity of Agreement. Each Obligor and each Subsidiary has the power and authority under the law of its state of formation and under its organizational documents to enter into and perform this Agreement, the Notes and all other agreements, documents and actions required hereunder, to the extent each is a party thereto; and all actions necessary or appropriate for each Obligor's and each Subsidiary's execution and performance of this Agreement, the Notes, and all other agreements, documents and actions required hereunder, to the extent it is a party hereto, have been taken, and, upon their execution, the same will constitute the valid and binding obligations of each Obligor and each Subsidiary to the extent each is a party thereto, enforceable in accordance with their terms.

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2.3. No Violation of Laws or Agreements. The making and performance of this Agreement, the Notes, and the other documents, agreements and actions required of each Obligor and each Subsidiary hereunder, to the extent each is a party thereto, will not violate any provisions of any law or regulation, federal, state or local, or the respective organizational documents of any Obligor or Subsidiary or result in any breach or violation of, or constitute a default under, any agreement or instrument by which any Obligor, any Subsidiary or its respective property may be bound, including without limitation the Credit Agreement and the Indenture.

2.4. Material Contracts. No Obligor or Subsidiary is a party to or in any manner obligated under any contract material to its respective business except this Agreement, the Notes, its organizational documents, the Promissory Notes, the Credit Agreement, the Indenture, and the agreements identified on Exhibit B hereto, and no material default exists under any of such contracts.

2.5. Compliance. Each Obligor and each Subsidiary is in compliance in all material respects with all applicable laws and regulations, federal, state and local (including without limitation those administered by the Local Authorities) material to the conduct of its business and operations; each Obligor and each Subsidiary possesses all the material franchises, authorizations, patents, copyrights, trademarks, permits and licenses necessary or required in the conduct of its respective business, and, except as may be described on Exhibit B, the same are valid, binding, enforceable and subsisting without any material defaults thereunder; and, except as described on Exhibit B, no authorization, consent, approval, waiver, license or exemption from, nor any filing, declaration or registration with, any court, governmental agency or regulatory authority (federal, state or local) or non-governmental entity, under the terms of contracts or otherwise, is required by reason of or in connection with any Obligor's or any Subsidiary's execution and performance of this Agreement, the Notes and all other agreements, documents and actions required hereunder to the extent each is a party hereto and thereto.

2.6. Litigation. Except as set forth on Exhibit B hereto, there are no actions, suits, proceedings or claims which are pending or, to the best of any Obligor's or any Subsidiary's knowledge or information, threatened against any Obligor or any Subsidiary which, if adversely resolved, would be reasonably likely to have a Material Adverse Effect.

2.7. Title to Assets. Except as set forth on Exhibit B hereto, each Obligor and each Subsidiary has good and marketable title to substantially all of its properties and assets as reflected in the financial statements of SunSource Inc. and its Consolidated Subsidiaries most recently delivered to you pursuant to Paragraphs 3.6, 5.2 and 5.3 hereof, free and clear of any liens and encumbrances, except the security interests permitted pursuant to Paragraph 6.4 hereof, and all such assets are in good order and repair and fully covered by the insurance required pursuant to Paragraph 5.7 hereof.

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2.8. Capital Stock. The number of shares and classes of the capital stock of each Obligor and each Subsidiary and the ownership thereof, effective upon the 1998 Conversion, are accurately set forth on Exhibit B attached hereto; all such shares are validly existing, fully paid and non-assessable, and the issuance and sale thereof are in compliance with all applicable federal and state securities and other applicable laws; and the shareholders' ownership thereof is free and clear of any liens or encumbrances or other contractual restrictions.

2.9. Accuracy of Information; Full Disclosure.

(a) All information furnished to you concerning the financial condition of SunSource Inc. and its Consolidated Subsidiaries, including their annual audited financial statements for the period ending December 31, 1997, and their unaudited financial statements for the period ending September 30, 1998, copies of which have been furnished to you, have been prepared in accordance with GAAP and fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the dates and for the periods covered and discloses liabilities of SunSource Inc. and its Consolidated Subsidiaries required to be disclosed under GAAP and, except for the effect of the 1998 Conversion, there has been no Material Adverse Change from the date of such statements to the date hereof; and

(b) All financial statements and other documents furnished by SunSource Inc. and its Consolidated Subsidiaries to you in connection with this Agreement and the Notes do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading. Each Obligor and each Subsidiary has disclosed to you in writing any and all facts which materially and adversely affect the business, properties, operations or condition, financial or otherwise, of any Obligor or any Subsidiary or any Obligor's or any Subsidiary's ability to perform its respective obligations under this Agreement and the Notes.

2.10. Taxes and Assessments.

(a) Each Obligor and each Subsidiary has duly and timely filed all information and tax returns and reports with all federal, state, local or foreign governmental taxing authorities, bodies or agencies; and all taxes, including without limitation income, gross receipt, sales, use, excise and any other taxes, and any governmental charges, penalties, interest or fines with respect thereto, due and payable by each Obligor and each Subsidiary have been paid, withheld or reserved for in accordance with GAAP or, to the extent they relate to periods on or prior to the date of the financial statements delivered from time to time pursuant to Paragraphs 3.6, 5.2 and 5.3 hereof (the "Financial Statements"), are reflected as a liability on the Financial Statements in accordance with GAAP.

(b) Each Obligor and each Subsidiary has properly withheld all amounts determined by them to be required by law to be withheld for income taxes and unemployment taxes including without limitation, all amounts required with respect to social security and

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unemployment compensation, relating to its employees, and has remitted such withheld amounts in a timely manner to the appropriate taxing authority, agency or body.

(c) As of the date of this Agreement, none of the federal income tax information returns of SDI Operating Partners, L.P. or SDIPI have been audited. Except as set forth on Exhibit B hereto, no Obligor or Subsidiary has entered into any agreement for the extension of time for the assessment of any tax or tax delinquency, nor has any of them received outstanding and unresolved notices from the Internal Revenue Service or any other state, local or foreign taxing authority, agency or body of any proposed examination or of any proposed change in reported information which may result in a deficiency or assessment against an Obligor or a Subsidiary, and there are no suits, actions, claims, investigations, inquiries or proceedings now pending against any Obligor or any Subsidiary in respect of taxes, governmental charges or assessments.

2.11. Indebtedness. No Obligor or Subsidiary has any presently outstanding Indebtedness or obligations including contingent obligations and obligations under leases of property from others, except the Loan, the Junior Subordinated Debentures, the Indebtedness and obligations described either on Exhibit B hereto or in the financial statements of SunSource Inc. and its Consolidated Subsidiaries which have been furnished to you and Indebtedness permitted to be incurred pursuant to Paragraph 6.1 hereof. There exists no default with respect to the payment of principal or interest under any such outstanding Indebtedness. The Indebtedness under the Loan ranks pari passu and equal to the Indebtedness evidenced by the Notes, without any priority. The Junior Subordinated Debentures rank junior and are subordinated to the Indebtedness evidenced by the Notes, and all other Indebtedness of the Obligors and Subsidiaries ranks either pari passu or junior to the Indebtedness evidenced by the Notes.

2.12. Management Agreements. No Obligor or Subsidiary is a party to any other material management or consulting agreements for the provision of services to the Company, except as described in Exhibit B hereto.

2.13. Subsidiaries and Investments. No Obligor or Subsidiary has any investments in or loans to any other individuals or business entities, except as described in Exhibit B hereto and except as are permitted to be acquired or created pursuant to Paragraph 6.8 hereof.

2.14. ERISA. Each Plan maintained by any Obligor, Subsidiary or ERISA Affiliate is, as of its most recently completed annual report, in compliance in all material respects with all applicable provisions of ERISA and the regulations promulgated thereunder; and, except as set forth in Exhibit B hereto:

(a) No Obligor, Subsidiary or ERISA Affiliate maintains or contributes to or has maintained or contributed to any multiemployer plan (as defined in Section 4001 of

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ERISA) under which any Obligor, Subsidiary or ERISA Affiliate could have any withdrawal liability;

(b) No Obligor, Subsidiary or ERISA Affiliate sponsors or maintains any Plan under which there is an Accumulated Funding Deficiency, whether or not waived;

(c) The aggregate liability for accrued benefits and other ancillary benefits under each Plan that is or will be sponsored or maintained by any Obligor, Subsidiary or ERISA Affiliate (determined on the basis of the actuarial assumptions prescribed for valuing benefits under terminating single-employer defined benefit plans under Title IV of ERISA) does not exceed the aggregate fair market value of the assets under each such defined benefit pension Plan;

(d) No Obligor, Subsidiary or ERISA Affiliate has liability arising out of or relating to a failure of any Plan to comply with the provisions of ERISA or the Code;

(e) There does not exist any unfunded liability (determined on the basis of actuarial assumptions utilized by the actuary for the Plan in preparing the most recent Annual Report) of any Obligor, Subsidiary or ERISA Affiliate under any plan, program or arrangement providing post-retirement life or health benefits; and

(f) The matters described on Exhibit B attached hereto referencing clauses (a) through (e) of this Paragraph 2.14 would not, either singly or in the aggregate, have a Material Adverse Effect.

The execution, sale and delivery of the Notes hereunder will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Code. The representation by the Obligors and Subsidiaries in the preceding sentence is made in reliance upon and subject to the accuracy of your representation in Paragraph 1.3(b) of this Agreement.

2.15. Fees and Commissions. The Obligors and Subsidiaries owe no fees or commissions of any kind, and know of no claim for any fees or commissions, in connection with the Obligors' issuing the Notes.

2.16. No Extension of Credit for Securities. No Obligor or Subsidiary is now, nor at any time has it been, engaged principally, or as one of its important activities, in the business of extending or arranging for the extension of credit, or for the purpose of purchasing or carrying any margin stock or margin securities; nor will the proceeds of the Notes be used by any Obligor or Subsidiary directly or indirectly, for such purposes.

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2.17. Hazardous Wastes, Substances and Petroleum Products. Except as set forth in Exhibit B hereto:

(a) Each Obligor and each Subsidiary: (i) has received all permits and filed all notifications necessary to carry on its respective business(es); and (ii) is in compliance in all respects with all Environmental Control Statutes, except with respect to immaterial instances of noncompliance of which it has no knowledge.

(b) No Obligor or Subsidiary has given any written or oral notice, nor has it failed to give required notice, to the Environmental

Protection Agency ("EPA") or any state or local agency with regard to any actual or imminently threatened removal, spill, release or discharge of Hazardous Substances on properties owned, leased or operated by any Obligor or Subsidiary or used in connection with the conduct of its business and operations.

(c) No Obligor or Subsidiary has received notice that it is potentially responsible for the performance of or payment of costs relating to clean-up or remediation of any actual or imminently threatened spill, release or discharge of Hazardous Substances pursuant to any Environmental Control Statute.

2.18. Solvency. SunSource Inc. and its Consolidated Subsidiaries are, on a consolidated basis, upon the 1998 Conversion and after receipt and application of the proceeds of the sale of the Notes will be, solvent such that (i) the fair value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is greater than the total amount of their liabilities, including without limitation, contingent liabilities, (ii) the present fair salable value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is not less than the amount that will be required to pay the probable liability on their debts as they become absolute and matured, and (iii) they are able to realize upon their assets and pay their debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business. SunSource Inc. and its Consolidated Subsidiaries (i) do not intend to, and do not believe that they will, incur debts or liabilities beyond their ability to pay as such debts and liabilities mature, or (ii) are not engaged in a business or transaction, or about to engage in a business or transaction, for which their property would constitute unreasonably small capital after giving due consideration to the prevailing practice and industry in which they are engaged. No creditor of the Company, any Subsidiary, SDI, SDIPI, SunSub A or SunSub B would have a reasonable likelihood of prevailing with respect to any claim to set aside payments to the holders of the Notes based on applicable fraudulent conveyance principles. For purposes of this Paragraph 2.18, in computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual matured liability.

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2.19. Investment Company Act. No Obligor or Subsidiary is directly or indirectly controlled by or acting on behalf of any person which is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

2.20. Private Offering by the Company. No Obligor or Subsidiary, nor anyone acting on behalf of any Obligor or Subsidiary, has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than you. No Obligor or Subsidiary, nor anyone acting on behalf of any Obligor or Subsidiary has taken, or will take, any action which would subject the issuance or sale of the Notes to Section 5 of the Securities Act of 1933, as amended.

2.21. Solvency. Each Obligor is, and upon giving effect to the issuance of the Notes will be, a "solvent institution", as said term is used in Section 1405(c) of the New York Insurance Law, whose "obligations are not in default as to principal or interest," as said terms are used in said Section 1405(c).

2.22. Foreign Assets Control Regulations. Neither the execution, sale nor delivery by the Company of the Notes nor its use of the proceeds thereof will violate the Foreign Assets Regulations, the Foreign Funds Control Regulations, the Transaction Control Regulations, the Cuban Assets Control Regulations, the Iranian Transaction Regulations, or the Iraqi Sanctions Regulations of the United States Treasury Department (31 C.F.R. Subtitle B, Chapter V, as amended).

2.23. Year 2000 Compliance. Obligors and Subsidiaries have conducted a comprehensive review and assessment of their computer systems and applications, microprocessor based goods and equipment owned or used by them in their business and are making inquiry of their material suppliers, vendors and customers, with respect to functionality before, during and after the year 2000 (the "Year 2000 Problem"). Obligors and Subsidiaries have prepared a plan designed to ensure that all such systems, goods, equipment and products owned or used by them and material to the conduct of their business will be Year 2000 Compliant in a timely manner. The Company's report on Form 10-Q for the quarter ended September 30, 1998 describes such plan in all material respects. Obligors reasonably believe, based on the foregoing review, assessment and inquiry that the Year 2000 Problem will not result in a Material Adverse Effect.

SECTION 3. CONDITIONS OF CLOSING. Your obligation to purchase and pay for the Notes to be purchased by you hereunder shall be subject to the conditions hereinafter set forth:

3.1. Proceedings Satisfactory. All proceedings taken in connection with the issue of the Notes and the consummation of the transactions contemplated hereby and all documents and papers relating thereto shall be satisfactory to you and your special counsel, and you shall have received copies of such documents and papers, all in form and substance satisfactory to you and your special counsel, as you or they may reasonably request in connection therewith.

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3.2. Intentionally Omitted.

3.3. Opinion of Counsel for the Company. You shall have received an opinion dated the Closing Date from Morgan, Lewis & Bockius LLP, counsel for the Obligors and Subsidiaries, in form and substance satisfactory to you.

3.4. Authorization Documents; Officer's Certificate. The Company shall deliver to you those documents it is required to deliver to Banks pursuant to Paragraphs 5.1(b) and 5.1(h) of the Credit Agreement.

3.5. Legality. On the Closing Date, the Notes to be purchased by you hereunder shall be a legal investment for you under the laws of each jurisdiction to which you may be subject (without resort to any basket provision of said laws such as New York Insurance Law Section 1405(a)(8)) (unless you have waived such requirement), and you shall have received such certificates or other evidence as you may reasonably request demonstrating the legality of such purchase under such laws.

3.6. Financial Information. The Company shall have furnished to you: (i) cash flow projections for SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis, for the two (2) year period immediately following the date hereof, satisfactory to you and certified as reasonable by the chief financial officer or controller of the Company (such cash flow projections shall take into account the transactions contemplated by this Agreement and shall identify the sources of cash the Company intends to use to meet its needs during such two year period); (ii) financial projections for SunSource Inc. and its Consolidated Subsidiaries for the period from the Closing Date through December 31, 2001 on a consolidated basis satisfactory to you and (iii) a certificate with respect to the matters set forth in Paragraph 2.19 hereof.

3.7. Private Placement Number. The Company shall have delivered to you a certificate or other satisfactory evidence that Standard & Poor's CUSIP Service Bureau has assigned a private placement number with respect to the Notes.

3.8. Credit Agreement. The Company shall, simultaneously with the execution hereof, have entered into the Credit Agreement in the form theretofore provided to you which shall be in full force and effect.

3.9. Intentionally Omitted.

3.10. Insurance. The Company shall have provided you with certificates of insurance with respect to all of the Obligors' fire, casualty, liability and other insurance covering its respective property and business.

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3.11. Junior Subordinated Debentures. The Company shall provide you with (i) evidence satisfactory to you that: (a) the Junior Subordinated Debentures shall, after the Closing Date, remain outstanding under terms of subordination satisfactory to you; and (b) all required consents under the Indenture or otherwise in connection with the Junior Subordinated Debentures have been obtained and delivered and (ii) a duly executed copy of the Reassignment and Reassumption Agreement in connection with the 1998 Conversion.

3.12. Other Documents. The Company shall provide you with such additional documents as you reasonably may request.

SECTION 4. PREPAYMENT OF THE NOTES.

4.1. Mandatory Repayments of the Notes. As provided therein, the entire unpaid principal amount of the Notes shall be due and payable on September 30, 2002.

4.2. Optional Prepayment of the Notes.

(a) Upon notice given as provided in Paragraph 4.3, the Company, on behalf of the Obligors, at their option, may at any time prepay

the Notes as a whole or from time to time in part (in multiples of \$100,000), in each case at the principal amount so to be prepaid, together with interest accrued thereon to the date fixed for such prepayment, plus (subject to Paragraph 4.2(b) below) an amount equal to the Make-Whole Amount for each such Note. Each prepayment pursuant to this Paragraph 4.2 shall be allocated as provided in Paragraph 4.4.

(b) Notwithstanding anything to the contrary in Paragraph 4.2(a) above, the Company, on behalf of the Obligors, may apply Designated Disposition Proceeds in an amount not to exceed \$15,000,000 to the prepayment of the Notes pursuant to Paragraph 4.2(a) without payment of any Make-Whole Amount.

4.3. Notice of Prepayment; Make-Whole Computations.

(a) The Company, on behalf of the Obligors, shall call the Notes for prepayment pursuant to Paragraph 4.2 by giving written notice thereof to each holder of any Note, which notice shall be given not less than 30 nor more than 60 days prior to the date fixed for such prepayment in such notice and shall specify the amount so to be prepaid and the date fixed for such prepayment. Upon the giving of notice of any prepayment as provided in this Paragraph, the Company, on behalf of the Obligors, will prepay on the date therein fixed for prepayment the principal amount of the Notes so to be prepaid as specified in such notice, together with interest accrued thereon to such date fixed for prepayment, plus (subject to Paragraph 4.2(b)) the applicable Make-Whole Amount (if any).

(b) Three business days prior to any prepayment pursuant to Paragraph 4.2, the Company, on behalf of the Obligors, will furnish to each holder of a Note an Officer's

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Certificate setting forth in reasonable detail the calculation of the Make-Whole Amount (if any) in connection with such prepayment and attaching a copy of the source of the market data by reference to which the applicable Treasury Yields were determined in connection with such computations.

4.4. Allocation of Prepayments. In the event of any prepayment of less than all of the outstanding Notes pursuant to Paragraph 4.2, the Company, on behalf of the Obligors, will allocate the principal amount so to be prepaid (but only in units of \$1,000) among all outstanding Notes pro rata according to the respective principal amounts thereof.

4.5. Surrender of Notes; Notation Thereon. Subject to the provisions of Section 13, the Company, on behalf of the Obligors, may, as a condition of payment of all or any part of the principal of, premium, if any, and interest on, any Note, require the holder to present such Note for notation of such payment and, if such Note be paid in full, require the surrender thereof.

4.6. Purchase of Notes. The Company, on behalf of the Obligors, will not, and will not permit any other Obligor or any Subsidiary to acquire, directly or indirectly, by purchase or prepayment or otherwise, any of the outstanding Notes, except by way of payment or prepayment in accordance with the provisions of the Notes and of this Agreement.

4.7. Special Prepayment for Change of Control. Promptly and in any event within five days after a Change of Control, the Company, on behalf of the Obligors, will give notice thereof to the holders of all outstanding Notes, which notice shall (i) refer specifically to this Paragraph 4.7, (ii) specify the Change of Control Prepayment Date and the Response Date (each as defined below) in respect thereof and (iii) offer to prepay all Notes at the unpaid principal amount of such Notes, together with interest accrued thereon to the Change of Control Prepayment Date on the date specified in such notice (the "Change of Control Prepayment Date"), which date shall be not less than 30 nor more than 60 days after the date of such notice. Each holder of a Note shall notify the Company of such holder's acceptance or rejection of such offer by giving notice of such acceptance or rejection to the Company on a date (the "Change of Control Response Date") not more than 20 days after the date of the notice required to be given by the Company pursuant to the first sentence of this Paragraph 4.7 (which notice given by such holder shall be binding upon such holder and the Company). The failure by the holder of a Note to respond to such offer on or before the Change of Control Response Date shall be deemed to be a rejection of such offer. On the Change of Control Prepayment Date, the Company shall prepay, and there shall become due and payable, all of the Notes held by the holders by whom such offer has been accepted in accordance with this Paragraph 4.7 at a price in respect of each Note held by each such holder equal to the unpaid principal amount of such Note, together with interest accrued thereon to the Change of Control Prepayment Date.

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4.8. Prepayment in Connection with a Sale of Material Assets.

If at any time the Company, on behalf of the Obligors, is required to offer to apply any Net Cash Proceeds of any asset disposition to the prepayment of the Notes as contemplated by Paragraph 6.7 (including any Designated Disposition Proceeds not applied by the Company to the prepayment of the Notes pursuant to Paragraph 4.2), the Company will give written notice thereof to the holders of all outstanding Notes, which notice shall (i) refer specifically to this Paragraph 4.8, (ii) specify the Asset Disposition Prepayment Date and the Response Date (each as defined below) in respect thereof, (iii) set forth (x) the aggregate Net Cash Proceeds to be applied to the retirement of the Indebtedness, (y) the Noteholders' Applicable Share and (z) the amount of such Noteholders' Applicable Share allocable to each Note, determined by allocating such Noteholders' Applicable Share pro rata among all outstanding Notes according to the respective unpaid principal amounts thereof, and (iv) offer to prepay a principal amount of each Note equal to such Noteholders' Applicable Share so allocable to such Note, on the date therein specified (the "Asset Disposition Prepayment Date"), which shall be not less than 30 nor more than 60 days after the date of the giving of such notice. Any such prepayment shall be at the principal amount so to be prepaid, together with interest accrued thereon to the date fixed for such prepayment. Each holder of a Note shall notify the Company of such holder's acceptance or rejection of such offer by giving written notice of such acceptance or rejection to the Company on a date (the "Asset Disposition Response Date") not more than 20 days after the date of the notice required to be given by the Company pursuant to the first sentence of this Paragraph 4.8 (which notice given by such holder shall be binding upon such holder and the Company). The failure by the holder of a Note to respond to such offer on or before the Asset Disposition Response Date shall be deemed to be a rejection of such offer. On the Asset Disposition Prepayment Date, the Company shall prepay, and there shall become due and payable, the applicable portion of the Notes held by the holders by whom such offer has been accepted in accordance with this Paragraph 4.8 at a price in respect of each Note held by each such holder equal to the principal amount of such Note so to be prepaid, together with interest accrued thereon to the Asset Disposition Prepayment Date. Any such Net Cash Proceeds which are not applied to the prepayment of the Notes pursuant to the foregoing provisions of this Paragraph 4.8 due to a rejection of the Company's offer shall be applied by the Company to the prepayment of the debt outstanding under the Credit Agreement and the permanent reduction of the commitment thereunder as set forth in the Credit Agreement.

SECTION 5. AFFIRMATIVE COVENANTS. Each Obligor and each Subsidiary covenants and agrees that so long as any Note shall be outstanding hereunder, each Obligor and each Subsidiary will (and with respect to Paragraph 5.11, the Obligors will cause each ERISA Affiliate) to:

5.1. Existence and Good Standing. Preserve and maintain its existence as a corporation and its good standing in all states in which it conducts business and the validity of all its material franchises, licenses and permits required in the conduct of its business.

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5.2. Quarterly Financial Statements. Furnish each holder of a Note within forty-five (45) days of the end of each quarterly fiscal period hereafter, other than the last quarterly fiscal period in the fiscal year, with unaudited quarterly consolidated financial statements of SunSource Inc. and its Consolidated Subsidiaries, in form and substance as required by GAAP, including for each such quarter (i) a consolidated balance sheet; (ii) a consolidated statement of income; (iii) a consolidated statement of cash flows; and (iv) a certificate in the form of Exhibit C attached hereto executed by the chief financial officer or controller of the Company showing the calculation of the covenants set forth in Paragraphs 5.12 through 5.14 and Section Six hereof prepared in accordance with GAAP consistently applied and stating that the financial statements fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date and for the periods covered and that as of the date of such certificate there exists no violation of any provision of this Agreement or the happening of any Event of Default or Default.

5.3. Annual Financial Statements. Furnish each holder of a Note within ninety (90) days after the close of each fiscal year commencing with fiscal 1998 with audited consolidated annual financial statements of SunSource Inc. and its Consolidated Subsidiaries, including the financial statements, certificate in the form of Exhibit C attached hereto and information required under Paragraph 5.2 hereof, which consolidated financial statements shall be prepared in accordance with GAAP. The financial statements delivered pursuant to (i) above shall be certified without qualification (except with respect to changes in GAAP as to which the Company's independent certified public accountants have concurred) by an independent certified public accounting firm satisfactory to the Required Holders; and the Company shall cause each holder of a note to be furnished, at the time of the completion of the annual audit, with a certificate signed by such accountants showing the calculation of the covenants set forth in Paragraphs 5.12 through 5.14 hereof and stating that to the best of their knowledge there exists no violations of any provisions of this Agreement or the happening of any Event of Default or Default hereunder.

5.4. Annual Budget. Furnish to each holder of a Note, on or before March 31 of each year, commencing with fiscal year 1999, an annual budget of SunSource Inc. and its Consolidated Subsidiaries, showing net income and cash flows of SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis for the twelve (12) month period ending on December 31 of each year.

5.5. Public Information. Deliver to each holder of a Note, promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as the Company shall send to its shareholders or to the Banks or to the holders of the Junior Subordinated Debentures, copies of all registration statements (without exhibits), and all annual, quarterly or other reports which the Company files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission) including without limitation, Form 10Q and Form 10K, and copies of all auditors' annual management letters delivered to the Company.

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5.6. Books and Records. Keep and maintain satisfactory and adequate books and records of account in accordance with GAAP and make or cause the same to be made available to each holder of a Note or their agents or nominees at any reasonable time during normal business hours upon reasonable notice for inspection and to make extracts thereof and permit any holder of the Notes to discuss contents of same with senior officers of any Obligor or any Subsidiary and also with outside auditors and accountants of any Obligor or any Subsidiary.

5.7. Properties; Insurance. Keep and maintain all of its property and assets in good order and repair and materially covered by insurance with reputable and financially sound insurance companies against such hazards and in such amounts as is customary in the industry, under policies requiring the insurer to furnish reasonable notice to you and opportunity to cure any non-payment of premiums prior to termination of coverage; and, as required above, furnish each holder of a Note with certificates of such insurance.

5.8. Notices. Notify each holder of a Note in writing immediately of (i) the institution of any litigation, the commencement of any administrative proceedings, the happening of any event or the assertion or threat of any claim which might reasonably be expected to have a Material Adverse Effect, (ii) the occurrence of any Event of Default or Default hereunder or (iii) any notice delivered to the Trustee from the Company or the holder of any Senior Indebtedness (as defined in the Indenture) in respect of Section 14.06 of the Indenture.

5.9. Taxes. Pay and discharge all taxes, assessments or other governmental charges or levies imposed on it or any of its property or assets prior to the date on which any penalty for non-payment or late payment is incurred, unless the same are (a) being contested in good faith by appropriate proceedings and (b) are covered by appropriate reserves maintained in cash or cash equivalents in accordance with GAAP.

5.10. Compliance; Notification.

(a) Except to the extent that noncompliance would not have a Material Adverse Effect, comply in all respects with all local, state and federal laws and regulations applicable to its business, including without limitation the Environmental Control Statutes, the Securities Act of 1933, as amended, and all laws and regulations of the Local Authorities, and the provisions and requirements of all franchises, permits, licenses and other like grants of authority held by any Obligor or any Subsidiary; and notify each holder of a Note immediately in detail of any actual or alleged failure to comply with, failure to perform, breach, violation or default under any such laws or regulations or under the terms of any of such franchises, permits, certificates, licenses or grants of authority, or of the occurrence or existence of any facts or circumstances which with the passage of time, the giving of notice or otherwise could create such a failure, breach, violation or default or could occasion the termination of any of such franchises, permits, certificates, licenses or grants of authority, except to the extent that such matter would not have a Material Adverse Effect.

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(b) With respect to the Environmental Control Statutes, promptly notify each holder of a Note when, in connection with the conduct of any Obligor's or Subsidiary's business(es) or operation(s), any person (including, without limitation, EPA or any state or local agency) provides oral or written notification to any Obligor or Subsidiary or any Obligor or Subsidiary otherwise become aware of a condition with regard to an actual or imminently threatened removal, spill, release or discharge of

hazardous or toxic wastes, substances or petroleum products that requires notification to the applicable governmental authority under an Environmental Control Statute and would have an Environmental Material Adverse Effect; and notify each holder of a Note in detail promptly upon the receipt by any Obligor or Subsidiary of an assertion of liability under the Environmental Control Statutes, of any actual or alleged failure to comply with or perform, breach, violation or default under any such statutes or regulations or of the occurrence or existence of any facts, events or circumstances which with the passage of time, the giving of notice, or both, could create such a breach, violation or default and would have an Environmental Material Adverse Effect.

(c) With respect to each disclosure previously made to each holder of a Note pursuant to Exhibit B attached hereto or Paragraph 5.10(b) hereof regarding alleged or actual liability under Environmental Control Statutes, not later than twenty (20) days after the last day of each fiscal quarter, deliver to each holder of a Note a report describing (i) the estimated dollar amount, when initially determined, of any such liability (including costs of investigation and remediation) and if any such initial estimate with respect to a disclosed matter shall be modified thereafter by more than \$1,000,000, the modified dollar amount; and (ii) any information or change in circumstances regarding actual or alleged liability under Environmental Control Statutes of any Obligor or Subsidiary, if the effect thereof would be to increase liability in connection with the investigation or remediation with respect thereto by more than \$1,000,000.

5.11. ERISA. (a) Comply, and cause any Plan maintained for the employees of any Obligor or Subsidiary to comply, in all material respects with the provisions of ERISA; (b) not incur any material Accumulated Funding Deficiency or any material liability to the PBGC (as established by ERISA); (c) permit any event to occur (i) as described in Section 4042 of ERISA or (ii) which may result in the imposition of a lien on its properties or assets; and (d) notify you in writing promptly after it has come to the attention of senior management of any Obligor or Subsidiary of the assertion or threat of any "reportable event" or other event described in Section 4042 of ERISA (relating to the soundness of a Plan), except those with respect to which the PBGC has waived the 30 day notice rule, or the PBGC's ability to assert a material liability against it) or impose a lien on any Obligor's or Subsidiary's properties or assets.

5.12. Capitalization Ratio. Maintain a Capitalization Ratio not to exceed: (i) with respect to the last day of each of the first two fiscal quarters in each fiscal year, sixty-two percent (62%) and (ii) with respect to the last day of each of the last two fiscal quarters of each fiscal year, sixty percent (60%).

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5.13. Fixed Charge Coverage Ratio. Maintain as of the last day of each fiscal quarter set forth in the left hand column, for the Rolling Period ending on such date, a Fixed Charge Coverage Ratio for SunSource Inc. and its Consolidated Subsidiaries of not less than the amount set forth in the right hand column:

Period	Minimum Ratio
-----	-----
Date of Agreement through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

5.14. Leverage Ratio. Maintain on the last day of each fiscal quarter a Leverage Ratio of not greater than 3.25:1.

5.15. Management Changes. Notify each holder of a Note in writing within thirty (30) days after any change of its management group as described in the "Change of Control" definition.

5.16. Subsequent Credit Terms.

(a) Notify each holder of a Note in writing not less than five (5) Business Days prior to its entering into any amendment or modification of any credit arrangement, whether now in effect or hereafter incurred, pursuant to which any Obligor or Subsidiary agrees to financial covenants which are more restrictive to such Obligor or Subsidiary than those contained in Sections Five and Six hereof. Upon entering into any such amendment or modification, and with respect to the covenants in the Credit Agreement, the corresponding covenants, terms and conditions of this Agreement are and shall be deemed to be automatically and immediately amended to conform with and to include the applicable covenants, terms and/or conditions of such other agreement; provided, however, that the foregoing shall not be applicable to or be deemed to affect any provision of this Agreement to the extent that any amendment or modification is less restrictive than the corresponding provisions of this Agreement.

(b) Each Obligor and each Subsidiary hereby agrees promptly to execute and deliver any and all such documents and instruments and to take all such further actions as you may, in your sole discretion, deem

necessary or appropriate to effectuate the provisions of this Paragraph 5.16.

5.17. Use of Proceeds. Use the proceeds of the Notes solely for general corporate purposes, including working capital, acquisition financing, and related reasonable transaction expenses.

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5.18. Transactions Among Affiliates. Cause all transactions between and among Affiliates to be on an arms-length basis and on such terms and conditions as are customary in the applicable industry between and among unrelated entities.

5.19. Joinder of Subsidiaries. If any Subsidiary or any newly created or acquired Subsidiary (i) is or becomes a Material Subsidiary and (ii) is not at such time of determination an Obligor or Guarantor, promptly notify you of the same and cause such Material Subsidiary to execute joinder documents in form and substance satisfactory to you, joining such Subsidiary under this Agreement as either an Obligor or a Guarantor, which determination shall be made in your discretion, and cause to be delivered such opinions and certificates as you shall reasonably request.

5.20. Year 2000 Compliance. Take all action necessary to assure that a Material Adverse Effect shall not result from any failure of Obligors' computer systems and applications, micro-processor based goods and equipment owned or used by them in their business to be Year 2000 Compliant; and use reasonable best efforts to assure the Year 2000 Compliance of their material vendors and suppliers or to assure that failures to be Year 2000 Compliant by such vendors and suppliers will not have a Material Adverse Effect to the extent that any such information shall not be included in the Company's periodic reports filed with the Securities and Exchange Commission from time to time. Obligors shall provide each holder of a Note any material updates or revisions to its plan for Year 2000 Compliance referred to in Paragraph 2.23 and notice of any material increase in the estimated costs to Obligors of achieving Year 2000 Compliance in accordance with such plan; and, at the request of any such holder, Obligors shall provide such holder assurances acceptable to such holder regarding the Year 2000 Compliance and/or contingency plans related thereto, of Obligors and their material vendors and suppliers.

5.21. Supporting Information. Use reasonable efforts to obtain from the Company's accountants such supporting opinions or information with respect to the matters set forth in Paragraph 2.18 hereof as the holders of the Notes shall reasonably request.

5.22. Other Information. Provide you with any other documents and information, financial or otherwise, reasonably requested by you from time to time.

SECTION 6. NEGATIVE COVENANTS. So long as any Note shall be outstanding hereunder, each Obligor and each Subsidiary covenants and agrees that it will not:

6.1. Indebtedness. Borrow any monies or create any Indebtedness except: (i) borrowings from you hereunder; (ii) Indebtedness evidenced by the Credit Agreement not to exceed Ninety Million Dollars (\$90,000,000) aggregate principal amount outstanding at any time, which shall rank equally and are pari passu with the obligations to holders of the Notes hereunder; (iii) Indebtedness under the Junior Subordinated Debentures, not to exceed One Hundred Five Million Five Hundred Thousand Dollars (\$105,500,000) principal amount

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outstanding at any time (but not including any amounts which constitute Compounded Interest, as defined in the Indenture), which shall be subordinate and junior to the obligations to holders of the Notes hereunder; (iv) trade Indebtedness in the normal and ordinary course of business for value received, of which no more than Five Million Dollars (\$5,000,000) shall be outstanding at any time under Trade Notes; (v) Indebtedness and obligations incurred or assumed to purchase or lease fixed or capital assets, provided, however, that the total principal amount of such Indebtedness and obligations incurred in any calendar year shall not exceed in the aggregate Seven Million Five Hundred Thousand Dollars (\$7,500,000); (vi) borrowings from any Obligor by any Obligor; (vii) borrowings from any Obligor by any Subsidiary which is not an Obligor, to the extent the Obligors are permitted to make such loans pursuant to Paragraph 6.3(ii) or (iii) hereof; (viii) Indebtedness outstanding on the date hereof and disclosed on Exhibit B hereto, but without any increase in the outstanding principal amount thereof; (ix) Indebtedness of non-Obligor, non-Guarantor Subsidiaries incorporated in a jurisdiction in the United States, up to Ten Million Dollars (\$10,000,000) principal amount outstanding at any time; (x) Indebtedness of non-Obligor, non-Guarantor Subsidiaries incorporated in a

jurisdiction outside of the United States, up to Ten Million Dollars (\$10,000,000) aggregate principal amount outstanding at any time (which shall include the revolving credit facility with the Bank of Nova Scotia); and (xi) unsecured promissory notes in favor of sellers of assets or stock in acquisitions otherwise permitted pursuant to Paragraph 6.8 hereof not to exceed Ten Million Dollars (\$10,000,000); provided, however, that Indebtedness of non-Obligor, non-Guarantor Subsidiaries under clauses (v), (ix) and (x) hereof shall in no event exceed in the aggregate outstanding at any time Ten Million Dollars (\$10,000,000).

6.2. Guaranties. Guarantee or assume or agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liability of others (except hereunder and under the Notes and with respect to the Promissory Notes and to endorse checks or drafts in the ordinary course of business), except that (i) the Obligors may guarantee Indebtedness which in the aggregate shall not exceed Five Million Dollars (\$5,000,000) outstanding at any time and (ii) any entity may guarantee debt of another entity otherwise permitted hereunder.

6.3. Loans. Make any loans or advances to others, provided that any Obligor may make loans and advances to (i) any other Obligor; (ii) non-Obligor, non-Guarantor Subsidiaries incorporated in a jurisdiction in the United States; (iii) non-Obligor, non-Guarantor Subsidiaries incorporated in a jurisdiction outside of the United States, such that loans and advances from all Obligors to all such non-Obligor, non-Guarantor Subsidiaries shall not exceed Ten Million Dollars (\$10,000,000) in aggregate outstanding principal amount at any time, and (iv) its sales personnel in the ordinary course of business.

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6.4. Liens and Encumbrances. Create, permit or suffer the creation of any liens, security interests, or any other encumbrances on any of its property, real or personal, except (i) liens arising in favor of sellers or lessors for indebtedness and obligations incurred to purchase or lease fixed or capital assets permitted under Paragraph 6.1(v) hereof, provided, however, that such liens secure only the indebtedness and obligations created thereunder and are limited to the assets purchased or leased pursuant thereto; (ii) liens for taxes, assessments or other governmental charges, federal, state or local, which are then being currently contested in good faith by appropriate proceedings and are covered by appropriate reserves maintained in cash or cash equivalents and in accordance with GAAP; (iii) pledges or deposits to secure obligations under workmen's compensation, unemployment insurance or social security laws or similar legislation; (iv) deposits to secure performance or payment bonds, bids, tenders, contracts, leases, franchises or public and statutory obligations required in the ordinary course of business; (v) deposits to secure surety, appeal or custom bonds required in the ordinary course of business and (vi) liens and security interests securing up to Five Million Dollars (\$5,000,000) of Indebtedness outstanding under Trade Notes.

6.5. Additional Negative Pledge. Agree or covenant with or promise any person or entity other than you and the Banks that it will not pledge its assets or properties or otherwise grant any liens, security interests or encumbrances on its property on terms similar to those set forth in Paragraph 6.4 hereof.

6.6. Restricted Payments. Make any Restricted Payments; provided, however that so long as there exists no Event of Default or Default under this Agreement and no Event of Default or Default will result therefrom: (i) the Company may pay dividends on its common stock; and (ii) the Company may make regularly scheduled interest payments on the Junior Subordinated Debentures as in effect on the date hereof; provided further that if the Leverage Ratio immediately prior to and after giving effect to such purchase is less than 2.25 to 1, as set forth in a certificate of the chief financial officer or controller of the Company and delivered to each holder of a Note, then the Company may purchase or redeem its common stock or purchase Trust Preferred Securities, provided a like amount of the Junior Subordinated Debentures are simultaneously purchased.

6.7. Transfer of Assets. Sell, lease, transfer or otherwise dispose of all or any portion of its assets, real or personal, other than such transactions made on an arm's length basis in the normal and ordinary course of business for value received; provided, however, that in the absence of a Default or an Event of Default, and, if a Default or Event of Default would not result therefrom, the Obligors may (i) sell assets other than in transactions made on an arm's length basis in the normal and ordinary course of business for value received in the aggregate after the date hereof for all such transactions up to Fifteen Million Dollars (\$15,000,000); (ii) consummate a Sale of Material Assets, provided that the Notes shall be repaid in connection therewith pursuant to Paragraph 4.8 hereof by an amount equal to the Noteholders' Applicable Share received by the Obligors on account of such sale(s), to the extent such sale(s), in the

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aggregate, exceed Fifteen Million Dollars (\$15,000,000) and (iii) consummate the 1998 Conversion.

6.8. Acquisitions and Investments. (a) Purchase or otherwise acquire any part or amount of the capital stock or assets of, or make any investments in any other entity or corporation, except Permitted Investments; (b) create, acquire or maintain any Material Subsidiary not listed on Schedule 1 or 2 hereto, except if the Subsidiary executes a joinder to this Agreement and the Notes to become a joint and several Obligor hereunder or a Guarantor hereunder, in each case pursuant to Paragraph 5.19 hereof; (c) enter into any new business activities or ventures not directly related to its present business; or (d) merge or consolidate with or into any other entity or corporation, except that any Subsidiary may be merged into the Company if the Company is the surviving entity and any Subsidiary may merge into any other Subsidiary; provided, however, that in the absence of a Default or an Event of Default hereunder, and if a Default or Event of Default would not result therefrom, Obligors may make acquisitions (by merger or purchase) of substantially all but not less than substantially all of other entities or corporations in the same or substantially the same business as Obligors. Obligors shall provide to you a financial projection, including an income statement and cash flow, from the date of any proposed acquisition with a purchase price exceeding Ten Million Dollars (\$10,000,000), showing prospective compliance with Paragraphs 5.12 through 5.14 and Section Six of this Agreement through the Maturity Date and a pro forma combined historical balance sheet as of the end of the most recent fiscal quarter for the Company and the target.

6.9. Use of Proceeds. Use any of the proceeds of the Notes, directly or indirectly, to purchase or carry margin securities within the meaning of Regulation G of the Board of Governors of the Federal Reserve System; or engage as its principal business in the extension of credit for purchasing or carrying such securities.

6.10. Amendment of Documents. (a) Without the consent of the Required Holders, which consent shall not be withheld unreasonably, amend or permit any amendments to: any Obligor's or Subsidiary's organizational documents; the Declaration of Trust of the Trust; the Indenture; the Terms of Common Securities of the Trust; the Terms of Preferred Securities of the Trust; the Preferred Securities Guaranty; and (b) with respect to those provisions of the Credit Agreement relating to financial covenants (Paragraphs 6.13 through 6.15), Events of Default (Section 9), mandatory or voluntary prepayments (Paragraphs 2.8 and 2.9) and all definitions related thereto, any amendment, waiver or consent thereto shall require the simultaneous amendment, waiver or consent, as applicable, to the corresponding provision in this Agreement pursuant to Section 12.

6.11. Payment of Loan. Make any payment of principal on the Loan except if simultaneously with such payment a prepayment to the extent of the Noteholders' Applicable Share of such payment is made pursuant to Section 4 hereof.

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SECTION 7. DEFINITIONS.

7.1. Definitions. When used in this Agreement, the following terms shall have the respective meanings set forth below.

"1997 Conversion" means the conversion of SunSource L.P., a Delaware limited partnership, to the corporate form of SunSource Inc., a Delaware corporation as set forth in SunSource Inc.'s Registration Statement on Form S-4, filed with the Securities and Exchange Commission on December 31, 1996, as amended.

"1998 Conversion" means: (i) the creation of SunSource Investment Company, Inc. ("SSICI"), a wholly-owned holding company of the Company, of which SunSub A will become a direct, wholly-owned subsidiary; (ii) the merger of SunSub B with and into SunSub A, causing the existence of SDI Operating Partners, L.P. and its general partner, SDIPI, to cease and the assets and liabilities of both partnerships to be owned by SunSub A and (iii) the formation by SunSub A of four wholly-owned subsidiaries to which it will contribute the assets and liabilities of SDI Operating Partners, L.P.

"Accumulated Funding Deficiency" has the meaning ascribed to that term in Section 302 of ERISA.

"Adjusted EBITDAR" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, EBITDA plus rent expense (as determined in accordance with GAAP) minus Capital Expenditures.

"Affiliate" means: (i) any person who or entity which directly or indirectly owns, controls or holds ten percent (10%) or more of the outstanding common stock in the Company; (ii) any entity of which ten percent (10%) or more of the outstanding common stock or beneficial interest is directly

or indirectly owned, controlled, or held by the Company or an Affiliate; (iii) any entity which directly or indirectly is under common control with the Company; (iv) any officer, director or partner of the Company or any Affiliate; or (v) any immediate family member of any person who is an Affiliate. For purposes of this definition, the term "control" means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means First Union National Bank, successor by merger to CoreStates Bank, N.A., in its capacity as administrative agent for the Banks pursuant to the Credit Agreement, and its successors and assigns in such capacity.

"Agreement" means this Amended and Restated Note Purchase Agreement and all exhibits and schedules hereto, as each may be amended, modified or supplemented from time to time.

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"Bank" means individually and "Banks" means collectively, the banks identified on Schedule 3 attached to the Credit Agreement as such Schedule may be amended from time to time, their respective successors and assigns and any additional banks which become parties to the Credit Agreement after the date thereof in accordance with Paragraph 12.2 of the Credit Agreement, but shall not include any such Bank which is replaced pursuant to the terms thereof after the date thereof.

"Business Day" means any day not a Saturday, Sunday or a day on which banks are required or permitted to be closed under the laws of the Commonwealth of Pennsylvania.

"Capital Expenditures" means, for any period, amounts accrued or incurred for fixed assets or improvements, replacements, substitutions or additions thereto, which have a useful life of more than one (1) year, including direct or indirect acquisition costs of such assets.

"Capital Leases" means capital leases and subleases, as defined in Statement 13 of the Financial Accounting Standards Board dated November 1976, as amended and updated from time to time.

"Capitalization Ratio" means, as of any date of determination, the ratio of Funded Debt to Total Capital.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986, as amended from time to time.

"Change of Control" means if at any time after the date of this Agreement: (i) any person or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and the rules and regulations promulgated thereunder shall have beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company (or other securities convertible into such securities) representing twenty percent (20%) or more of the combined voting power of all securities of the Company entitled to vote in the election of directors other than the management group of Joseph M. Corvino, Max W. Hillman, Harold J. Cornelius, Norman V. Edmonson, Donald T. Marshall and John P. McDonnell (hereinafter called a "Controlling Person"); or (ii) a majority of the Board of Directors of the Company shall cease for any reason to consist of (1) individuals who on the date hereof are serving as directors of the Company or (2) individuals who subsequently become members of the Board if such individuals' nomination for election or election to the board is recommended or approved by a majority of the Board of Directors of the Company. For purposes of clause (i) above, a person or group shall not be a Controlling Person if such person or group holds voting power in good faith and not for the purpose of circumventing Paragraph 8.1(f) as an agent, bank, broker, nominee, trustee, or holder of revocable proxies given in response to a

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solicitation pursuant to the 1934 Act, for one or more beneficial owners who do not individually, or, if they are a group acting in concert, as a group, have the voting power specified in clause (i) above.

"Closing Date" means 11:59 p.m. on December 31, 1998.

"Code" means the Internal Revenue Code of 1986, as amended from time to time and regulations in effect from time to time.

"Credit Agreement" means the Second Amended and Restated Credit Agreement dated December 31, 1998 among the Company and its Subsidiaries

set forth on Schedule 1 thereto as Borrowers, the Company's Subsidiaries set forth on Schedule 2 thereto, as Guarantors, Agent, for itself and as Agent, the Bank of Nova Scotia, Agent, for itself and as Documentation Agent, and the Banks set forth on Schedule 3 thereto, as amended, modified or supplemented from time to time pursuant to the terms thereof and hereof.

"Default" means an event or circumstance which, with the giving of notice or the passage of time or both, would constitute an Event of Default.

"Designated Disposition Proceeds" means the aggregate proceeds of any one or more sales, divestitures or spin-offs of or any portion of either the Hillman Fastener or Harding Glass divisions of the Company up to Fifteen Million Dollars (\$15,000,000).

"Distributions Paid on Trust Securities" means all amounts payable by the Trust to the holders of the Trust Preferred Securities and Trust Common Securities.

"EBITDA" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, Net Income plus (i) Interest Expense (including all interest paid on the Junior Subordinated Debentures (whether paid in cash or in kind)), (ii) all provisions for income taxes, (iii) depreciation and amortization expense, and (iv) extraordinary losses, minus extraordinary gains, as each such item is determined in accordance with GAAP.

"Environmental Control Statutes" means any federal, state or local laws governing control, storage, removal, spill, release or discharge of Hazardous Substances including without limitation CERCLA, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976, the Hazardous Materials Transportation Act, the Emergency Planning and Community Right to Know Act of 1986, the National Environmental Policy Act of 1975, the Oil Pollution Act of 1990, any similar or implementing state law, in each case, including all amendments thereto and all rules and regulations promulgated thereunder and permits issued in connection therewith.

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"Environmental Material Adverse Effect" means a material adverse effect on the business, financial condition on prospects of Obligor and Subsidiaries taken as a whole, greater than or equal to \$1,000,000 per single event of \$5,000,000 in the aggregate for all such environmental events as a result of any condition, circumstance or contingency.

"EPA" means the United States Environmental Protection Agency, or any successor thereto.

"ERISA Affiliate" means, when used with respect to an Employee Benefit Plan, ERISA, the PBGC or a provision of the Code pertaining to employee benefit plans, any Person that is a member of any group of organization within the meaning of Code Sections 414(b), (c), (m) or (o) of which any Obligor or any Guarantor is a member.

"ERISA" means the Employee Retirement Income Security Act of 1974, all amendments thereto and all rules and regulations in effect at any time.

"Event of Default" means an event described in Paragraph 8.1 hereof.

"Existing Credit Agreement" means that certain Amended and Restated Credit Agreement among SDI Operating Partners L.P. and its Subsidiaries as set forth on Schedule 1 attached thereto, as Borrowers, SDIPI, the Company, SunSub A Inc. and SunSub B Inc., as Guarantors, Agent, for itself and as Agent, The Bank of Nova Scotia, for itself and as Documentation Agent, and the Banks set forth on Schedule 2 attached thereto dated as of September 30, 1997.

"Existing Note Purchase Agreement" means that Note Purchase Agreement dated as of September 30, 1997, as amended, issued by SDI Operating Partners, L.P. for Sixty Million Dollars (\$60,000,000) in privately-placed notes.

"Fixed Charges" means, at any date of determination for the most recently ended Rolling Period of SunSource Inc. and its Consolidated Subsidiaries, the sum of (i) Interest Expense (including interest paid on the Junior Subordinated Debentures to the extent paid in cash); (ii) rent expense; (iii) scheduled maturities paid on Funded Debt (excluding the Loan); and (iv) cash dividends paid by the Company, all as determined in accordance with GAAP.

"Fixed Charge Coverage Ratio" means, at any date of determination, the ratio of Adjusted EBITDAR to Fixed Charges for the most recently ended Rolling Period.

"Funded Debt" means, at any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the sum of the following in such period, without duplication: (i) Indebtedness for borrowed money; (ii) Indebtedness evidenced by notes, debentures or similar instruments; (iii) Capital Leases; (iv) guarantees of Indebtedness or Capital Leases; and (v) letters

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of credit and letter of credit reimbursement obligations. For purposes of this definition, Funded Debt does not include the Junior Subordinated Debentures.

"GAAP" shall mean generally accepted accounting principles, which shall be (i) applied in accordance with the Statement on Auditing Standards No. 69 "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report," (SAS 69) or superseding pronouncements, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants and (ii) in the form and content of any requirements for financial statements filed with the Securities and Exchange Commission, in all cases applied on a consistent basis. The requirement that such principles be applied on a consistent basis shall mean that the accounting principles observed in a current period are comparable in all material respects to those applied in a preceding period except such changes in accounting principles approved by the Guarantor's outside auditors.

"Guarantors" means, individually and collectively, those Subsidiaries set forth on Schedule 2 attached hereto and any future Subsidiary executing a joinder to this Agreement to become a Guarantor.

"Hazardous Substance" means petroleum products and items defined in the Environmental Control Statutes as "hazardous substances", "hazardous wastes", "pollutants" or "contaminants" and any other toxic, reactive, corrosive, carcinogenic, flammable or hazardous substance or other pollutants.

"Indebtedness" of any person means and includes all obligations of such person which, in accordance with GAAP, shall be classified on a balance sheet of such person as liabilities of such person and in any event shall include all (i) obligations of such person for borrowed money or which have been incurred in connection with acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, notwithstanding that such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capital Leases, (v) guarantees and (vi) letters of credit and letter of credit reimbursement obligations.

"Interest Expense" means for any fiscal period, the interest expense of SunSource Inc. and its Consolidated Subsidiaries, as determined in accordance with GAAP for such period.

"Indenture" means the Indenture dated as of September 5, 1997 between the Company and Bank of New York, as trustee, providing for the issuance of the Junior Subordinated Debentures.

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"Junior Subordinated Debentures" means the unsecured subordinated obligations of the Company which were deposited in the Trust as trust assets upon the 1997 Conversion and the terms of which are included in the Indenture.

"Leverage Ratio" means as of any date of determination of SunSource Inc. and its Consolidated Subsidiaries the ratio of Funded Debt as of such date to EBITDA for the most recently ended Rolling Period.

"Loan" or "Loans" means the outstanding principal balance of Indebtedness for advances under the Credit Agreement, plus the outstanding principal balance of Indebtedness for advances on swing line loans under Paragraph 2.13 of the Credit Agreement, plus the unreimbursed amount of any draws on letters of credit under the Credit Agreement, in each case, together with interest accrued thereon and fees and expenses incurred in connection therewith.

"Local Authorities" means individually and collectively the state and local governmental authorities and administrative agencies which govern the commercial or industrial facilities or businesses owned or operated by the Obligors.

"Make-Whole Amount" shall mean, in connection with any

prepayment of a Note pursuant to Paragraph 4.2, the amount (but not less than zero) equal to the excess, if any, of

(1) the sum of the Present Values (as hereinafter defined) of (a) the principal amount of such Note being prepaid (assuming the principal balance of such Note payable upon maturity is paid when due) and (b) the amount of interest (other than accrued interest being paid concurrently with such prepayment) that would have been payable on each interest payment date on the amount of such principal being prepaid (assuming the principal balance of such Note payable upon maturity and interest payments are paid when due), over

(2) the principal amount of such Note being prepaid.

For purposes of this definition, "Present Value" shall be determined in accordance with generally accepted financial practice on a semiannual basis at a discount rate equal to the sum of the applicable Treasury Yield plus 1/2 of 1%; and the applicable "Treasury Yield" for such purpose shall be the yield on actively traded United States Treasury securities having a maturity equal to the then-remaining weighted average life to maturity (determined in accordance with generally accepted financial practice) of the Note being prepaid as determined by reference to the display designated as "Page 500" on the Dow Jones Markets Service (or, if such display is no longer published, any publicly available source of similar market data, such as Federal Reserve Statistical Release H.15(519), that became publicly available at least four Business Days prior to

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the date of such prepayment); provided that if such weighted average life to maturity is not equal to the maturity of any actively traded United States Treasury securities as set forth on said display (or said substitute source of market data), such yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the yields of actively traded United States Treasury securities set forth on said display (or said substitute source of market data) having a maturity closest to such weighted average life to maturity.

"Material Adverse Change" means a material adverse change in the business, financial condition or prospects of the Obligors and Subsidiaries taken as a whole as a result of any condition, circumstance or contingency, either singly or in the aggregate.

"Material Adverse Effect" means a material adverse effect on the business, financial condition or prospects of the Obligors and Subsidiaries taken as a whole as a result of any condition, circumstance or contingency, either singly or in the aggregate.

"Material Subsidiary" means any Subsidiary which either (i) comprised five percent (5%) or more of the assets of SunSource Inc. and its Consolidated Subsidiaries as of the most recent date for which a balance sheet has been delivered (or is required to have been delivered) hereunder or (ii) was responsible for five percent (5%) or more of EBITDA for the most recent Rolling Period.

"Maturity Date" means September 30, 2002.

"Net Cash Proceeds" of (A) any sale of assets shall mean the cash proceeds received by the seller in such a transaction less (i) the reasonable costs of the transaction, and (ii) indebtedness secured by any lien on such assets which is paid from such proceeds and (iii) any tax payment required to be made as a result of the gain (if any) on such sale; and (B) any other prepayment of the Loan and Notes shall mean the total amount of such payment to the Banks and the holder of the Notes.

"Net Income" means, for any period, SunSource Inc. and its Consolidated Subsidiaries' gross revenue for such period (excluding extraordinary gains and losses) less all expenses and other proper charges (including taxes on income) in each case as determined in accordance with GAAP.

"Net Worth" means, as of any date of determination, Total Assets minus Total Liabilities in SunSource Inc. and its Consolidated Subsidiaries, as stated on the financial statements most recently delivered to you pursuant to Paragraphs 5.2 and 5.3 hereof, as applicable.

"Noteholders' Applicable Share" means, as of any date of determination, with respect to any Net Cash Proceeds which are required or permitted to be used by the Company to reduce the amount outstanding on the Notes pursuant to this Agreement, the portion

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of such Net Cash Proceeds which bears the same relationship to the entire amount of such Net Cash Proceeds as the amount outstanding on the Notes on the date of

determination bears to the sum of the outstanding principal amount of the Loan plus the amount of the Notes on the date of determination.

"Notes" means the Company's 7.66% Notes due 2002 issued in an original aggregate principal amount of Sixty Million Dollars (\$60,000,000) pursuant to this Agreement.

"Officer's Certificate" means a certificate signed on behalf of the Company by the chief financial officer or controller of the Company.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Investments" means (i) investments in commercial paper maturing in 180 days or less from the date of issuance which is rated A1 or better by Standard & Poor's Corporation or P1 or better by Moody's Investors Services, Inc.; (ii) investments in direct obligations of the United States of America or obligations of any agency thereof which are guaranteed by the United States of America, provided that such obligations mature within twelve (12) months of the date of acquisition thereof; (iii) investments in certificates of deposit maturing within one (1) year from the date of acquisition thereof issued by a bank or trust company organized under the laws of the United States or any state thereof, having capital, surplus and undivided profits aggregating at least \$1,000,000,000 and the long-term deposits of which are rated A1 or better by Moody's Investors Services, Inc. or equivalent by Standard & Poor's Corporation; (iv) money market funds invested in vehicles of the types set forth in subsections (i) through (iii); and (v) other investments not to exceed \$500,000 in the aggregate made from the date hereof to the Maturity Date.

"Plan" means any pension benefit or welfare benefit plan as defined in Sections 3(1), (2) or (3) of ERISA covering employees of the Obligors or any ERISA Affiliate.

"Promissory Notes" means collectively the Promissory Notes in the form of Exhibit B attached to the Credit Agreement to be delivered by the borrowers set forth in the Credit Agreement to Banks pursuant to Paragraph 5.1(a) thereof, as the same may be amended or modified or extended or restated from time to time.

"Required Banks" means those Banks (which may include Agent) holding sixty-six and two-thirds percent (66-2/3%) or more of the amount of the commitment, as defined in the Credit Agreement, or, if indebtedness is outstanding hereunder, sixty-six and two-thirds percent (66-2/3%) or more of the Loan.

"Required Holders" means the holder or holders of at least sixty-six and two-thirds percent (66-2/3%) of the outstanding principal amount of the Notes.

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"Restricted Payments" means (i) any dividend or distribution on, or the purchase, redemption, prepayment or other retirement of the common securities of the Company and (ii) the payment of principal or interest on or the purchase, redemption, prepayment or other retirement of the Junior Subordinated Debentures.

"Rolling Period" means, as of any date, the most recent four (4) consecutive fiscal quarters of SunSource Inc. and its Consolidated Subsidiaries completed on or before such date.

"Sale of Material Assets" means any sale, transfer or other disposition of any Obligor's or any Subsidiary's assets in transactions (not related to the 1998 Conversion) in which the total consideration paid or payable to any Obligor or Subsidiary (including without limitation all cash, liabilities assumed and the fair market value of any stock provided in such transaction) is, in the aggregate, as to all such transactions after the date of this Agreement, greater than Fifteen Million Dollars (\$15,000,000).

"SDI Operating Partners, L.P." means SDI Operating Partners, L.P., a Delaware limited partnership.

"SDIPI" means SDI Partners I, L.P., a Delaware limited partnership and the general partner of SDI Operating Partners, L.P.

"Subsidiary" or "Subsidiaries" means any corporation of which the Company, directly or indirectly, owns more than fifty percent (50%) of any class or classes of securities. The Subsidiaries of the Company set forth on Schedule 1 attached hereto are, collectively with the Company, the Obligors, and those Subsidiaries of the Company set forth on Schedule 2 attached hereto are the Guarantors.

"SunSource Inc." means the Company, SunSource Inc., a Delaware corporation.

"SunSource Inc. and its Consolidated Subsidiaries" means the Company and its consolidated subsidiaries as defined in accordance with GAAP.

"SunSub A" means SunSub A Inc., a Delaware corporation.

"SunSub B" means SunSub B Inc., a Delaware corporation.

"Total Assets" means, as of any date of determination, all assets of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc. and its Consolidated Subsidiaries' financial statements most recently delivered to you pursuant to Paragraphs 3.6, 5.2 and 5.3 hereof, as defined in accordance with GAAP.

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"Total Capital" means, at any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the sum of the following: (i) Funded Debt; (ii) the outstanding principal amount of Junior Subordinated Debentures; and (iii) Net Worth.

"Total Liabilities" means, as of any date of determination, all liabilities and deferred items of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc. and its Consolidated Subsidiaries' financial statements most recently delivered to you pursuant to Paragraphs 3.6, 5.2 and 5.3 hereof, as defined in accordance with GAAP.

"Trade Notes" means Indebtedness of the Company secured by the Company's inventory of glass and window products pursuant to financing plans in the normal course of business for value received.

"Trust" shall mean SunSource Capital Trust, a Delaware statutory business trust, which is the issuer of the Trust Preferred Securities to the former holders of the A interests in SunSource L.P. and the Trust Common Securities to the Company.

"Trust Common Securities" means the common securities issued by the Trust pursuant to the Conversion.

"Trust Preferred Securities" means the preferred securities issued by the Trust pursuant to the Conversion.

"Year 2000 Compliant" means, as to any computer system or application or micro-processor dependent good or equipment, that it is designed and intended to be used prior to, during and after the calendar year 2000 AD and that it will operate as designed and intended during each such time period without error relating to date data or date information, specifically including any error relating to, or the product of, date data or date information that represents or references different centuries or more than one century.

7.2. Rules of Construction.

(a) GAAP. Except as otherwise provided herein, financial and accounting terms used in the foregoing definitions or elsewhere in this Agreement shall be defined in accordance with GAAP. If the Company or you determine that a change in GAAP from that in effect on the date hereof has altered the treatment of certain financial data to their detriment under this Agreement, such party may, by written notice to the other within thirty (30) days after the effective date of such change in GAAP, request renegotiation and the parties agree to negotiate in good faith to modify such financial covenants affected by such change to reflect equitably such change. If the Company and the holders of the Notes have not agreed on revised covenants within thirty (30) days after the delivery of such notice, then, for purposes of this Agreement, GAAP will mean generally

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accepted accounting principles on the date just prior to the date on which the change occurred that gave rise to the notice.

(b) Use of Term "Consolidated". Any term defined in this Section 7, when modified by the word "Consolidated" shall have the meaning given to such term herein as to the Company on a consolidated basis with its Subsidiaries and all other entities whose accounts, financial results or position, for either federal income tax or financial accounting purposes, are consolidated with those of the Company in accordance with GAAP.

SECTION 8. EVENTS OF DEFAULT; REMEDIES.

8.1. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) If any Obligor or Guarantor shall fail to pay when due (i) any installment of principal or interest when due or (ii) fees,

costs, expenses or any other sum payable to you hereunder or otherwise within 5 days after notice from you that it is due;

(b) If any representation or warranty made herein or in connection herewith or in any statement, certificate or other document furnished hereunder is incorrect, false or misleading in any material respect when made;

(c) If any Obligor or Guarantor shall default in the payment or performance of any obligation or Indebtedness to another, either singly or in the aggregate in excess of \$1,000,000, whether now or hereafter incurred;

(d) If there shall be a default in or failure to observe at any test date the covenants set forth in Paragraphs 5.12 through 5.14 or Section Six hereof;

(e) If any Obligor or Guarantor shall default in the performance of any other agreement or covenant contained herein (other than as provided in subparagraphs (a), (b) or (d) above) or in any document executed or delivered in connection herewith, and such default shall continue uncured for twenty (20) days after the earlier of (i) any Obligor having actual knowledge of such default, and (ii) notice thereof to the Company given by any holder of a Note;

(f) [Intentionally omitted];

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(g) If custody or control of any substantial part of the property of any of the Obligor or Guarantor shall be assumed by any governmental agency or any court of competent jurisdiction at the instance of any governmental agency; if any material license or franchise shall be suspended, revoked or otherwise terminated; if any governmental regulatory authority or judicial body shall make any other final non-appealable determination the effect of which would be to affect materially and adversely the operations of any Obligor or Guarantor as now conducted;

(h) If any Obligor or Guarantor: becomes insolvent, bankrupt or generally fails to pay its debts as such debts become due; is adjudicated insolvent or bankrupt; admits in writing its inability to pay its debts; or shall suffer a custodian, receiver or trustee for it or substantially all of its property to be appointed and if appointed without its consent, not be discharged within thirty (30) days; makes an assignment for the benefit of creditors; or suffers proceedings under any law related to bankruptcy, insolvency, liquidation or the reorganization, readjustment or the release of debtors to be instituted against it and if contested by it not dismissed or stayed within thirty (30) days; if proceedings under any law related to bankruptcy, insolvency, liquidation, or the reorganization, readjustment or the release of debtors is instituted or commenced by any Obligor; if any order for relief is entered relating to any of the foregoing proceedings; if any Obligor or Guarantor shall call a meeting of its creditors with a view to arranging a composition or adjustment of its debts; or if any Obligor or Guarantor shall by any act or failure to act indicate its consent to, approval of or acquiescence in any of the foregoing;

(i) If any event or condition shall occur or exist with respect to any activity or substance regulated under the Environmental Control Statutes and as a result of such event or condition, any Obligor or Guarantor has incurred or in the opinion of the Company are reasonably likely to incur a liability in excess of \$1,000,000 during any consecutive twelve (12) month period;

(j) If any judgment, writ, warrant or attachment or execution or similar process which calls for payment or presents liability in excess of \$1,000,000 shall be rendered, issued or levied against any Obligor or Guarantor or its respective property and such process shall not be paid, waived, stayed, vacated, discharged, settled, satisfied or fully bonded within sixty (60) days after its issuance or levy; provided, however, that if a judgment, writ, warrant or attachment or execution or similar process relates to federal or state taxation, then an Event of Default shall occur if the same shall not be paid, waived, stayed, vacated, discharged, settled, satisfied or fully bonded within one hundred twenty (120) days after its issuance or levy; or

(k) If the Company makes a payment of principal or interest on or purchases or redeems the Junior Subordinated Debentures and the Trust does not immediately use such funds to make Distributions Paid on Trust Securities.

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8.2. Acceleration; Suits for Enforcement. (i) Upon the occurrence of an Event of Default under Paragraph 8.1(h), the unpaid principal amount of all Notes, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by the Company and (ii) if any other Event of Default shall have occurred and be continuing, the holders of at least 51% in aggregate principal amount of the Notes may elect to declare the entire unpaid principal amount of all Notes to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below, provided that, during the existence of an Event of Default described in Paragraph 8.1(a) with respect to any Note, the holder of such Note may, by written notice to the Company, declare such Note to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below. If any holder of any Note shall exercise the option specified in the proviso to the preceding sentence, the Company will forthwith give written notice thereof to the holders of all other outstanding Notes and each such holder may (whether or not such notice is given or received), by written notice to the Company, declare the principal of all Notes held by it to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below. For purposes of this Paragraph 8.2 the term "Additional Amount" means, with respect to any Note, an amount equal to the Make-Whole Amount that would be payable with respect to such Note if the Company had elected to prepay the Notes pursuant to Paragraph 4.2. In addition, the holder of any Note may proceed to protect and enforce its rights, either by suit in equity or by action at law, or both, whether for the specific performance of any covenant or agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement, or the holder of any Note may proceed to enforce the payment of all sums due upon such Note whether by acceleration or otherwise or to enforce any other legal or equitable right of the holder of such Note.

The Company covenants that, if it shall default in the making of any payment due under any Note or in the performance or observance of any agreement contained in this Agreement, it will pay to the holder thereof such further amounts, to the extent lawful, as shall be sufficient to pay the costs and expenses of collection or of otherwise enforcing such holder's rights, including reasonable counsel fees.

8.3. Remedies Cumulative. No remedy herein conferred upon you or the holder of any Note is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

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8.4. Remedies Not Waived. No course of dealing between the Company and you or the holder of any Note and no delay or failure in exercising any rights hereunder or under any Note in respect thereof shall operate as a waiver of any of your rights or the rights of any holder of such Note.

SECTION 9. GUARANTY.

9.1. Guaranty. Each Guarantor hereby irrevocably, absolutely and unconditionally guarantees and becomes surety for the full, prompt and punctual payment to you and the other holders of the Notes, as and when due, whether at maturity, by acceleration or otherwise, of any and all Indebtedness, liabilities and obligations of the Company to you and the other holders of the Notes created at any time under, or pursuant to the terms of, this Agreement and of the Notes, whether for principal, interest, premiums, fees, expenses or otherwise (all such indebtedness, liabilities and obligations being called in this Section Nine collectively the "Obligations"), together with any and all reasonable expenses, including attorneys' fees and disbursements, which may be incurred by you or the other holders of the Notes in enforcing any and all rights against Guarantors under this Agreement (herein the "Expenses").

9.2. Bankruptcy. Without limiting Guarantors' obligations hereunder and notwithstanding any purported termination of this Section Nine or this Agreement, if any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation, dissolution, assignment for the benefit of creditors, or similar event with respect to any of the Obligors or any additional guarantor or endorser of all or any of the Obligations and Expenses shall occur, and such occurrence shall result in the return of (or if in such event you or another holder of the Notes shall be requested to return) any payment or performance of any of the Obligations or Expenses, then the obligations of each Guarantor hereunder shall be reinstated with respect to such payment or performance returned or requested to be returned and with respect to all further obligations arising as a result of such return or request, and each Guarantor shall thereupon be liable therefor, without any obligation on the part of you or another holder of the Notes to contest or resist any such return.

9.3. Nature and Term of Guaranty. The obligations of each

Guarantor under this Section Nine shall be independent, absolute, irrevocable and unconditional and shall remain in full force and effect until the Obligations and all other amounts payable hereunder shall have been paid in full (subject, however, to reinstatement under Paragraph 9.2 hereof).

9.4. Rights and Remedies. You or any other holder of the Notes may proceed to exercise any right or remedy which you or it may have under this Section Nine against Guarantors without first pursuing or exhausting any rights or remedies which it may have against any of the Obligors, any additional guarantor or against any other person or entity or any collateral security, and may proceed to exercise any right or remedy which it may have under this Section Nine without regard to any actions or omissions of any other person or entity, in any manner or order, without any obligation to marshal in favor of Guarantors or other persons or

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entities and without releasing any of Guarantors' obligations hereunder with respect to any unpaid Obligations and Expenses. No remedy herein conferred upon or reserved to you and the other holders of the Notes is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Section Nine or now or hereafter existing at law or in equity.

9.5. Actions by Holders of the Notes Not Affecting Guaranty. The Required Holders may, at any time or from time to time, in such manner and upon such terms as they may deem proper, extend or change the time of payment or the manner or place of payment of, or otherwise modify or waive any of the terms of, or release, exchange, settle or compromise any or all of the Obligations and Expenses or any collateral security therefor, or subordinate payment of the same, or any part thereof, to the payment of any other indebtedness, liabilities or obligations of any of the Obligors which may at any time be due or owing to themselves or anyone, or elect not to enforce any of their rights with respect to any or all of the Obligations and Expenses or any collateral security therefor, all without notice to, or further assent of, Guarantors and without releasing or affecting Guarantors' obligations under this Section Nine.

9.6. Payment in Accordance with Notes and this Agreement. This Section Nine shall be construed as guaranteeing that the Obligations and Expenses shall be paid strictly in accordance with the terms of the Notes and this Agreement, regardless of any non-perfection of any collateral security for the Obligations; any invalidity or unenforceability of this Agreement, the Notes or any of the Obligations; the voluntary or involuntary liquidation, dissolution, sale or other disposition of all, or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings affecting any of the Obligors, Guarantors or any additional guarantor or endorser of any or all of the Obligations and Expenses or any of the assets of any of them, or any contest of the validity of this Section Nine in any such proceeding; or any law, regulation or decree now or hereafter in effect in any jurisdiction which might in any manner affect any of such terms or provisions or any rights of the holder or holders of the Notes with respect thereto or which might cause or permit any of the Obligors or any additional guarantor or endorser of the Obligations and Expenses to invoke any defense to, or any alteration in the time, amount or manner of payment of any or all of the Obligations and Expenses or performance of this Section Nine.

9.7. Payments Under Guaranty. All payments by Guarantors hereunder shall be made in the manner set forth on Schedule 3 hereto.

9.8. Waivers and Modifications. No failure or delay on the part of any holder of the Notes in exercising any power or right under this Section Nine against Guarantors shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power under this Section Nine. No modification or waiver of any provision of this Section Nine, nor consent to any departure therefrom, shall, in any event, be effective unless the same is in writing

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signed by the Required Holders and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to, or demand on Guarantors, in any case, shall entitle the Guarantors to any other or further notice or demand in similar or other circumstances.

9.9. Waiver. Each Guarantor hereby waives promptness, diligence, presentment, demand, notice of acceptance and any other notice with respect to any of the Obligations and this Section Nine, except notice of demand for payment hereunder.

9.10. Subordination of Rights of Subrogation. Guarantors shall not exercise any rights which Guarantors may acquire by way of subrogation under this Section Nine, applicable law or otherwise, by any payment made hereunder or otherwise, until all of the Obligations and Expenses and all other amounts payable hereunder (including amounts which may become due following a reinstatement hereof under Paragraph 9.2 hereof) shall have been paid in full in cash. If any amount shall be paid to any Guarantor on account of such rights at any time when all the Obligations and Expenses shall not have been paid in full (including amounts which may become due following a reinstatement hereof under Paragraph 9.2 hereof), such amount paid to such Guarantor shall be held in trust for the benefit of the holders of the Notes and shall forthwith be credited and applied against the Obligations and Expenses, whether matured or unmatured, in accordance with the terms of the Notes and this Agreement; provided, however, that to the extent not prohibited by applicable law or affecting the Banks' or holders of the Notes right to retain such funds, the holders of the Notes shall retain Noteholders' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the Banks. If any Guarantor shall make payment to the holders of the Notes of all or any part of the Obligations and Expenses and all of the Obligations and Expenses shall be paid in full, the holders of the Notes, shall, at such Guarantor's request, execute and deliver to such Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer, by subrogation, to Guarantor of an interest in the Obligations resulting from such payment by Guarantor.

9.11. No Setoff by Guarantors. No setoff, counterclaim, reduction, or diminution of any obligation, or any defense of any kind or nature which Guarantors have or may have against any of the Obligors or any holder of the Notes shall be available hereunder to Guarantors.

9.12. Continuing Guaranty; Transfer of Note. Except as provided in Paragraph 9.2 hereof, this Section Nine is a continuing guaranty and shall (i) remain in full force and effect until the Obligations and Expenses and all other amounts payable under this Section Nine shall have been paid in full (subject, however, to reinstatement under Paragraph 9.2 hereof), (ii) be binding upon Guarantors and the successors and assigns of Guarantors, and (iii) inure to the benefit of the holders of the Notes, and be enforceable by them and their successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any holder of the Notes may, to the extent permitted in this Agreement endorse, assign or otherwise transfer

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its Notes to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to any holder of the Notes herein or otherwise.

9.13. Representations and Warranties; Covenants. By signing in the place provided below, each Guarantor hereby makes the representations and warranties set forth in this Agreement and hereby agrees to the covenants and other agreements of the Guarantors to the extent set forth in this Agreement.

SECTION 10. REGISTRATION, TRANSFER AND EXCHANGE OF NOTES. The Company will keep at its principal executive office a note register (herein sometimes referred to as the "Note Register"), in which, subject to such reasonable regulations as it may prescribe, but at its expense (other than transfer taxes, if any), it will provide for the registration and transfer of Notes.

Whenever any Note or Notes shall be surrendered either at the principal executive office of the Company or at the place of payment named in the Notes, for transfer or exchange, the Company will execute and deliver in exchange therefor a new Note or Notes, as may be requested by such holder, in the same aggregate unpaid principal amount of the Note or Notes so surrendered. Each such new Note shall be payable to such person as such holder may request. Each Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or shall be accompanied by a written instrument of transfer duly executed, by the registered holder of such Note or its attorney duly authorized in writing. Any Note issued in exchange for any other Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, and neither gain nor loss of interest shall result from any such transfer or exchange. Any transfer tax relating to such transaction shall be paid by the holder requesting the exchange.

The Company and any agent of the Company may treat the person in whose name any Note is registered as the owner of such Note for the purpose of receiving payment of the principal of and premium (if any) and interest on such Note and for all other purposes whatsoever, whether or not such Note be overdue.

SECTION 11. LOST, ETC., NOTES. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of any Note, and (in case of loss, theft or destruction) of indemnity satisfactory to it and upon surrender and cancellation of such Note, if mutilated, the Company will deliver in lieu of such Note a new Note in a like unpaid principal amount, dated as of the date to which interest has been paid thereon.

Notwithstanding the foregoing provisions of this Section, if any Note of which you or any other institutional holder is the owner is lost, stolen or destroyed, then the affidavit of your or such holder's Treasurer or Assistant Treasurer (or other responsible officials) shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a

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condition to the execution and delivery by the Company of a new Note in lieu of such Note (or as a condition to the payment thereof, if due and payable) other than your or such holder's written agreement to indemnify the Company.

The Company will keep at its principal executive offices a true copy of this Agreement (as at the time in effect), and cause the same to be available for inspection at said office during normal business hours by any holder of a Note or any prospective purchaser of a Note designated by a holder thereof.

SECTION 12. AMENDMENT AND WAIVER.

A. Any term, covenant, agreement or condition of this Agreement or of the Notes may, with the consent of the Company, be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively) by one or more substantially concurrent written instruments signed by the Required Holders, provided, however, that no such amendment or waiver shall:

(1) (i) change the rate or the time of payment of interest on any of the Notes, without the consent of the holder of each Note so affected,

(ii) modify any of the provisions of this Agreement or of the Notes with respect to the payment or prepayment thereof, or change the percentage of holders of Notes required to approve any such amendment or effectuate any such waiver, without the consent of the holders of all the Notes then outstanding, or

(iii) give to any Note any preference over any other Note,

(2) extend to or affect any obligation not expressly waived or impair any right consequent thereon, and

(3) amend, waive or modify the provisions of this Agreement relating to (i) the covenants set forth in Paragraphs 5.12 through 5.14 and Section Six hereof; (ii) any of the Events of Default set forth in Paragraph 8.1 hereof; (iii) the mandatory and voluntary prepayment provisions of Paragraphs 4.1, 4.2, 4.3, 4.4, 4.7 and 4.8 hereof; and (iv) any of the definitions relating to the matters described in clauses (i) through (iii) above, without the simultaneous amendment, waiver or modification of the corresponding provision of the Credit Agreement by Banks or Required Banks, as applicable.

B. Any amendment or waiver pursuant to Subsection A of this Section shall (except as provided in Clause A(1)(i)) apply equally to all the holders of the Notes and shall

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be binding upon them, upon each future holder of any Note and upon the Company, in each case whether or not a notation thereof shall have been placed on any Note.

C. The Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Notes unless each holder of any Note (irrespective of the amount of Notes then owned by it) shall be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 12 shall be delivered by the Company to each holder of outstanding Notes forthwith following the date on which the same shall have been executed and delivered by the required percentage of the holders of the Notes. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any holder of any Note as consideration for or as an inducement to the entering into by any holder of any Note or any amendment or waiver of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to the holders of all of the Notes outstanding at the time such offer is made.

SECTION 13. HOME OFFICE PAYMENT. Notwithstanding anything to the contrary in this Agreement or the Notes, so long as you or any nominee

designated by you shall be the holder of any Note, the Company shall punctually pay all amounts which become due and payable on such Note to you at your address and in the manner set forth in Schedule 3 hereto, or at such other place and in such other manner as you may designate by notice to the Company, without presentation or surrender of such Note. You agree that prior to the sale, transfer or other disposition of any such Note, you will make notation thereon of the portion of the principal amount paid or prepaid and the date to which interest has been paid thereon, or surrender the same in exchange for a Note or Notes aggregating the same principal amount as the unpaid principal amount of the Note so surrendered. The Company shall enter into an agreement similar to that contained in this Section with any other institutional investor (or nominee thereof) who shall hold any of the Notes.

SECTION 14. LIABILITIES OF THE PURCHASER. Neither this Agreement nor any disposition of any of the Notes shall be deemed to create any liability or obligation of you or any other holder of any Note to enforce any provision hereof or of any of the Notes for the benefit or on behalf of any other person who may be the holder of any Note.

SECTION 15. TAXES. The Company will pay all taxes (including interest and penalties) which may be payable in respect of the execution and delivery of this Agreement or of the execution and delivery (but not the transfer) of any of the Notes or of any amendment of, or waiver or consent under or with respect to, this Agreement or of any of the Notes and will save you and all subsequent holders of the Notes harmless against any loss or liability resulting from nonpayment or delay in payment of any such tax. In addition and not in limitation of the

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foregoing, the Obligors jointly and severally agree to indemnify and hold each holder of a Note free and harmless from and against any federal, state or local income or franchise taxes or any interest, penalties, or additions to tax with respect thereto, that are incurred by any holder of a Note in whole or in part by reason of any assumption by the Obligors of the obligations under the Existing Note Purchase Agreement and the Notes issued thereunder or the receipt of any payment in respect of such taxes or other amounts. The obligations of the Company under this Section shall survive the payment of the Notes.

SECTION 16. MISCELLANEOUS.

16.1. Expenses. The Company agrees, whether or not the transactions contemplated by Paragraph 1.2 shall be consummated, to pay all reasonable expenses incident to such transactions and also in connection with any future amendment of, or waiver under or with respect to (whether or not the same shall become effective), this Agreement or any of the Notes, including in each case, without limitation, all document production and other expenses, the reasonable fees and disbursements of your special and local counsel for their services in connection with such transactions, the fees and expenses in connection with the assignment of the private placement number referred to in Paragraph 3.7 and all expenses in connection with the shipping to and from your office or the office of your nominee or custodian bank of the Notes delivered to you on the Closing Date and to reimburse you for any reasonable out-of-pocket expenses in connection therewith. The Company also agrees to pay all reasonable expenses following the occurrence and during the continuance of any Default or Event of Default or incident to the negotiation of any restructuring, workout or similar arrangement, whether or not consummated, relating to the Company. The obligations of the Company under this Paragraph shall survive the payment of the Notes.

In furtherance of the foregoing paragraph, on the Closing Date, the Company will pay the fees and disbursements of Milbank, Tweed, Hadley & McCloy and Pepper Hamilton LLP which are reflected in the statements of such special counsel delivered to the Company on or prior to the Closing Date; and thereafter the Company will pay, promptly upon receipt of supplemental statements therefor from time to time, additional fees, if any, and disbursements of such special counsel in connection with the transactions contemplated by Paragraph 1.2 (including unposted disbursements as of the Closing Date).

16.2. Reliance on and Survival of Representations. All agreements, representations and warranties of the Company or any partner of the Company herein and in any certificates or other instruments delivered pursuant to this Agreement shall (A) be deemed to be material and to have been relied upon by you, notwithstanding any investigation heretofore or hereafter made by you or on your behalf, and (B) survive the execution and delivery of this Agreement and the delivery of the Notes to you, and shall continue in effect so long as any Note is outstanding and thereafter as provided in Section 15 and Paragraph 16.1.

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16.3. Successors and Assigns. All covenants and agreements in this Agreement by or on behalf of the respective parties hereto shall bind and inure to the benefit of their respective successors and assigns, except that, in the case of a successor to the Company by consolidation or merger or a transferee of its assets, this Agreement shall inure to the benefit of such successor or transferee only if it becomes such in accordance with Paragraph 6.8; provided, however, that you shall not be obligated to purchase any Notes on the Closing Date from any person other than the Company. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Notes, and shall be enforceable by any such holder, whether or not an express assignment to such holder of rights under this Agreement has been made by you or your successor or assign, provided, however, that the benefit of Paragraphs 5.2, 5.3, 5.6, Section 11 (as to satisfactory indemnity) and Section 13 shall be limited as provided therein.

16.4. Notices. All notices, opinions and other communications provided for in this Agreement shall be in writing and delivered or mailed, first class postage prepaid, addressed (A) if to the Company, at the address set forth at the head of this Agreement (marked for the attention of Vice President-Finance), or at such other address as the Company may hereafter designate by notice to you and to each other holder of any Note at the time outstanding, (B) if to you, at your address as set forth in Schedule 3 hereto or at such other address as you may hereafter designate by notice to the Company, or (C) if to any other holder of any Note, at the address of such holder as it appears on the Note Register or the records of the Company maintained pursuant to Section 10.

16.5. Reproduction of Documents. This Agreement and all related documents, including (a) consents, waivers and modifications which may subsequently be executed, (b) documents received by you at the closing of your purchase of the Notes (except the Notes themselves), and (c) financial statements, certificates and other information previously or subsequently furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by you in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

16.6. Law Governing. This Agreement and the Notes shall be governed by and construed in accordance with the laws of the State of New York.

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16.7. Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms hereof.

16.8. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

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If you are in agreement with the foregoing, please sign the form of acceptance in the space provided below whereupon this Agreement shall become a binding agreement between you and the Company and its Subsidiaries.

Very truly yours,

SUNSOURCE INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INVESTMENT COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSUB A INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

THE HILLMAN GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

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HARDING GLASS, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INDUSTRIAL SERVICES
COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE CORPORATE GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

KAR PRODUCTS INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INVENTORY MANAGEMENT
COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

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SUNSOURCE TECHNOLOGY SERVICES INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

The foregoing Agreement is
hereby accepted as of the date
first above written:

TEACHERS INSURANCE AND
ANNUITY ASSOCIATION OF
AMERICA

By: _____
Name:
Title:

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SCHEDULE I

SUBSIDIARIES OF SUNSOURCE INC.
THAT ARE OBLIGORS UNDER THE NOTE PURCHASE AGREEMENT

SunSource Investment Company, Inc.
SunSub A Inc.
The Hillman Group, Inc.
Harding Glass, Inc.
SunSource Industrial Services Company, Inc.
SunSource Corporate Group, Inc.
SunSource Inventory Management Company, Inc.
SunSource Technology Services Inc.
Kar Products Inc.

SCHEDULE II

SUBSIDIARIES OF SUNSOURCE INC.
THAT ARE GUARANTORS UNDER THE NOTE PURCHASE AGREEMENT

None

SCHEDULE 3

MANNER OF PAYMENT AND NOTICE

<TABLE>
<CAPTION>

Name and Address of Purchaser

Principal Amount of
Notes to be Purchased

<S>
TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

<C>
\$60,000,000

XVII. All payments on account of the Notes shall be made in immediately available funds prior to 12:00 noon (New York time) on the due date by electronic funds transfer through the Automated Clearing House System identifying each payment as to:

The Chase Manhattan Bank
ABA No. 021-000-021
New York, New York

Account of: Teachers Insurance and Annuity
Association of America
Account Number: 900-9-000200
For Further Credit to Account Number G07040

XVIII. Contemporaneous with the above electronic funds transfer payment, written confirmation of each such payment setting forth: (a) the full name, private placement number, interest rate and maturity date of the Notes; (b) allocation of payment between principal, interest and Make-Whole Amount; and (c) the name and address of the bank from which such electronic funds transfer was sent shall be delivered, mailed or faxed to:

Teachers Insurance and Annuity Association
of America
730 Third Avenue
New York, NY 10017
Attention: Securities Accounting Division
Telephone Number: (212) 916-6004
Facsimile Number: (212) 916-6955

XIX. All other communications shall be delivered or mailed to:
Teachers Insurance and Annuity
Association of America
730 Third Avenue
New York, NY 10017
Attention: Securities Division,
Private Placements
General Telephone Number: (212) 490-9000
Facsimile Number: (212) 916-6901

XX. Taxpayer I.D. Number: 13-1624203

</TABLE>

EXHIBIT A

SUNSOURCE INC. AND ITS SUBSIDIARIES SET FORTH ON
SCHEDULE 1 TO THE NOTE PURCHASE AGREEMENT

SENIOR NOTE DUE 2002

PPN: _____

Note No.

[Date]

\$

FOR VALUE RECEIVED, the undersigned, SUNSOURCE INC., a corporation organized and existing under the laws of Delaware (herein called the "Company") and its subsidiaries set forth on Schedule 1 to the Note Purchase Agreement referred to below (together with the Company, the "Obligors"), hereby jointly and severally promise to pay to

or registered assigns, the principal sum of

DOLLARS

(or so much thereof as shall not have been prepaid) on September 30, 2002, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal hereof at the rate of 7.66% per annum (subject to increase as provided in Paragraph 1.4 of the Note Purchase Agreement referred to below) from December 30, 1998, payable quarterly in arrears on March 30, June 30, September 30 and December 30 in each year, commencing on December 30, 1997, until said principal shall have become due and payable, and thereafter to pay interest (so computed) at the rate per annum equal to the greater of (i) the prime commercial lending rate of interest announced by The Chase Manhattan Bank (National Association) at its principal office in New York, New York, as in effect from time to time, plus 1% or (ii) 8.66%, on any overdue principal and premium and, to the extent permitted by applicable law, on any overdue interest, until the same shall be paid. Payments of principal, premium, if any, and interest are to be made at the office of Morgan Guaranty Trust Company of New York, New York, in lawful money of the United States of America.

This Note is one of the 7.66% Senior Notes issued pursuant to the Amended and Restated Note Purchase Agreement dated as of December 31, 1998 between the Obligors, the Subsidiaries of the Company set forth on Schedule 2 thereto, as Guarantors, and Teachers Insurance and Annuity Association of America (the "Note Purchase Agreement"), and is entitled to the benefits thereof. As provided in said Note Purchase Agreement, this Note is subject to optional prepayments in whole or in part.

This Note is transferable on the note register of the Company upon presentment at the principal executive office of the Company or the place of payment named herein, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing. As provided in said Note Purchase Agreement, Notes may also be exchanged at such office or place of payment for a like aggregate principal amount of Notes, as requested by the holder presenting the same. The Company may deem and treat the person in whose name this Note is registered as the holder and owner hereof for the purpose of receiving payments and for all other purposes whatsoever, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default (as defined in said Note Purchase Agreement) shall occur and be continuing, the principal of this Note may become or be declared due and payable in the manner and with the effect provided in said Note Purchase Agreement.

SUNSOURCE, INC.

By: _____
Name:
Title:

SUNSOURCE INVESTMENT COMPANY, INC.

By: _____
Name:
Title:

SUNSUB A INC.

By: _____
Name:
Title:

THE HILLMAN GROUP, INC.

By: _____
Name:
Title:

[EXECUTIONS CONTINUED]

HARDING GLASS INC.

By: _____
Name:
Title:

SUNSOURCE INDUSTRIAL SERVICES
COMPANY, INC.

By: _____
Name:
Title:

SUNSOURCE CORPORATE GROUP, INC.

By: _____
Name:
Title:

KAR PRODUCTS INC.

By: _____
Name:
Title:

SUNSOURCE INVENTORY MANAGEMENT
COMPANY, INC.

By: _____
Name:
Title:

SUNSOURCE TECHNOLOGY SERVICES INC.

By: _____
Name:
Title:

2.4 Material Contracts

None

2.5 Compliance

None

2.6 Litigation

On February 27, 1996, a lawsuit was filed against the Company by the buyer of its Dorman Products division, R&B, Inc. ("R&B") for alleged misrepresentation of certain facts by the Company upon which R&B allegedly based its offer to purchase Dorman. The complaint seeks damages of approximately \$21,000,000, although the Company believes that any recovery by R&B will be substantially lower. In 1998, the Company and R&B agreed to an arbitration process with respect to certain unresolved post-closing adjustments. In the third quarter the Company recorded a pre-tax charge of \$1,300,000 which management estimates is the Company's maximum exposure related to these post-closing issues. On December 4, 1998 a hearing was held by the arbitrator on these matters and his decision is expected by January 7, 1998. It is unclear what impact the arbitration decision will have on the ultimate resolution of this litigation. R&B has offered to settle the arbitration and litigation for the amount of \$10,000,000. The Company is in the process of determining its response to this settlement offer but would not expect to exceed the amount of the reserve indicated above.

2.7 Title to Assets

See the Attached Schedule of Indebtedness and Obligations for Secured Assets and Lease Obligations as of November 30, 1998 also as described in Notes 9, 10 and 11 to Consolidated Financial Statements of the Company and Subsidiaries as of and for the period ended December 31, 1997, previously furnished to the holder of the Note.

2.8 Capital Stock

Page 2 of 4

The number of shares and classes of capital stock of each Borrower and each Subsidiary and the ownership thereof effective upon the 1998 Conversion are as follows:

Ownership of the Company

Authorized Shares: 1,000 shares of Preferred Stock, \$.01 par value per share 20,000,000 shares of Common Stock, \$.01 par value per share

Outstanding: Preferred stock: none
Common stock: 6,756,129 shares (directors and executive officers ownership is approximately 21% of shares outstanding).

Treasury: 461,100 common shares.

Ownership of SunSource Investment Company, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share Outstanding: 100 shares issued to SunSource, Inc.

Ownership of SunSub A Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share Outstanding: 100 shares issued to SunSource Investment Company, Inc.

Ownership of The Hillman Group, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share Outstanding: 100 shares issued to SunSub A Inc.

Ownership of Harding Glass, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Industrial Services Company, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value

per share Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Corporate Group, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value
per share Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Inventory Management Company, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value
per share Outstanding: 100 shares issued to SunSource Industrial
Services Company, Inc.

2.8 Capital Stock, continued

Page 3 of 4

Ownership of SunSource Technology Services Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value
per share Outstanding: 100 shares issued to SunSource Industrial
Services Company, Inc.

Ownership of Kar Products, Inc.

Authorized Shares: 100 shares of Common Stock, \$.01 par value
per share Outstanding: 100 shares issued to SunSource Industrial
Services Company, Inc.

Ownership of A & H Holding Co., Inc.

Outstanding: 100 shares issued to Kar Products Inc.

Ownership of Hydra Power de Mexico

Outstanding: 49,998 shares of Common Stock issued to A&H Holding
Co., Inc.

Ownership of SIMCO de Mexico

Outstanding: 98 shares of Common Stock issued to A&H Holding
Co., Inc.

Ownership of SunSource Canada Investment company LLC

Outstanding: 100 shares of Common Stock issued to A&H Holding
Co., Inc.

Ownership of J. N. Fauver (Canada), Ltd.

Outstanding: 5 shares of Common Stock issued to SunSource Canada
Investment Company LLC.

Ownership of A & H Bolt & Nut Company, Ltd.

Outstanding: 306 Class B special shares issued to SunSource
Canada Investment Company LLC

2.10 (c) Taxes and Assessments

The Internal Revenue Service and/or various State Taxing Authorities have in progress income tax audits of records for the years 1982 through 1984. The Company has assumed the agreements of Sun Distributors, Inc., to extend the time for assessment of tax for tax periods 1985, 1986 and January 1, 1987 through February 11, 1987. There have been no tax audits by the Internal Revenue Service of records of the Company, SDI, SDIPI, SunSub A and SunSub B to date nor have agreements to extend the time for assessment been executed to date. Various State taxing authorities have in progress tax audits of records of the Company.

2.11 Indebtedness

Page 4 of 4

- See the Attached Schedule of Indebtedness and Obligations
- Lease Obligations as described in Note 11 to Consolidated Financial Statements of SunSource Inc. and Subsidiaries as of and for the period ended December 31, 1997, furnished to the Banks.

2.12 Management Agreements

Arthur Anderson -- Restructuring Consulting
PricewaterhouseCoopers -- Annual Audit and Tax Compliance
Registrar & Transfer Co. -- Transfer Agent
Frank Russell Trust Co. -- Investment Manager, Retirement Plans

2.13 Subsidiaries and Investments

Employee advances aggregating \$ 20,000 as of September 30, 1998.

2.14 ERISA

Unfunded liabilities for post-retirement life or health benefits are estimated for the following Operating Division: J. N. Fauver Company \$452,000

The Company is a party to multi-employer pension plans of which there was no withdrawal liability as of December 31, 1997, but which could have withdrawal liability in the future. The multi-employer pension plans are as follows:

Harding Glass Industries - International Brotherhood of Painters and Allied Trades Pension Trust--Glaziers, Architectural Metal and Glass-workers Local #930 and Glaziers Local #911

- Glaziers Local #930 Pension Trust
- Western Conference of Teamsters Pension Trust

2.17 Hazardous Wastes, Substances and Petroleum Products

Philips & Company
Mid-MO Superfund Site --Limited Liability Expected

Downey Glass Company
Operating Industries, Inc. Landfill Superfund Site
Liability not expected to exceed \$300,000 recorded on the books of SunSource Inc. as of September 30, 1998.

SDI OPERATING PARTNERS, L.P.
EXISTING LETTERS OF CREDIT
AS OF 11/30/98

(in thousands)

<TABLE>
<CAPTION>

DIVISION	ISSUING BANK	BENEFICIARY	AMOUNT
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Stand-By Letters of Credit:			
Business Insurance - Loss Casualty Program:			
SunSource Headquarters	First Union	Legion Ins. Co. - 5th/6th Policy Years	\$1,750
SunSource Headquarters	First Union	Mutual Indemnity - 1st - 4th Policy Years (1)	1,300
Total Stand-By Letters of Credit			\$3,050

Documentary or Trade Letters of Credit:			
Hillman Fastener	First Union		467
Kar Products	First Union		23
Total Documentary Letters of Credit			\$ 490
Grand Total - All LOC's			\$3,540
			=====

</TABLE>

(1) Issued on December 15, 1998

SDI OPERATING PARTNERS, L.P.
SCHEDULE OF INDEBTEDNESS
AS OF 11/30/98

(in thousands)

<TABLE>
<CAPTION>

OBLIGOR	HOLDER	BALANCE	TOTAL OUTSTANDING PRINCIPAL SECURITY
---------	--------	---------	---

<S>	<C>		<C>	<C>
SDI Operating Partners, L.P. Debt		Teachers Insurance Co.	\$ 60,000	Unsecured Senior
SDI Operating Partners, L.P. Debt		Cananwell Finance Co.	884	Unsecured
SDI Operating Partners, L.P. Debt		First Union National Bank - Revolving Credit	11,440	Unsecured Senior
Debt		The Bank of Nova Scotia - Revolving Credit	11,440	Unsecured Senior
Debt		Fifth Third Bank - Revolving Credit	6,160	Unsecured Senior
Debt		SunTrust Banks, Inc. - Revolving Credit	6,160	Unsecured Senior
Debt		The Fuji Bank, Limited - Revolving Credit	8,800	Unsecured Senior
		Total Revolving Credit	44,000	
A&H Bolt - A division of SDI Operating Partners, L.P. line of credit arding Glass - A division of SDI Operating Partners, L.P. Inventory Hillman Fastener - A division of SDI Operating Partners, L.P. Packaging Equipment		Bank of Nova Scotia	-	Unsecured
		L.O.F. Trade Notes	974	Glass
		Fifth Third	862	Capital Leases -
		Total	\$106,720	

</TABLE>

EXHIBIT C

Form of Compliance Certificate

To: Each holder of a Note under the Amended and Restated Note Purchase Agreement dated as of December 31, 1998 among SunSource Inc. (the "Company"), its Subsidiaries as set forth on Schedule 1 thereto (together with the Company, the "Obligors"), its Subsidiaries as set forth on Schedule 2 thereto, as Guarantors, and Teachers Insurance and Annuity Association of America (as may be further amended, the "Agreement")

Attached hereto are the financial statements and other items required to be delivered to you pursuant to Paragraph 5.2 or 5.3 of the Agreement. All capitalized terms used but not defined in this certificate shall have the meanings set forth in the Agreement.

The undersigned hereby certify that:

1. The attached financial statements were prepared in accordance with GAAP consistently applied and fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date made and for the period covered.

2. As of the date of such financial statements, there exists no violation of any provision of the Agreement and there has not been an Event of Default or a Default, except as described in Item 3 below.

3. The following event or circumstance, is, or with the passage of time or giving of notice will be, an Event of Default: _____

4. The following actions are being taken with respect to the matter(s) identified in Item 3 above: _____

5. Attached hereto as Schedule 1 are the calculations of the covenants set forth in Paragraphs 5.12 through 5.14 and certain paragraphs in Section Six of the Agreement.

IN WITNESS WHEREOF, the undersigned, being the chief financial officer or controller of SunSource Inc., has executed and delivered this certificate this ____ day of _____, ____.

SUNSOURCE INC., for itself and on behalf
of the other Obligors

By: _____

Name:

Title:

SCHEDULE 1

I. CAPITALIZATION RATIO (Paragraph 5.12 of the Note Purchase Agreement)

A. Funded Debt

Indebtedness for borrowed money	\$ _____
Indebtedness evidenced by notes, debentures or similar instruments	\$ _____
Capital Leases	\$ _____
Guarantees of Indebtedness or Capital Leases	\$ _____
Letters of Credit and letter of credit reimbursement obligations	\$ _____
(A)	\$ _____

B. Net Worth

Total Assets	\$ _____
Minus Total Liabilities	\$ _____
(B)	\$ _____

C. Total Capital

Funded Debt (Line A above)	\$ _____
Outstanding principal amount of Junior Subordinated Debentures	\$ _____
Net Worth (Line B Above)	\$ _____
(C)	\$ _____

Capitalization Ratio (ratio of (A) to (C)): _____

Covenant:

- (i) last day of each of the first two fiscal quarters of each fiscal year: 62%
- (ii) last day of each of the last two fiscal quarters of each fiscal year: 60%

Compliance: _____ YES _____ NO

II. FIXED CHARGE COVERAGE RATIO (Paragraph 5.13 of the Note Purchase Agreement)

A. Adjusted EBITDAR for the most recent Rolling Period

1. EBITDA

a. Net Income

Gross revenue (excluding extraordinary gains and	\$ _____
---	----------

losses)

minus all expenses and other proper charges (including taxes on income) \$ _____

\$ _____

b. Interest Expense (including all interest paid on the Junior Subordinated Debentures (whether paid in cash or in kind)) \$ _____

c. All provisions for income taxes \$ _____

d. Depreciation and amortization expense \$ _____

e. Extraordinary losses minus extraordinary gains \$ _____

(A) \$ _____

2. Adjusted EBITDAR

a. EBITDA (Total (A) above) \$ _____

b. Rent expense \$ _____

c. minus Capital Expenditures \$ _____

(B) \$ _____

3. Fixed Charges

a. Interest Expense (including interest paid on the Junior Subordinated Debentures to the extent paid in cash) \$ _____

b. Rent expense \$ _____

c. Scheduled maturities paid on Funded Debt (excluding the Loan) \$ _____

d. Cash dividends paid by SunSource Inc. \$ _____

(C) \$ _____

Fixed Charge Coverage Ratio (ratio of (B) to (C)): _____

Covenant: As of the last day of each fiscal quarter set forth in the left hand column, for the Rolling Period ending on such date, the ratio must not be less than the amount set forth in the right hand column:

Period	Minimum Ratio
-----	-----
Date of Agreement through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

Compliance: YES NO

III. LEVERAGE RATIO (Paragraph 5.14 of the Note Purchase Agreement)

A. Funded Debt (as calculated above) (A) \$ _____

B. EBITDA (as calculated above) (B) \$ _____

Leverage Ratio (ratio of (A) to (B)): _____

Covenant: ratio must not be greater than 3.25:1.

Compliance: YES NO

IV. INDEBTEDNESS (Paragraph 6.1 of the Note Purchase Agreement)

- A. Trade Indebtedness (6.1(iv)) \$ _____
 - B. Indebtedness for purchase or lease of fixed assets (6.1(v)) \$ _____
 - C. Additional principal amounts outstanding of domestic non-Obligor, non-Guarantor Subsidiaries (6.1(ix)) \$ _____
 - D. Additional principal amounts outstanding of foreign non-Obligor, non-Guarantor Subsidiaries (6.1(x)) \$ _____
 - E. Purchase money indebtedness (6.1(xi)) \$ _____
- Compliance ___ YES ___ NO

V. GUARANTIES (Paragraph 6.2 of the Note Purchase Agreement)

- A. Guaranties (6.2(i)) \$ _____
- Compliance ___ YES ___ NO

VI. LOANS (Paragraph 6.3 of the Note Purchase Agreement)

- A. Loans to domestic non-Obligor, non-Guarantor Subsidiaries (6.3(ii)) \$ _____
 - B. Loans to foreign non-Obligor, non-Guarantor Subsidiaries (6.3(iii)) \$ _____
- Compliance ___ YES ___ NO

SECOND AMENDED AND RESTATED
CREDIT AGREEMENT

AMONG

SUNSOURCE, INC.,
ITS SUBSIDIARIES AS SET FORTH
ON SCHEDULE 1 ATTACHED HERETO
("BORROWERS"),

AND ITS SUBSIDIARIES AS SET FORTH
ON SCHEDULE 2 ATTACHED HERETO
("GUARANTORS"),

FIRST UNION NATIONAL BANK
for itself and as Agent,

THE BANK OF NOVA SCOTIA
for itself and as Documentation Agent

and

THE BANKS AS SET FORTH ON SCHEDULE 3 ATTACHED HERETO

("BANKS")

December 31, 1998

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LIST OF EXHIBITS

- Schedule 1: The Subsidiaries that are Borrowers under this Agreement
- Schedule 2: The Subsidiaries that are Guarantors under this Agreement
- Schedule 3: The Lenders, their respective addresses and Maximum Principal Amounts
- Exhibit A: Advance/Credit Request Form
- Exhibit B: Form of Promissory Note(s)
- Exhibit C: Funding Costs and Loss of Earnings Calculation
- Exhibit D: Agent's Letter of Credit Application
- Exhibit E: Disclosure Pursuant to Representations and Warranties
- Exhibit F: Form of Covenant Compliance Certificate

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SECOND AMENDED AND RESTATED
CREDIT AGREEMENT

THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement") is made this 31st day of December, 1998, by and among SUNSOURCE INC. (the "Company"), a Delaware corporation with offices at 3000 One Logan Square, Philadelphia, Pennsylvania 19103, the subsidiaries of the Company identified on Schedule 1 attached hereto on a joint and several basis (individually and collectively with the Company, the "Borrowers") and the subsidiaries of the Company identified on Schedule 2 attached hereto (individually and collectively, the "Guarantors"); and FIRST UNION NATIONAL BANK, a national banking association and successor by merger to CoreStates Bank, N.A. with offices at 1339 Chestnut Street, Philadelphia, Pennsylvania 19107, for itself and as administrative agent for the Banks identified below ("Agent"); THE BANK OF NOVA SCOTIA, a Canadian chartered bank, with offices at 1 Liberty Plaza, New York, New York 10006 (the "Documentation Agent"), and the banks identified on Schedule 3 attached hereto (the Agent, the Documentation Agent and the banks identified on Schedule 3, each individually a "Bank" and collectively the "Banks").

W I T N E S S E T H :

WHEREAS, the Company is a Delaware corporation, and each Borrower (other than the Company) is either a direct or indirect subsidiary of the Company;

WHEREAS, the Company, the Agent, the Documentation Agent, Fuji Bank, Limited, New York Branch ("Fuji") and the Banks (the "Existing Banks") are parties to that certain Amended and Restated Credit Agreement dated September 30, 1997 (the "Existing Credit Agreement"), and SunSub A Inc. ("SunSub A") and

SunSub B Inc. ("SunSub B") are guarantors under the Existing Credit Agreement;

WHEREAS, the Company issued Sixty Million Dollars (\$60,000,000) in privately-placed notes pursuant to a Note Purchase Agreement dated September 30, 1997 (as amended, the "Existing Note Purchase Agreement");

WHEREAS, Junior Subordinated Debentures (as defined herein) issued by the Company pursuant to the 1997 Conversion (as defined herein) are the assets of SunSource Capital Trust (the "Trust"), a Delaware statutory business trust, and the subject of a Reassignment and Reassumption Agreement as part of the 1998 Conversion (as defined herein);

WHEREAS, payments of interest and principal on the Junior Subordinated Debentures to the Trust are used to make distributions on the Trust Preferred Securities and Trust Common Securities in accordance with the terms set forth in the Declaration of Trust of the Trust and the "Terms of Common Securities" for the Trust and "Terms of Preferred Securities" for the Trust;

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WHEREAS, SunSource Investment Company, Inc. ("SSICI") is a newly-formed, wholly-owned holding company of the Company;

WHEREAS, SunSub A will become a direct wholly-owned subsidiary of SSICI, which is a direct subsidiary of the Company in the 1998 Conversion;

WHEREAS, SunSub B has agreed to merge with and into SunSub A, which will cause the existence of SDI Operating Partners, L.P., a Delaware limited partnership and a borrower under the Existing Credit Agreement ("SDI"), and its general partner, SDI Partners I, L.P., a Delaware limited partnership and a guarantor under the Existing Credit Agreement ("SDIPI"), to cease and the assets and liabilities of SDI to be owned by SunSub A;

WHEREAS, SunSub A is forming four wholly-owned subsidiaries and contribute the assets and liabilities of SDI to them (the "1998 Conversion");

WHEREAS, the Company is a wholesale distributor of industrial products and services in the United States; and it is organized in three businesses: industrial services, hardware merchandising and glass merchandising;

WHEREAS, pursuant to the 1998 Conversion, various operating divisions within the Company will be formed into separate legal entities, which will be direct and indirect wholly-owned subsidiaries of SunSub A;

WHEREAS, on the Effective Date, Sun Trust Bank, Atlanta is purchasing Three Million Dollars (\$3,000,000) of the interest of Fuji, which was a Bank under the Existing Credit Agreement and, the Commitment, which was Ninety Million Dollars (\$90,000,000) under the Existing Credit Agreement will decrease to Seventy-Five Million Dollars (\$75,000,000);

WHEREAS, PNC Bank, National Association ("PNC"), may, upon the terms and conditions set forth herein, join in this Agreement as a Bank, and the Commitment will thereupon increase by up to an additional FIFTEEN MILLION DOLLARS (\$15,000,000);

WHEREAS, in connection with the 1998 Conversion, Borrowers desire to amend and restate the terms of the revolving credit facility under the Existing Credit Agreement, which as of the Effective Date will be in the amount of SEVENTY-FIVE MILLION DOLLARS (\$75,000,000), and which may be increased by up to an additional FIFTEEN MILLION DOLLARS (\$15,000,000) upon the joinder of PNC and the fulfillment of the terms and conditions set forth herein; and

WHEREAS, the Banks are willing to amend and restate the terms of the Existing Credit Agreement, which as of the Effective Date will be in the amount of SEVENTY-FIVE MILLION DOLLARS (\$75,000,000), and which may be increased by up to an additional

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FIFTEEN MILLION DOLLARS (\$15,000,000) upon the joinder of PNC and the fulfillment of the terms and conditions set forth herein, subject to the terms

and conditions hereof.

NOW THEREFORE, in consideration of the foregoing background and the promises and the agreements hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

SECTION ONE
DEFINITIONS

1.1. Definitions. When used in this Agreement, the following terms shall have the respective meanings set forth below. Certain terms relating to interest rates are defined in Paragraph 2.6 and shall have the respective meanings set forth therein.

"1997 Conversion" means the conversion of SunSource L.P., a Delaware limited partnership, to the corporate form of SunSource Inc., a Delaware corporation, as set forth in SunSource Inc.'s Registration Statement on Form S-4, filed with the Securities and Exchange Commission on December 31, 1996, as amended.

"1998 Conversion" has the meaning set forth in the recitals of this Agreement.

"Accumulated Funding Deficiency" has the meaning ascribed to that term in Section 302 of ERISA.

"Adjusted EBITDAR" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, EBITDA plus rent expense (as determined in accordance with GAAP) minus Capital Expenditures.

"Advance/Credit Request Form" means the certificate in the form attached hereto as Exhibit A to be delivered by the Company to Agent as a condition of each Advance and the issuance of each Letter of Credit.

"Advance" means a borrowing under the Commitment pursuant to Paragraph 2.7 hereof.

"Affiliate" means: (i) any person who or entity which directly or indirectly owns, controls or holds ten percent (10%) or more of the outstanding common stock in the Company; (ii) any entity of which ten percent (10%) or more of the outstanding common stock or beneficial interest is directly or indirectly owned, controlled, or held by the Company or an Affiliate; (iii) any entity which directly or indirectly is under common control with the Company or any Affiliate; (iv) any officer, director or partner of the Company or any Affiliate; or (v) any immediate family member of any person who is an Affiliate. For purposes of this definition, the

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term "control" means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means First Union National Bank, successor by merger to CoreStates Bank, N.A., in its capacity as administrative agent for the Banks hereunder, and its successors and assigns in such capacity.

"Agreement" means this Second Amended and Restated Credit Agreement and all exhibits and schedules hereto, as each may be amended, modified or supplemented from time to time.

"Bank" means individually, and "Banks" means collectively, the banks identified on Schedule 3 attached hereto as such Schedule may be amended from time to time, their respective successors and assigns and any additional banks which become parties to this Agreement after the date hereof in accordance with Paragraph 2.1(d) (i) or 12.2 hereof, but shall not include any such Bank which is replaced pursuant to the terms hereof after the date hereof.

"Banks' Applicable Share" means, as of any date of determination, with respect to any Net Cash Proceeds which are required or permitted to be used by Borrowers to reduce the Commitment pursuant to this Agreement, (i) the portion of such Net Cash Proceeds which bears the same relationship to the entire amount of such Net Cash Proceeds as the amount of the Commitment on the date of determination bears to the sum of the outstanding principal amount of the Senior Notes plus the amount of the Commitment on the date of determination, plus (ii) such amount of the Net Cash Proceeds which has been offered to the holders of the Senior Notes pursuant to Paragraph 4.8 of the Note Purchase Agreement as a prepayment, but as to which such offer has not been

accepted.

"Borrowers" means, jointly and severally, SunSource Inc., a Delaware corporation, and its Subsidiaries as set forth on Schedule 1 hereto.

"Business Day" means any day not a Saturday, Sunday or a day on which banks are required or permitted to be closed under the laws of the Commonwealth of Pennsylvania.

"Capital Expenditures" means, for any period, amounts accrued or incurred for fixed assets or improvements, replacements, substitutions or additions thereto, which have a useful life of more than one (1) year, including direct or indirect acquisition costs of such assets.

"Capital Leases" means capital leases and subleases, as defined in Statement 13 of the Financial Accounting Standards Board dated November 1976, as amended and updated from time to time.

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"Capitalization Ratio" means, as of any date of determination, the ratio of Funded Debt to Total Capital.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986, as amended from time to time.

"Change of Control" means if at any time after the date of this Agreement: (i) any person or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and the rules and regulations promulgated thereunder shall have beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company (or other securities convertible into such securities) representing twenty percent (20%) or more of the combined voting power of all securities of the Company entitled to vote in the election of directors, other than the management group of Norman V. Edmonson, Donald T. Marshall, John P. McDonnell, Harold J. Cornelius, Max W. Hillman and Joseph M. Corvino (hereinafter called a "Controlling Person"); or (ii) a majority of the Board of Directors of the Company shall cease for any reason to consist of (1) individuals who on the date hereof are serving as directors of the Company or (2) individuals who subsequently become members of the Board if such individuals' nomination for election or election to the board is recommended or approved by a majority of the Board of Directors of the Company. For purposes of clause (i) above, a person or group shall not be a Controlling Person if such person or group holds voting power in good faith and not for the purpose of circumventing Paragraph 9.1(f) as an agent, bank, broker, nominee, trustee, or holder of revocable proxies given in response to a solicitation pursuant to the 1934 Act, for one or more beneficial owners who do not individually, or, if they are a group acting in concert, as a group, have the voting power specified in clause (b)(i) above.

"Code" means the Internal Revenue Code of 1986, as amended from time to time and regulations in effect from time to time.

"Commitment" means the sum of (i) the maximum aggregate principal amount which Banks, on a several basis, have agreed to advance under Section Two hereof, including the Swing Line Commitment (subject to the \$5,000,000 sublimit set forth therein) and (ii) the available amount under Letters of Credit issued pursuant to Section Three hereof (subject to the \$20,000,000 sublimit set forth therein) in which Banks have agreed to participate, such Commitment being in the aggregate, on the Effective Date, Seventy-Five Million Dollars (\$75,000,000), subject to increase by up to an additional Fifteen Million Dollars (\$15,000,000) pursuant to the terms of Paragraph 2.1(d) hereof.

"Default" means an event or circumstance which, with the giving of notice or the passage of time or both, would constitute an Event of Default.

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"Distributions Paid on Trust Securities" means all amounts payable by the Trust to the holders of the Trust Preferred Securities and Trust

Common Securities.

"Documentation Agent" shall mean The Bank of Nova Scotia.

"EBITDA" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, Net Income plus (i) Interest Expense (including all interest paid on the Junior Subordinated Debentures (whether paid in cash or in kind)), (ii) all provisions for income taxes, (iii) depreciation and amortization expense, and (iv) extraordinary losses, minus extraordinary gains, as each such item is determined in accordance with GAAP.

"Effective Date" means the date that all of the conditions set forth in Paragraph 5.1 hereof have been satisfied which is 11:59 p.m. on December 31, 1998.

"Environmental Control Statutes" means any federal, state or local laws governing control, storage, removal, spill, release or discharge of Hazardous Substances including without limitation CERCLA, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976, the Hazardous Materials Transportation Act, the Emergency Planning and Community Right to Know Act of 1986, the National Environmental Policy Act of 1975, the Oil Pollution Act of 1990, any similar or implementing state law, in each case, including all amendments thereto and all rules and regulations promulgated thereunder and permits issued in connection therewith.

"Environmental Material Adverse Effect" means a material adverse effect on the business, financial condition or prospects of Borrowers, taken as a whole, greater than or equal to \$1,000,000 per single event or \$5,000,000 in the aggregate for all such environmental events as a result of any condition, circumstance or contingency.

"EPA" means the United States Environmental Protection Agency, or any successor thereto.

"ERISA Affiliate" means, when used with respect to an Employee Benefit Plan, ERISA, the PBGC or a provision of the Code pertaining to employee benefit plans, any Person that is a member of any group of organization within the meaning of Code Section 414(b), (c), (m) or (o) of which any Borrower or Guarantor is a member.

"ERISA" means the Employee Retirement Income Security Act of 1974, all amendments thereto and all rules and regulations in effect at any time.

"Event of Default" means an event described in Paragraph 9.1 hereof.

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"Existing Credit Agreement" means that certain Amended and Restated Credit Agreement among the Company, the Agent, the Banks and SunSub A and SunSub B, as guarantors, dated September 30, 1997.

"Existing Note Purchase Agreement" means that Note Purchase Agreement dated September 30, 1997, as amended, issued by SDI and its Subsidiaries set forth on Schedule I thereto for Sixty Million Dollars (\$60,000,000) in privately-placed notes.

"Financial Standby Letter of Credit" means a Letter of Credit pursuant to which the beneficiary may draw following a default under an obligation to pay money to the beneficiary.

"Fixed Charges" means, at any date of determination for the most recently ended Rolling Period of SunSource Inc. and its Consolidated Subsidiaries, the sum of (i) Interest Expense (including interest paid on the Junior Subordinated Debentures to the extent paid in cash); (ii) rent expense; (iii) scheduled maturities paid on Funded Debt (excluding the Loan); and (iv) cash dividends paid by the Company, all as determined in accordance with GAAP.

"Fixed Charge Coverage Ratio" means, at any date of determination, the ratio of Adjusted EBITDAR to Fixed Charges for the most recently ended Rolling Period.

"Funded Debt" means, at any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the sum of the following in such period, without duplication: (i) Indebtedness for borrowed money; (ii) Indebtedness evidenced by notes, debentures or similar instruments; (iii) Capital Leases;

(iv) guarantees of Indebtedness or Capital Leases; and (v) Letters of Credit and letter of credit reimbursement obligations. For purposes of this definition, Funded Debt does not include the Junior Subordinated Debentures.

"GAAP" shall mean generally accepted accounting principles, which shall be (i) applied in accordance with the Statement on Auditing Standards No. 69 "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report," (SAS 69) or superseding pronouncements, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants and (ii) in the form and content of any requirements for financial statements filed with the Securities and Exchange Commission, in all cases applied on a consistent basis. The requirement that such principles be applied on a consistent basis shall mean that the accounting principles observed in a current period are comparable in all material respects to those applied in a preceding period except such changes in accounting principles approved by the Company's outside auditors.

"Guarantors" means, individually, and individually and collectively, those Subsidiaries set forth on Schedule 2 attached hereto.

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"Hazardous Substance" means petroleum products and items defined in the Environmental Control Statutes as "hazardous substances", "hazardous wastes", "pollutants" or "contaminants" and any other toxic, reactive, corrosive, carcinogenic, flammable or hazardous substance or other pollutants.

"Indebtedness" of any person means and includes all obligations of such person which, in accordance with GAAP, shall be classified on a balance sheet of such person as liabilities of such person and in any event shall include, without duplication, all (i) obligations of such person for borrowed money or which have been incurred in connection with acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, notwithstanding that such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capital Leases, (v) guarantees and (vi) letters of credit and letter of credit reimbursement obligations.

"Interest Expense" means for any fiscal period, the interest expense of SunSource Inc. and its Consolidated Subsidiaries, as determined in accordance with GAAP for such period.

"Indenture" means the Indenture dated as of September 5, 1997 between the Company and Bank of New York, as trustee, providing for the issuance of the Junior Subordinated Debentures.

"Junior Subordinated Debentures" means the unsecured subordinated obligations of the Company deposited in the Trust as trust assets upon the 1997 Conversion, the terms of which are included in the Indenture.

"Letters of Credit" means each Performance Standby Letter of Credit and each Financial Standby Letter of Credit, issued pursuant to Section Three of this Agreement by the Agent and in which the Banks shall participate, with such terms as may be agreed by Borrowers, the applicable beneficiary and Agent at the time of issuance thereof.

"Leverage Ratio" means as of any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the ratio of Funded Debt as of such date to EBITDA for the most recently ended Rolling Period.

"Loan" or "Loans" means the outstanding principal balance of Indebtedness for Advances, plus the outstanding principal balance of Indebtedness for Advances on Swing Line Loans under Paragraph 2.13 of this Agreement, plus the unreimbursed amount of any draws on Letters of Credit, in each case, together with interest accrued thereon and fees and expenses incurred in connection therewith.

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"Local Authorities" means individually and collectively the state and local governmental authorities and administrative agencies which govern the commercial or industrial facilities or businesses owned or operated by Borrowers.

"Material Adverse Change" means a material adverse change in the business, financial condition or prospects of Borrowers taken as a whole as a result of any condition, circumstance or contingency, either singly or in the aggregate.

"Material Adverse Effect" means a material adverse effect on the business, financial condition or prospects of Borrowers taken as a whole as a result of any condition, circumstance or contingency, either singly or in the aggregate.

"Material Subsidiary" means any Subsidiary which either: (i) comprised five percent (5%) or more of the assets of SunSource Inc. and its Consolidated Subsidiaries as of the most recent date for which a balance sheet has been delivered (or is required to have been delivered) hereunder, or (ii) was responsible for five percent (5%) or more of EBITDA for the most recent Rolling Period.

"Maximum Principal Amount" means the maximum principal amount of the Commitment which each Bank has agreed to lend or to participate in the issuance of Letters of Credit as set forth on Schedule 3 attached hereto.

"Net Cash Proceeds" of (A) any sale of assets shall mean the cash proceeds received by the seller in such a transaction less (i) the reasonable costs of the transaction, (ii) indebtedness secured by any lien on such assets which is paid from such proceeds and (iii) any tax payment required to be made as a result of the gain (if any) on such sale; and (B) any other prepayment of the Loan and Senior Notes shall mean the total amount of such payment to the Banks and the holder of the Senior Notes.

"Net Income" means, for any period, SunSource Inc. and its Consolidated Subsidiaries' gross revenue for such period (excluding extraordinary gains and losses) less all expenses and other proper charges (including taxes on income), in each case as determined in accordance with GAAP.

"Net Worth" means, as of any date of determination, Total Assets minus Total Liabilities in SunSource Inc. and its Consolidated Subsidiaries, as stated on the financial statements most recently delivered to Banks pursuant to Paragraphs 6.2 and 6.3 hereof, as applicable.

"Note Purchase Agreement" means the Amended and Restated Note Purchase Agreement dated as of the date hereof between Borrowers and Teachers Insurance and Annuity Association of America providing for the issuance of the Senior Notes, as amended, modified or supplemented from time to time pursuant to the terms thereof and hereof.

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"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Performance Standby Letter of Credit" means a Letter of Credit pursuant to which the beneficiary may draw following a default by Borrowers under an obligation, other than an obligation to pay money, owed to the beneficiary.

"Permitted Investments" means (i) investments in commercial paper maturing in 180 days or less from the date of issuance which is rated A1 or better by Standard & Poor's Corporation or P1 or better by Moody's Investors Services, Inc.; (ii) investments in direct obligations of the United States of America or obligations of any agency thereof which are guaranteed by the United States of America, provided that such obligations mature within twelve (12) months of the date of acquisition thereof; (iii) investments in certificates of deposit maturing within one (1) year from the date of acquisition thereof issued by a bank or trust company organized under the laws of the United States or any state thereof, having capital, surplus and undivided profits aggregating at least \$1,000,000,000 and the long-term deposits of which are rated A1 or better by Moody's Investors Services, Inc. or equivalent by Standard & Poor's Corporation; (iv) money market funds invested in vehicles of the types set forth in subsections (i) through (iii); and (v) other investments not to exceed \$500,000 in the aggregate made from the date hereof to the Termination Date.

"Plan" means any pension benefit or welfare benefit plan as defined in section 3(1), (2) or (3) of ERISA covering employees of Borrowers or any ERISA Affiliate.

"Pro Rata Share" means as to a Bank the ratio which the outstanding principal balance of its portion of the Loan hereunder bears to the aggregate outstanding principal balance of the Loan at any time; or if no Indebtedness is outstanding hereunder, its percentage share of the Commitment.

"Promissory Notes" means collectively the Promissory Notes in the form of Exhibit B attached hereto to be delivered by Borrowers to Banks pursuant to Paragraph 5.1(a) hereof, as the same may be amended or modified or extended or restated from time to time.

"Required Banks" means those Banks (which may include Agent) holding sixty-six and two-thirds percent (66-2/3%) or more of the amount of the Commitment or, if Indebtedness is outstanding hereunder, sixty-six and two-thirds percent (66-2/3%) or more of the Loan.

"Restricted Payments" means (i) any dividend or distribution on, or the purchase, redemption, prepayment or other retirement of the common securities of the Company; and (ii) the payment of principal or interest on or the purchase, redemption, prepayment or other retirement of the Junior Subordinated Debentures.

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"Rolling Period" means, as of any date, the most recent four (4) consecutive fiscal quarters of SunSource Inc. and its Consolidated Subsidiaries completed on or before such date.

"Sale of Material Assets" means any sale, transfer or other disposition of any Borrower's or any Subsidiary's assets in transactions (not related to the 1998 Conversion) in which the total consideration paid or payable to Borrowers (including without limitation all cash, liabilities assumed and the fair market value of any stock provided in such transaction) is, in the aggregate, as to all such transactions after the date of this Agreement, greater than Fifteen Million Dollars (\$15,000,000).

"SDIPI" means SDI Partners I, L.P., the general partner of SDI Operating Partners, L.P.

"Senior Notes" means the Company's 7.66% Senior Notes due 2002 issued in an original aggregate principal amount of Sixty Million Dollars (\$60,000,000) pursuant to the Note Purchase Agreement.

"Subsidiary" or "Subsidiaries" means any corporation of which the Company, directly or indirectly, owns more than fifty percent (50%) of any class or classes of securities. Those Subsidiaries of the Company set forth on Schedule 1 attached hereto are, collectively with the Company, the Borrowers, and those Subsidiaries of the Company set forth on Schedule 2 attached hereto are the Guarantors.

"SunSource Inc. and its Consolidated Subsidiaries" means the Company and its consolidated subsidiaries as defined in accordance with GAAP.

"Swing Line Commitment" means the obligation of the Agent to make the Swing Line Loan pursuant to Paragraph 2.13 hereof in the aggregate principal amount of Five Million Dollars (\$5,000,000).

"Swing Line Loan" means an Advance under the Swing Line Commitment made by the Agent on behalf of the Banks pursuant to Paragraph 2.13 hereof.

"Termination Date" means the earlier of (i) September 30, 2002 or (ii) the date on which the Commitment is terminated pursuant to Paragraphs 2.8 and 9.2 hereof.

"Total Assets" means, as of any date of determination, all assets of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc. and its Consolidated Subsidiaries' financial statements most recently delivered to Banks pursuant to Paragraphs 5.1, 6.2 and 6.3 hereof, as defined in accordance with GAAP.

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"Total Capital" means, at any date of determination of

SunSource Inc. and its Consolidated Subsidiaries, the sum of the following: (i) Funded Debt; (ii) the outstanding principal amount of Junior Subordinated Debentures; and (iii) Net Worth.

"Total Liabilities" means, as of any date of determination, all liabilities and deferred items of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc. and its Consolidated Subsidiaries' financial statements most recently delivered to Banks pursuant to Paragraphs 5.1, 6.2 and 6.3 hereof, as defined in accordance with GAAP.

"Trade Notes" means Indebtedness of the Company secured by the Company's inventory of glass and window products pursuant to financing plans in the normal course of business for value received.

"Trust" shall mean SunSource Capital Trust, a Delaware statutory business trust, which is the issuer of the Trust Preferred Securities to the former holders of the A interests in SunSource L.P. and the Trust Common Securities to SunSource Inc.

"Trust Preferred Securities" means the preferred securities issued by the Trust pursuant to the 1997 Conversion.

"Trust Common Securities" means the common securities issued by the Trust pursuant to the 1997 Conversion.

"Year 2000 Compliant" means, as to any computer system or application or micro-processor dependent good or equipment, that it is designed and intended to be used prior to, during and after the calendar year 2000 AD and that it will operate as designed and intended during each such time period without error relating to date data or date information, specifically including any error relating to, or the product of, date data or date information that represents or references different centuries or more than one century.

1.2. Rules of Construction.

(a) GAAP. Except as otherwise provided herein, financial and accounting terms used in the foregoing definitions or elsewhere in this Agreement shall be defined in accordance with GAAP. If Borrowers or Required Banks determine that a change in GAAP from that in effect on the date hereof has altered the treatment of certain financial data to their detriment under this Agreement, such party may, by written notice to the other within thirty (30) days after the effective date of such change in GAAP, request renegotiation and the parties agree to negotiate in good faith to modify such financial covenants affected by such change to reflect equitably such change. If Borrowers and Required Banks have not agreed on revised covenants within thirty (30) days after the delivery of such notice, then, for purposes of this Agreement, GAAP will mean generally accepted accounting principles on the date just prior to the date on which the change occurred that gave rise to the notice.

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(b) Use of Term "Consolidated". Any term defined in Paragraph 1.1 hereof, when modified by the word "Consolidated," shall have the meaning given to such term herein as to the Company on a consolidated basis with its Subsidiaries and all other entities whose accounts, financial results or position, for either federal income tax or financial accounting purposes, are consolidated with those of the Company in accordance with GAAP.

SECTION TWO REVOLVING CREDIT LOAN -----

2.1. (a) The Facility. From time to time prior to the Termination Date, subject to the provisions below, each Bank on a several basis up to its Maximum Principal Amount shall make Advances to Borrowers on a joint and several basis and Borrowers may repay and reborrow under the Commitment an aggregate principal amount not to exceed at any time outstanding the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any Swing Line advances outstanding under Paragraph 2.13 hereof; and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit.

(b) Amendment and Restatement. This Agreement amends and restates, replaces and supersedes the Existing Credit Agreement; provided, however, that the execution and delivery of this Agreement shall not in any circumstance be deemed to have terminated, extinguished, or discharged the

Company's Indebtedness under the Existing Credit Agreement, all of which Indebtedness and the guaranties therefor shall continue under and be governed by this Agreement and the other Loan Documents. This Agreement IS NOT A NOVATION. Subject to receipt by Agent of an appropriately completed Advance/Credit Request Form, all amounts outstanding under the Existing Credit Agreement are and shall be deemed to be outstanding under this Agreement as of the Effective Date.

(c) Authority of the Company. Each of the Borrowers hereby irrevocably authorizes and requests that the Company execute all Advance/Credit Request Forms, make all elections as to interest rates and take any other actions required or permitted of Borrowers hereunder, on its respective behalf, in each case with the same force and effect as if such Borrower had executed such Advance/Credit Request Form, made such election or taken such other action itself.

(d) Potential Increase of Commitment.

(i) For a period of up to thirty (30) days after the Effective Date, upon the consent of Agent and Borrowers, PNC may join in and become a Bank under this Agreement. Upon such joinder, the Commitment shall be increased by up to an additional Fifteen Million Dollars (\$15,000,000) (the "Additional Commitment"). Upon such joinder, PNC

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and Borrowers shall execute appropriate joinder documentation (including without limitation, promissory notes, resolutions, certificates and opinions) in form and substance acceptable to Agent.

(ii) Banks (excluding PNC), shall have no obligation to increase their Pro Rata Share of the Commitment upon the joinder of PNC pursuant to clause (i) above. Banks hereby acknowledge that the Commitment may be increased by the Additional Commitment, and that no approval of any Bank (other than Agent) is required for such increase.

2.2. Promissory Notes. The Indebtedness of Borrowers to each Bank under the Loan will be evidenced by a Promissory Note executed by Borrowers in favor of such Bank in the form of Exhibit B hereto. The original principal amount of each Bank's Promissory Note will be the amount identified in Schedule 3 attached hereto as its respective Maximum Principal Amount; provided, however, that notwithstanding the face amount of each such Promissory Note, Borrowers' liability under each such Promissory Note shall be limited at all times to its actual Indebtedness, principal, interest and fees, then outstanding hereunder.

2.3. Banks' Participation. Banks shall participate in the Loan in the Maximum Principal Amounts and percentages set forth in Schedule 3 attached hereto.

2.4. Use of Proceeds. Funds advanced under the Loan shall be used by the Borrowers solely for general corporate purposes, including working capital, acquisition financing and related reasonable transaction expenses.

2.5. Repayment. The aggregate outstanding principal balance under the Loan on the Termination Date shall be due and payable in full on the Termination Date, subject to earlier payments required pursuant to Paragraph 2.8(c) and (d) hereof in connection with reductions of the amount of the Commitment (including voluntary reductions, reductions by Banks following an Event of Default and reductions required in connection with certain sales of assets). Notwithstanding the immediately preceding sentence, the aggregate outstanding balance of the Promissory Notes shall be due and payable on the date of Banks' notice to Borrowers of the occurrence of an Event of Default, termination of the Commitment and acceleration of the Loan.

2.6. Interest. Portions of the Loan shall bear interest on the outstanding principal amount thereof in accordance with the following provisions:

Definitions. As used in this Paragraph 2.6, the following words and terms shall have the meanings specified below:

"Adjusted Libor Rate" shall mean, for any Interest Period, as applied to a Portion, the rate per annum (rounded upwards, if necessary to the next 1/100 of 1%) determined pursuant to the following formula:

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$$\text{Adjusted Libor Rate} = \frac{\text{Libor Rate}}{1 - \text{Reserve Percentage}}$$

For purposes hereof, "Libor Rate" shall mean, as applied to a Portion, the rate which appears on the Telerate page 3750 at approximately 9:00 a.m. Philadelphia time two (2) London Business Days prior to the commencement of such Interest Period for the offering to leading banks in the London Interbank Market of deposits in United States Dollars or alternate currency ("Eurodollars") or, if such rate does not appear on the Telerate page 3750, the rate which appears (or, if two or more such rates appear, the average rounded up to the nearest 1/100 of 1% of the rates which appear) on the Reuters Screen LIBO Page as of 11:00 a.m. London time two (2) London Business Days prior to the commencement of the Interest Period in amounts substantially equal to such Portion as to which Borrowers may elect the Adjusted Libor Rate to be applicable with a maturity of comparable duration to the Interest Period selected by Borrowers.

"Applicable Margin" shall mean, with respect to each Portion bearing interest at the Adjusted Libor Rate, the percentage per annum set forth in the appropriate column below that corresponds to the Leverage Ratio.

Level - - - - -	Leverage Ratio -----	Applicable Margin -----
I	less than 3.25 to 1 but greater than or equal to 2.75 to 1	1.50%
II	less than 2.75 to 1 but greater than or equal to 2.25 to 1	1.25%
III	less than 2.25 to 1	1.00%

The Applicable Margin shall adjust automatically, as appropriate, on the day following delivery of a quarterly Compliance Certificate in accordance with Paragraph 6.2 or 6.3 hereof, provided, that in the event that a quarterly compliance certificate has not been delivered within ten (10) days after the date required by Paragraph 6.2 or 6.3, then the Applicable Margin shall adjust to Level I as of the latest date of required delivery; provided, further, however, that the Applicable Margin shall readjust retroactively to the date such certificate was required to be delivered by Paragraph 6.2 or 6.3 if the Applicable Margin shall increase based on such Compliance Certificate and shall readjust on the day after delivery of such delinquent Compliance Certificate if the Applicable Margin shall decrease or remain the same based on the ratio set forth in such Compliance Certificate.

"Base Rate" shall mean the highest of (i) the Federal Funds Rate plus one half of one percent (1/2%) per annum, or (ii) the Prime Rate.

"Federal Funds Rate" means for any day the effective rate of interest for such day, as announced from time to time by the Board of Governors of the Federal Reserve System as shown in publication H.15 as the "Federal Funds Rate."

"Interest Period" means a period of one (1), two (2), three (3) or six (6) months' duration, as Borrowers may elect, during which the Adjusted Libor Rate is applicable; provided, however, that (a) interest shall accrue from and including the first day of each Interest Period to, but excluding, the day on which any Interest Period expires; (b) any Interest Period which would otherwise end on a day which is not a London Business Day shall be extended to the next succeeding London Business Day unless such London Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding London Business Day; and (c) with respect to an Interest Period which begins on the last London Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period), the Interest Period shall end on the last London Business Day of a calendar month.

"London Business Day" shall mean any Business Day on which banks in London, England are open for business.

"Portion" shall mean a portion of a Loan as to which Borrowers have elected a specific interest rate and, in the case of a Portion bearing interest at a rate based upon the Adjusted Libor Rate, an Interest Period.

"Prime Rate" shall mean the rate of interest announced by Agent from time to time as its prime rate.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, comprising Part 204 of Title 12, Code of Federal Regulations, as amended and as may be amended from time to time, and any successor thereto.

"Reserve" shall mean, for any day, that reserve (expressed as a decimal) which is in effect (whether or not actually incurred) with respect to a Bank on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor or any other banking authority to which a Bank is subject including any board or governmental or administrative agency of the United States or any other jurisdiction to which a Bank is subject), for determining the maximum reserve requirement (including without limitation any basic, supplemental, marginal or emergency reserves) for Eurocurrency liabilities as defined in Regulation D.

"Reserve Percentage" shall mean, for a Bank on any day, that percentage (expressed as a decimal) prescribed by the Board of Governors of the Federal Reserve System (or any successor or any other banking authority to which a Bank is subject, including any board or governmental or administrative agency of the United States or any other jurisdiction to which a Bank is subject), for determining the reserve requirement (including without limitation any basic,

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supplemental, marginal or emergency reserves) for deposits of United States Dollars in a nonUnited States or an international banking office of a Bank used to fund a Portion bearing interest based on the Adjusted Libor Rate or any loan made with the proceeds of such deposit. The Adjusted Libor Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

(a) Interest on Loan.

(i) At the Company's election in accordance with the provisions of Paragraph 2.6(c) below, in the absence of an Event of Default or Default hereunder, and prior to maturity, any Portion of the Loan shall bear interest at any one of the following rates:

(A) Base Rate. The Base Rate, such rate to change when and as the Base Rate changes.

(B) Adjusted Libor-Based Rate. The Adjusted Libor Rate plus the Applicable Margin.

(ii) Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default or Default hereunder, including after maturity and before and after judgment, Borrowers hereby agree to pay to Banks interest on the outstanding principal balance of the Loan at the rate of two percent (2%) per annum in excess of the rates then available to and elected by the Company for each Portion then outstanding, and with respect to Portions bearing interest based on the Adjusted Libor Rate, at the end of the applicable Interest Periods and thereafter, such Portions shall bear interest at the rate of two percent (2%) per annum in excess of the Base Rate, such rate to change when and as the Base Rate changes.

(b) Procedure for Determining Interest Periods and Rates of Interest.

(i) If the Company elects the Base Rate to be applicable to a Portion, the Company must notify Agent of such election prior to one o'clock (1:00) p.m. Philadelphia time one (1) Business Day prior to the date of the proposed application of such rate. If the Company elects the Adjusted Libor Rate to be applicable to a Portion, the Company must notify Agent of (A) such election and (B) the Interest Period selected prior to one o'clock (1:00) p.m. Philadelphia time at least three (3) London Business Days prior to such Advance or the commencement of the proposed Interest Period. If Company does not provide the applicable notice for the Adjusted Libor Rate, then the Borrowers shall be deemed to have requested that the Base Rate apply to any Portion as to which the Interest Period is expiring and to any new Advance of the Loan until Borrowers shall have given proper notice of a change in or determination of the rate of interest in accordance with this Paragraph 2.6(b).

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(ii) Borrowers shall not elect more than five (5) different Portions (other than Portions bearing interest at the Base Rate) to be applicable to the Loan at one time.

(c) Payment and Calculation of Interest. Interest shall be due and payable on the last day of each Interest Period for each Portion bearing interest based on the Adjusted Libor Rate; provided, however, that with respect to Portions which bear interest at the Adjusted Libor Rate having Interest Periods in excess of three (3) months, the Borrowers shall pay interest on the ninetieth (90th) day of the Interest Period and on the last day of the Interest Period. With respect to Portions which bear interest at the Base Rate, the Borrowers shall pay interest on the last Business Day of each month commencing on the first such date after the first Advance which bears interest at the Base Rate. Interest shall be calculated in accordance with the provisions of Paragraph 2.6(a) hereof; interest based on the Base Rate shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as the case may be, and interest based on the Adjusted Libor Rate shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days.

(d) Reserves. If at any time when a Portion is subject to the Adjusted Libor Rate, and a Bank is subject to and incurs a Reserve, Borrowers hereby agree to pay within five (5) Business Days of demand thereof from time to time, as billed by Agent on behalf of itself or a Bank, such additional amount as is necessary to reimburse such Bank for its costs in maintaining such Reserve to the extent such costs are not reflected in the Reserve Percentage used to determine the Adjusted Libor Rate. Such amount shall be computed by taking into account the cost incurred by the Bank in maintaining such Reserve in an amount equal to such Bank's ratable share of the Portion on which such Reserve is incurred. The determination by Agent on behalf of any Bank of such costs incurred and the allocation, if any, of such costs among Borrowers and other customers which have similar arrangements with such Bank shall be prima facie evidence of the correctness of the fact and the amount of such additional costs. Upon notification to Borrowers of any payment required pursuant to this Paragraph 2.6(d), Borrowers may, subject to the payment of all amounts due under this provision as of such date and the provisions of Paragraph 2.10, repay the Portion with respect to which such payment is required.

(e) Special Provisions Applicable to Adjusted Libor Rate. The following special provisions shall apply to the Adjusted Libor Rate:

(i) Change of Adjusted Libor Rate. The Adjusted Libor Rate may be automatically adjusted by Agent on a prospective basis to take into account the additional or increased cost of maintaining any necessary reserves for Eurodollar deposits or increased costs due to changes in applicable law or regulation or the interpretation thereof occurring subsequent to the commencement of the then applicable Interest Period, including but not limited to changes in tax laws (except changes of general applicability in corporate income tax laws) and changes in the reserve requirements imposed by the Board of Governors of the Federal Reserve

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System (or any successor), excluding the Reserve Percentage, and any Reserve which has resulted in a payment pursuant to Paragraph 2.6(d), that increase the cost to Banks of funding the Loan or a Portion thereof bearing interest at the Adjusted Libor Rate. Agent shall give the Borrowers notice of such a determination and adjustment, which determination shall be prima facie evidence of the correctness of the fact and the amount of such adjustment. Borrowers may, by notice to Agent, (A) request Agent to furnish to Borrowers a statement setting forth the basis for adjusting such Adjusted Libor Rate and the method for determining the amount of such adjustment; and/or (B) repay the Portion of the Loan with respect to which such adjustment is made, subject to the requirements of Paragraph 2.10 hereof.

(ii) Unavailability of Eurodollar Funds. In the event that Borrowers shall have requested the rate based on the Adjusted Libor Rate in accordance with Paragraph 2.6(b) hereof and any Bank shall have reasonably determined that Eurodollar deposits equal to the amount of the principal of the Portion and for the Interest Period specified are unavailable, or that the rate based on the Adjusted Libor Rate will not adequately and fairly reflect the cost of making or maintaining the principal amount of the Portion specified by the Borrowers during the Interest Period specified or that by reason of circumstances affecting Eurodollar markets, adequate and reasonable

means do not exist for ascertaining the Adjusted Libor Rate applicable to the specified Interest Period, Agent shall promptly give notice of such determination to the Borrowers that the rate based on the Adjusted Libor Rate is not available. A determination by such Bank hereunder shall be prima facie evidence of the correctness of the fact and amount of such additional costs or unavailability. Upon such a determination, the Banks' obligation to advance or maintain Portions at the Adjusted Libor Rate shall be suspended until Agent shall have notified the Borrowers and Banks that such conditions shall have ceased to exist, and the Base Rate shall be applicable to all Portions.

(iii) Illegality. In the event that it becomes unlawful for a Bank to maintain Eurodollar liabilities sufficient to fund any Portion of the Loan bearing interest at the rate based on the Adjusted Libor Rate, then such Bank shall immediately notify the Borrowers thereof (with a copy to Agent) and such Bank's obligations hereunder to make or maintain Advances bearing interest based on the Adjusted Libor Rate shall be suspended until such time as such Bank may again cause the rate based on the Adjusted Libor Rate to be applicable to its share of any Portion of the outstanding principal balance of the Loan and such Bank's share of any Portion shall then be subject to the Base Rate.

2.7. Advances.

(a) At the time the Company provides the requisite notices set forth in Paragraph 2.6(b) hereof relating to the election of interest rates, the Company shall give Agent written notice of each requested Advance under the Commitment, specifying the date, amount and purpose thereof. The Company shall give Agent three (3) London Business Days notice of an Advance for an Adjusted Libor Rate Loan, one (1) Business Day notice of an Advance for a Base Rate Loan, and same day notice of an Advance for a Swing Line Loan. Such notices shall

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be in the form of the Advance/Credit Request Form attached hereto as Exhibit A, shall be certified by the chief financial officer or controller of the Company and shall contain the following information and representations, which shall be deemed affirmed and true and correct as of the date of the requested Advance:

(i) the aggregate amount of the requested Advance, which for Base Rate Loans and Adjusted Libor Rate Loans shall be in multiples of \$100,000 but not less than the lesser of \$2,000,000 or the unborrowed balance of the Commitment;

(ii) confirmation of the interest rate(s) the Borrowers have elected to apply to the above Advance and, if more than one interest rate has been elected, the amount of the Portion as to which each interest rate shall apply;

(iii) confirmation of Borrowers' compliance with Paragraphs 6.13 through 6.15 and Section Seven hereof after giving effect to such Advance of the Loan;

(iv) statements that the representations and warranties set forth in Section Four hereof are true and correct in all material respects as of the date thereof; no Event of Default or Default has occurred and is then continuing; and there has been no Material Adverse Change since the date of the quarterly and audited annual financial statements most recently delivered by Borrowers to Banks pursuant to Paragraphs 5.1(e), 6.2 and 6.3 of this Agreement; and

(b) (i) Upon receiving a request for an Advance in accordance with subparagraph (a) above, Agent shall request by written notice to Banks that each Bank advance funds to Agent so that each Bank participates in the requested Advance in the same percentage as it participates in the Commitment. Each Bank shall advance its applicable percentage of the requested Advance to Agent by delivering federal funds immediately available at Agent's offices prior to twelve o'clock (12:00) noon Philadelphia time on the date of the Advance. Subject to the satisfaction of the terms and conditions hereof, Agent shall make the requested Advance available to the Borrowers by crediting such amount to the Company's or applicable Borrowers' deposit account with Agent not later than two o'clock (2:00) p.m. Philadelphia time on the day of the requested Advance; provided, however, that in the event Agent does not receive a Bank's share of the requested Advance by such time as provided above, Agent shall not be obligated to advance such Bank's share.

(ii) Unless Agent shall have been notified by a Bank prior to the date such Bank's share of any such Advance is to be made by such Bank that such Bank does not intend to make its share of such requested

Advance available to Agent, Agent may assume that such Bank has made such proceeds available to Agent on such date, and Agent may, in reliance upon such assumption (but shall not be obligated to), make available to the Borrowers a corresponding amount. If such corresponding amount is not in fact made available to Agent by such Bank on the date the Advance is made, Agent shall be entitled to recover such amount on

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demand from such Bank together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Borrowers and ending on (but excluding) the date Agent recovers such amount, at a rate per annum, equal to the effective rate for overnight federal funds in New York as reported by the Federal Reserve Bank of New York for such day (or, if such day is not a Business Day, for the next preceding Business Day). If such Bank fails to pay such amount to Agent upon demand, Agent may demand repayment thereof from Borrowers, together with interest accrued thereon at the rate per annum applicable to the Advance which such Bank failed to fund.

(c) Each request for an Advance pursuant to this Paragraph 2.7 shall be irrevocable and binding on the Borrowers. In the case of any requested Advance which is to be based upon the Adjusted Libor Rate, the Borrowers shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date of the requested Advance the applicable conditions thereto set forth in Section Five hereof, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or redeployment of deposits or other funds acquired by such Bank to fund the requested Advance when such Advance, as a result of such failure, is not made on such date, as calculated by Agent in accordance with Exhibit C attached hereto.

2.8. Reduction and Termination of Commitment; Voluntary and Mandatory Prepayment.

(a) Voluntary. Borrowers shall have the right at any time and from time to time, upon three (3) Business Days prior written notice to Agent, to reduce the Commitment in whole or in part to be shared among the Banks based on each Bank's respective Pro Rata Share in increments of Five Million Dollars (\$5,000,000) without penalty or premium.

(b) Default. Pursuant to Paragraph 9.2 hereof, upon the occurrence of any Event of Default hereunder, Required Banks shall have the right to terminate the Commitment at any time in their discretion and upon notice to Borrowers (and the Commitment shall terminate automatically without notice if an Event of Default described in Paragraph 9.1(h) shall occur).

(c) Mandatory Prepayments; Sale of Material Assets. In connection with any Sale of Material Assets, the Commitment shall be automatically and permanently reduced by the Banks' Applicable Share of the amount by which the Net Cash Proceeds thereof exceed the amounts permitted to be sold pursuant to Paragraph 7.7 hereof; provided that in connection with any amounts due under this provision, the holder of the Senior Notes is simultaneously offered a prepayment so that the amount paid to the Banks equals the Banks' Applicable Share of the Net Cash Proceeds required to be paid as set forth above.

(d) Payments. On the effective date of each reduction permitted or required by clauses (a) and (c) of this Paragraph 2.8, Borrowers shall make a payment of the

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Loan in an amount, if any, by which the aggregate outstanding principal balance of the Loan plus the undrawn amount of all Letters of Credit exceeds the amount of the Commitment as then so reduced, together in all cases with accrued interest on the amount so paid, and if a Portion is paid prior to the last day of an Interest Period, Borrowers shall also pay any funding costs and loss of earnings and anticipated profits which may arise in connection with such prepayment or repayment, as required by Paragraph 2.10 hereof.

(e) Reductions Permanent. Any termination or reduction of the Commitment shall be permanent, and the Commitment cannot thereafter be restored or increased without the written consent of all Banks.

2.9. Prepayment. Borrowers may prepay the outstanding Advances at any time without premium or penalty and may reborrow under the Commitment upon the terms and conditions set forth therein; provided, however, that (i) Borrowers shall give Agent one (1) Business Day's notice of a payment on a Portion bearing interest at the Base Rate; and (ii) Portions bearing interest at the Adjusted Libor Rate may only be paid on the last day of the applicable Interest Period.

2.10. Funding Costs; Loss of Earnings. In connection with any prepayment or repayment of a Portion bearing interest based on the Adjusted Libor Rate made on other than the last day of the applicable Interest Period, whether such prepayment or repayment is voluntary, mandatory, by demand, acceleration or otherwise, Borrowers shall pay to Banks all funding costs and loss of earnings and anticipated profits which may arise in connection with such prepayment or repayment, as calculated by Agent in accordance with Exhibit C attached hereto.

2.11. Payments. All payments of principal, interest, fees and other amounts due hereunder, including any prepayments thereof, shall be made by Borrowers to Agent in immediately available funds before twelve o'clock (12:00) noon Philadelphia time on any Business Day at the principal office of Agent set forth at the beginning of this Agreement. Borrowers hereby authorize Agent to charge Borrowers' accounts with Agent for all payments of principal, interest and fees when due hereunder.

2.12. Commitment Fee. Borrowers shall pay to Agent for the benefit of Banks a commitment fee on the average daily amount of the unused portion of the Commitment at the rate of .375 percent per annum. Such fee shall be paid from the date hereof through the Termination Date, which fee shall be payable at the offices of Agent quarterly in arrears on the last day of each January, April, July and October, as billed by Agent. Banks shall share in such commitment fee in the same proportion as they participate in the Commitment. The commitment fee shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days.

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2.13. Swing Line Loans.

(a) Swing Line Commitment. Subject to the terms and conditions hereof, Agent, on behalf of the Banks, may, in Agent's discretion, from the date hereof through and including the Termination Date, make Swing Line Loans to Borrowers on a joint and several basis from time to time in an aggregate principal amount at any one time outstanding not to exceed Five Million Dollars (\$5,000,000); provided, however, that no Swing Line Loan shall be made if after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, such Swing Line Loan shall exceed the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any prior Swing Line advances outstanding under this Paragraph, and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit. Except as otherwise may be agreed upon from time to time between the Company and the Agent, Borrowers shall give Agent written notice of each requested Advance of a Swing Line Loan. Such notice of a requested Advance of a Swing Line Loan shall be certified by the chief financial officer or controller of the Company and shall be in the form of the Advance/Credit Request Form attached hereto as Exhibit A. Within the foregoing limits, the Borrowers may repay and reborrow under the Swing Line Commitment prior to the Termination Date, subject to and in accordance with the terms and limitations hereof.

(b) Interest. The interest rate applicable to a Swing Line Loan shall be the Base Rate and shall be paid to the Agent for its own account on the last day of each month.

(c) Payment. Each Swing Line Loan shall be due and payable on the earlier of: (i) the Termination Date and (ii) one (1) Business Day after the date on which Agent shall have demanded payment thereof; provided, however, that the Borrowers may pay the Swing Line Advance on any date in their discretion with same day notice to the Agent without premium or penalty.

(d) Procedure for Swing Line Loans. Subject to the terms and conditions hereof, the Borrowers may borrow under the Swing Line Commitment on any Business Day prior to the Termination Date. Except as otherwise may be agreed upon from time to time between the Company and the Agent, the Borrowers shall give Agent irrevocable notice, which notice must be received by the Agent prior to one o'clock (1:00) p.m., Philadelphia time, on the requested date, specifying in the notice (a) the amount requested to be borrowed and (b) the requested borrowing date. The proceeds of each Swing Line Loan will be made

available by the Agent to the Borrowers by the Agent crediting the account of the Borrowers with such proceeds on the requested borrowing date.

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(e) Allocating Swing Line Loans; Swing Line Loan Participation.

(i) The Agent may, in its sole and absolute discretion, direct that all Swing Line Loans owing to it be refunded by delivering a notice (a "Notice of Swing Line Refunding") to each Bank and, unless an Event of Default described in Paragraph 9.1(h) (an "Insolvency Event of Default") in respect of a Borrower has occurred, to the Borrowers, and each such Notice of Swing Line Refunding shall be deemed to constitute delivery by the Company of an Advance/Credit Request Form for an Advance to bear interest at the Base Rate in an amount equal to the amount of the Swing Line Loans outstanding on such date. Unless an Insolvency Event of Default shall have occurred (in which case the procedures of Paragraph 2.13(e)(ii) shall apply), each Bank (including the Agent in its capacity as a Bank) shall (i) make a Loan to Borrowers in an amount equal to such Bank's percentage share of the Commitment of the aggregate principal amount of the Swing Line Loans outstanding on the date of delivery of the applicable Notice of Swing Line Refunding and (ii) make the proceeds of its Loan available to the Agent for the account of the Agent at the office of the Agent prior to twelve o'clock (12:00) noon, Philadelphia time, in funds immediately available to the Agent on the Business Day next succeeding the date such notice is given. The proceeds of such Loans shall be immediately applied to repay the outstanding Swing Line Loans.

(ii) If an Insolvency Event of Default occurs prior to an Advance pursuant to a Notice of Swing Line Refunding, each Bank (other than the Agent) shall, on the date a Loan would have been made pursuant to such Notice of Swing Line Refunding (the "Refunding Date"), purchase an undivided participating interest in the outstanding Swing Line Loans in an amount equal to (i) such Bank's Pro Rata Share times (ii) the aggregate principal amount of the Swing Line Loans then outstanding which were to have been repaid with Loans (the "Swing Line Participation Amount"). On the Refunding Date, each Bank shall transfer to the Agent, in immediately available funds, such Bank's Swing Line Participation Amount.

(iii) Whenever, at any time after the Agent has received from any Bank such Bank's Swing Line Participation Amount, the Agent receives any payment on account thereof, the Agent will distribute to such Bank its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded) in like funds as received; provided, however, that in the event such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it in like funds as such payment is required to be returned by the Agent.

(iv) Each Bank's obligation to make Loans pursuant to Paragraph 2.13(a) and to purchase participating interests shall be absolute and unconditional and shall not be affected by any circumstances including, without limitation, (i) any setoff counterclaim, recoupment, defense or other right which such Bank may have against any other Bank or any Borrower, or any Borrower may have against any Bank or any other person, as the case may be, for any reason whatsoever; (ii) the occurrence or continuance of a Default or Event

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of Default; (iii) any adverse change in the condition (financial or otherwise) of the Borrowers or the Guarantors; (iv) any breach of this Agreement by any party hereto; (v) the failure to satisfy any condition to the making of any Loan hereunder; or (vi) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.14. Regulatory Changes in Capital Requirements. If any Bank shall have determined that the adoption or the effectiveness after the date hereof of any law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Bank (or any lending office of such Bank) or such Bank's holding company

with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company if any, as a consequence of this Agreement, the Commitment, Advances, Letters of Credit or the Loan made by such Bank pursuant hereto to a level below that which such Bank or its holding company would have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrowers shall pay to such Bank, within five (5) Business Days after receiving such Bank's demand therefor and the certificate referred to below, such additional amount or amounts as will compensate such Bank or its holding company for any such reduction suffered, which amount, if not paid within such period of five (5) Business Days, shall bear interest from the date due until payment in full thereof at the rate provided in Paragraph 2.6(a)(ii) hereof. Such Bank will notify the Borrowers of any event occurring after the date of this Agreement that will entitle such Bank to compensation pursuant to this Paragraph 2.14 as promptly as practicable after it obtains knowledge thereof.

A certificate of such Bank setting forth in detail such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified above and describing the calculation of such amount shall be delivered to the Borrowers and shall be conclusive absent manifest error. For purposes of the application of this Paragraph 2.14 to Borrowers and in calculating any amount that may be necessary to compensate a Bank under this Paragraph 2.14, such Bank shall determine the applicability of this provision to Borrowers and calculate the amount payable to such Bank hereunder in a manner consistent with the manner in which it shall apply and calculate similar compensation payable to it by other borrowers having provisions in their credit agreements comparable to this Paragraph 2.14.

Failure on the part of any Bank to demand compensation for increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to any other period.

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2.15. Taxes.

(a) Net Payment by Borrowers. Except as provided below, all payments by Borrowers hereunder shall be made without deduction for and free and clear of all taxes, levies, imposts, or charges and all liabilities (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto.

(i) U. S. Withholding Taxes. Borrowers and Agent shall be entitled to deduct and withhold United States withholding taxes with respect to all payments to be made hereunder to a Bank as may be required by United States law. Within thirty (30) days after the date of any payment of withheld taxes by Borrowers to the applicable taxing authority, Borrowers will furnish to Agent the original or a certified copy of a receipt or other documents reasonably acceptable to Agent evidencing such payment. Any Bank that is (or that has granted an assignment or participation to any lender that is organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof) shall provide on the date of this Agreement and from time to time thereafter if requested by Borrowers or Agent or required by the Internal Revenue Service of the United States: (i) a facially complete Internal Revenue Service Form 4224 (or any successor form) certifying that all payments made to such Bank are effectively connected with its conduct of a trade or business in the United States and will be includible in its gross income, (ii) a facially complete Internal Revenue Service Form 1001 (or any successor form) certifying as to its status for purposes of determining the applicability of a reduced rate of United States withholding taxes with respect to all payments to be made hereunder to such Bank pursuant to a double tax treaty obligation of the United States, or (iii) other facially complete documents satisfactory to Agent and Borrowers indicating that all payments that will be made to such Bank are exempt from or subject to a reduced rate of United States withholding tax. Unless the Borrowers and Agent have received such forms or such documents validly indicating that payments hereunder are not subject to United States withholding tax or are subject to such withholding tax at a reduced rate, Borrowers or Agent shall withhold taxes from such payments to such Bank at the applicable statutory rate.

(ii) Other Taxes. The general prohibition against reduction of payments contained in this Paragraph 2.15(a) shall exclude any tax imposed on or measured by the net income of a Bank pursuant to the laws of the jurisdiction in which the principal office or applicable lending office of such

Bank is located or under the laws of any political subdivision or taxing authority of any such jurisdiction in which the principal office or applicable lending office of such Bank is located (all such non-excluded taxes, levies, imposts, charges and liabilities being hereinafter referred to as "Taxes"). If any Taxes shall be required by law to be deducted or paid from or in respect of any sum payable hereunder or under any Promissory Note to any Bank, then Borrowers shall be required to pay an additional amount such that after making all required deductions or payments for such Taxes (including deductions and payments applicable to additional sums payable under this Paragraph 2.15(a)(ii)), but taking into account any credit, deduction or offset available in any other jurisdiction as a result of such payment (as determined and certified by such Bank's tax or accounting department to Borrowers in good faith), such

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Bank receives an amount equal to the sum it would have received had no such deductions or payments been made. Payment of any additional amounts required by this Paragraph 2.15(a)(ii) shall be made at the time of payment of the amounts otherwise required to be paid by Borrowers if the Taxes have been withheld by Borrowers, or otherwise within thirty (30) days from the date such Bank makes written demand therefor.

(b) Participants and Assignees. Any Bank that enters into any participation or assignment permitted by Paragraph 12.2 hereof shall give Borrowers and Agent immediate notice of such assignment or participation, describing the terms thereof and indicating the identity and country of residence of each of the participants or assignees. Notwithstanding any other provision contained herein to the contrary, the Borrowers and the Agent shall be entitled to deduct and withhold United States withholding taxes with respect to all payments to be made hereunder to or for such Bank or Assignee as may be required by United States law due to such assignment or participation. Each Bank hereby indemnifies and holds harmless Borrowers and Agent from and against any tax, interest, penalty or other expense that Borrowers or Agent may incur as a consequence of any failure to withhold United States taxes applicable because of any participation or assignment that is not fully disclosed to them as required hereunder.

SECTION THREE
LETTERS OF CREDIT

3.1. (a) Availability of Letters of Credit. Subject to the terms and conditions set forth herein, Banks shall from time to time prior to the Termination Date participate in the issuance by Agent of Letters of Credit for the account of Borrowers on the following terms and conditions:

(i) at the time of the issuance of each Letter of Credit, the face amount of such Letter of Credit together with the undrawn amount of any outstanding Letters of Credit and the amount of any unreimbursed draws under Letters of Credit shall not exceed Twenty Million Dollars (\$20,000,000);

(ii) at the time of the issuance of each Letter of Credit, the face amount of such Letter of Credit shall not exceed the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any Swing Line advances outstanding under Paragraph 2.13 hereof, and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit.

(iii) the final expiration date of each Letter of Credit shall be on or before the earlier of (A) the date one (1) year from the date of its issuance or (B) the Termination Date;

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(iv) there shall not exist at the time of issuance of the Letter of Credit, or as a result thereof, any Default or Event of Default; and

(v) each Letter of Credit issued under this Section Three shall be required by Borrowers in their ordinary course of business.

(b) Evergreen Letters of Credit. Notwithstanding the provisions of Paragraph 3.1(a) (iii) which requires that the final expiration of each Letter of Credit be within one year of issuance, Banks hereby agree that Agent may issue, upon the Borrowers' request if required by a proposed beneficiary, a Letter of Credit which by its terms may be extended for additional periods of up to one year each provided that (x) the final expiration date of each such Letter of Credit is on or before the Termination Date and (y) extensions of such Letters of Credit shall be available upon request from Borrowers to Agent at least forty-five (45) days before the then-effective expiration date.

(c) Existing Letters of Credit. Reference is made to certain letters of credit issued by CoreStates Bank, N.A. or First Union National Bank prior to the date of execution hereof, as identified on the Advance/Credit Request Form delivered on the date of this Agreement (the "Existing Letters of Credit"). Borrowers and Banks agree that as of the Effective Date, subject to receipt by Agent of an appropriately completed Advance/Credit Request Form, all such Existing Letters of Credit shall hereafter be Letters of Credit under this Agreement, as if originally issued hereunder.

3.2. Commitment Availability. The Commitment as from time to time in effect shall be reduced by the undrawn amount of all outstanding Letters of Credit. Such Commitment amount shall be restored but simultaneously reduced by the amount of any Advances under Paragraph 2.7 which are made to Borrowers to reimburse Agent for draws under the Letters of Credit as required pursuant to Paragraph 3.4 hereof.

3.3. Approval and Issuance.

(a) Borrowers shall provide Agent not less than five (5) Business Days' prior written notice of each request for the issuance of a Financial Standby Letter of Credit or a Performance Standby Letter of Credit by delivery of an Advance/Credit Request Form and Agent's Letter of Credit Application in the form attached hereto as Exhibit D ("Letter of Credit Application"). Each Advance/Credit Request Form submitted by Borrowers to Agent requesting the issuance of a Performance or Financial Standby Letter of Credit shall be certified by the chief financial officer or controller of the Company and represent as to the matters set forth in Paragraph 2.7(a) hereof.

(b) Agent will promptly provide to Banks written or telephonic notice of Agent's receipt of the Advance/Credit Request Form and the Letter of Credit Application

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which shall state (i) the amount of the Performance or Financial Standby Letter of Credit requested and (ii) the expiration date of the Performance or Financial Standby Letter of Credit.

3.4. Obligations of the Borrowers.

(a) Borrowers agree to pay to Agent in connection with each Letter of Credit issued hereunder: (i) immediately upon the demand of Agent on behalf of all Banks, the amount paid by each Bank with respect to such Letter of Credit; (ii) immediately upon demand of Agent, the amount of any draft presented purporting to be drawn under such Letter of Credit provided that the draft and accompanying documents conform to the terms of the Letter of Credit but subject to the terms of Paragraph 3.7 hereof (whether or not Agent has at such time honored such draft) and any other amounts paid thereunder (it being understood that Agent is not required to make demand upon or proceed against any Bank or other party or to resort to any collateral before obtaining payment from Borrowers); (iii) on the date of issuance thereof and quarterly thereafter in advance, a fee for the benefit of Banks, in accordance with each Bank's Pro Rata Share, of a rate equal to the then Applicable Margin under Paragraph 2.6 hereof, on the face amount of each Financial Standby Letter of Credit and each Performance Standby Letter of Credit, provided, however, that if a Letter of Credit is canceled, the Agent shall rebate to Borrowers any portion of the applicable LC Fee (as defined below) paid on account of any quarter after the quarter in which the Letter of Credit is terminated; (iv) on the date of issuance of each Letter of Credit a fee (the "LC Fee") to the Agent on its own behalf equal to one-eighth of one percent (1/8%) per annum of the face amount of such Letter of Credit; and (v) interest on any Indebtedness outstanding with respect to such Letter of Credit, whether for funds paid on drafts on such Letter of Credit, or otherwise (but such indebtedness shall not include undrawn balances of such Letter of Credit issued hereunder) calculated at the rate and paid at the times and in the manner set forth for the calculation of interest and payment thereof on the Loan in Paragraph 2.6(a) (i) (A) hereof based on the Base Rate. Interest under clause (v) above shall accrue on amounts paid on a Letter of Credit (if not reimbursed by Borrowers on the same day) from the date

of payment by Agent, whether or not demand is made, until such amounts are reimbursed by Borrowers whether before, at or after demand.

(b) In the absence of a Default or an Event of Default and subject to the provisions of Paragraph 2.7 hereof, Banks hereby agree to make Advances to Borrowers under the Commitment to fund the payments required under Paragraphs 3.4(a)(i) and (ii) hereof. If any payment by the Agent of a draft drawn under a Letter of Credit is for any reason (including without limitation the occurrence or continuation of a Default or an Event of Default hereunder) not reimbursed prior to or on the date such payment is made, the Agent in its sole and absolute discretion may direct that all amounts due under drafts drawn under a Letter of Credit be refunded by delivery of a notice (a "Drawing Refunding") to each Bank and to Borrowers and such Drawing Refunding shall constitute delivery by the Company of an Advance/Credit Request Form in an amount equal to the drawings to be refunded, which shall bear interest at the rate set forth in Paragraph 2.6(a)(i)(A) for Advances bearing interest based on the Base Rate until paid in full.

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3.5. Payment by Banks on Letters of Credit.

(a) With respect to each Letter of Credit issued hereunder, each Bank agrees that it is irrevocably obligated to pay to Agent, for each such Letter of Credit, such Bank's Pro Rata Share of each and every payment made or to be made by Agent under such Letter of Credit (each such payment to be made, a "LOC Contribution"). Each Bank's LOC Contribution shall be due from such Bank immediately upon, and in any event no later than the same day as, receipt of written notice (which may be sent by telex) from Agent that (i) it has made a payment or (ii) a draft has been presented purporting to be drawn on a Letter of Credit issued hereunder. Such payment shall be made at Agent's offices in immediately available federal funds.

(b) The obligation of each Bank to make its LOC Contribution hereunder is absolute, continuing and unconditional, and Agent shall not be required first to make demand upon or proceed against Borrowers or any guarantor or surety, or any others liable with respect to the applicable Letter of Credit and shall not be required first to resort to any collateral. LOC Contributions shall be made without regard to termination of this Agreement or the Commitment, the existence of a Default or an Event of Default, the acceleration of indebtedness hereunder or any other event or circumstance.

3.6. Collateral.

(a) If Borrowers shall have deposited with Agent cash collateral or U.S. Treasury securities with maturities no more than ninety (90) days from the date of deposit ("U.S. Treasury Bills") (discounted in accordance with customary banking practice to present value to determine amount) in an amount equal at all times to one hundred three percent (103%) of the outstanding undrawn amount of all Letters of Credit, such cash or U.S. Treasury Bills and all interest earned thereon to constitute cash collateral for all such Letters of Credit, on or before the Termination Date and shall have irrevocably paid in full the Loan and all other Indebtedness, liabilities and obligations of Borrowers to Banks under this Agreement (including all Indebtedness and fees due and owing under this Section Three other than for undrawn balances of Letters of Credit and other fees and liabilities not yet accrued thereunder), Borrowers shall be entitled upon the termination of the Commitment to the termination of all covenants of Borrowers under this Agreement (except under this Section Three).

(b) On the Termination Date, the termination of the Commitment (other than voluntary termination of the Commitment by Borrowers in compliance with subparagraph (a) above) or the occurrence of an Event of Default, the Agent may require (and in the case of an Event of Default occurring under Paragraph 9.1(h) it shall be required automatically) that Borrowers deliver to Agent, unless previously delivered to Agent under subparagraph (a) above, cash or U.S. Treasury Bills with maturities of not more than ninety (90) days from the date of delivery (discounted in accordance with customary banking practice to present value to determine amount) in an amount equal at all times to one hundred three percent (103%) of the outstanding undrawn amount of all Letters of Credit, such cash or U.S. Treasury

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Bills and all interest earned thereon to constitute cash collateral for all such Letters of Credit. At such time as such cash collateral or U.S. Treasury Bills is required to be and has not been deposited, Agent in its sole and absolute discretion on behalf of Banks shall be entitled to (x) liquidate such collateral it may hold at such time as is necessary or appropriate in its sole judgment so as to create such cash collateral, and (y) direct by delivery of a notice (a "Cash Collateral Notice") to each Bank and to Borrowers and such Cash Collateral Notice shall constitute delivery by the Company of an Advance/Credit Request Form in an amount equal to the Cash Collateral due under this Paragraph 3.6(b) which shall bear interest at the rate set forth in Paragraph 2.6(a) (ii) for Advances bearing interest based on the Base Rate.

(c) Any cash collateral deposited under subparagraphs (a) and (b) above, and all interest earned thereon, shall be held by Agent and invested and reinvested at the expense and the written direction of Borrowers, in U.S. Treasury Bills with maturities of no more than thirty (30) days from the date of investment.

3.7. General Terms of Credits. The following terms and conditions apply with respect to each Letter of Credit (a "Credit") notwithstanding anything to the contrary contained herein:

(a) Borrowers assume all risks of the acts or omissions of the beneficiary of each Credit with respect to the use of the Credit or with respect to the beneficiary's obligations to Borrowers. None of the Banks nor any of their officers or directors shall be liable or responsible for (and the Banks hereby agree to indemnify and hold the Agent and any issuer of a Credit harmless (subject to Paragraph 10.8 hereof) with respect to): (i) the use which may be made of the Credit or for any acts or omissions of the beneficiary in connection therewith; (ii) the accuracy, truth, validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects false, misleading, inaccurate, invalid, insufficient, fraudulent or forged; (iii) any other circumstances whatsoever in making or failing to make payment under a Credit; or (iv) any inaccuracy, interruption, error or delay in transmission or delivery of correspondence or documents by post, telegraph or otherwise. In furtherance and not in limitation of the foregoing, Agent may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

(b) To the extent any failure to comply with the provisions of this Section 3.7(b) could have a Material Adverse Effect, Borrowers agree to procure or to cause the beneficiaries of each Letter of Credit to procure promptly any necessary import and export or other licenses for the import or export or shipping of any goods referred to in or pursuant to a Credit and to comply and to cause the beneficiaries to comply with all foreign and domestic governmental regulations with respect to the shipment and warehousing of such goods or otherwise relating to or affecting such Credit, including governmental regulations pertaining to transactions involving designated foreign countries or their nationals, and to furnish such certificates in that respect as Agent may at any time reasonably require, and to keep such goods

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adequately covered by insurance in amounts, with carriers and for such risks as shall be customary in the industry and to cause Banks' interest to be endorsed on such insurance and to furnish Agent at its request with reasonable evidence thereof. Should such insurance (or lack thereof) upon said goods for any reason not be reasonably satisfactory to Agent, Agent may (but is not obligated to) obtain, at Borrowers' expense, insurance satisfactory to Agent.

(c) In connection with each Credit, neither any Bank nor any of their correspondents shall be responsible for: (i) the existence, character, quality, quantity, condition, packing, value or delivery of the property purporting to be represented by documents; (ii) any difference in character, quality, quantity, condition or value of the property from that expressed in documents; (iii) the time, place, manner or order in which shipment of the property is made; (iv) partial or incomplete shipment referred to in such Credit; (v) the character, adequacy or responsibility of any insurer, or any other risk connected with insurance; (vi) any deviation from instructions, delay, default or fraud by the beneficiary or any one else in connection with the property or the shipping thereof; (vii) the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; (viii) delay in arrival or failure to arrive of either the property or any of the documents relating thereto; (ix) delay in giving or failure to give notice of arrival or any other notice; (x) any breach of contract between the Letter of Credit beneficiaries and Borrowers; (xi) any laws, customs, and regulations which may be effective in any jurisdiction where

any negotiation and/or payment of such Credit occurs; (xii) failure of documents (other than documents required by the terms of the Credit) to accompany any draft at negotiation; or (xiii) failure of any person to note the amount of any document or draft on the reverse of such Credit or to surrender or to take up such Credit or to forward documents other than documents required by the terms of the Credit. In connection with each Credit, no Bank shall be responsible for any error, neglect or default of any of their correspondents. None of the above shall affect, impair or prevent the vesting of any of the Banks' rights or powers hereunder. If a Credit provides that payment is to be made by the issuing Bank's correspondent, neither the issuing Bank nor such correspondent shall be responsible for the failure of any of the documents specified in such Credit to come into the Agent's hands, or for any delay in connection therewith, and Borrowers' obligation to make reimbursements shall not be affected by such failure or delay in the receipt of any such documents.

(d) Notwithstanding but without limiting any of the foregoing, with respect to any Credit, Borrowers shall have a claim against Agent, and Agent shall be liable to Borrowers, to the extent, but only to the extent, of any direct, as opposed to indirect or consequential, damages suffered by Borrowers caused by the Agent's willful misconduct or gross negligence.

(e) To the extent not inconsistent with this Agreement, the Uniform Customs and Practices for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, are hereby made a part of this Agreement with respect to obligations in connection with each Credit.

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SECTION FOUR
REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants as to itself and each of its Subsidiaries party hereto, and each Subsidiary party hereto represents and warrants as to itself, as follows:

4.1. Organization and Good Standing. Each Borrower and each Subsidiary is a corporation duly formed and validly existing under the laws of its state of formation and has the power and authority to carry on its business as now conducted. Each Borrower and each Subsidiary is qualified to do business in all other states in which the failure to qualify would have a Material Adverse Effect.

4.2. Power and Authority; Validity of Agreement. Each Borrower and each Subsidiary has the power and authority under Delaware law (or the law of its state of formation) and under its organizational documents to enter into and perform this Agreement, the Promissory Notes and all other agreements, documents and actions required hereunder, to the extent each is a party thereto; and all actions necessary or appropriate for each Borrower's and each Subsidiary's execution and performance of this Agreement, the Promissory Notes, and all other agreements, documents and actions required hereunder, to the extent each is a party hereto, have been taken, and, upon their execution, the same will constitute the valid and binding obligations of each Borrower and each Subsidiary, to the extent each is a party thereto, enforceable in accordance with their terms.

4.3. No Violation of Laws or Agreements. The making and performance of this Agreement, the Promissory Notes, and the other documents, agreements and actions required of each Borrower and each Subsidiary hereunder, to the extent it is a party thereto, will not violate any provisions of any law or regulation, federal, state or local, or the respective organizational documents of any Borrower or Subsidiary or result in any breach or violation of, or constitute a default under, any agreement or instrument by which any Borrower, Subsidiary or its respective property may be bound, including without limitation the Note Purchase Agreement and the Indenture.

4.4. Material Contracts. No Borrower or Subsidiary is a party to or in any manner obligated under any contracts material to its respective business except this Agreement, its organizational documents, the Senior Notes and the Note Purchase Agreement pursuant to which they were issued, the Indenture, and the agreements identified on Exhibit E hereto, and there exists no material default under any of such contracts.

4.5. Compliance. Each Borrower and each Subsidiary is in compliance in all material respects with all applicable laws and regulations, federal, state and local (including without limitation those administered by the Local Authorities) material to the conduct of its business and operations; each Borrower and each Subsidiary possesses all the material franchises,

authorizations, patents, copyrights, trademarks, permits and licenses necessary or

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required in the conduct of its respective business, and, except as may be described on Exhibit E, the same are valid, binding, enforceable and subsisting without any material defaults thereunder; and, except as described on Exhibit E, no authorization, consent, approval, waiver, license or exemptions from, nor any filing, declaration or registration with, any court, governmental agency or regulatory authority (federal, state or local) or non-governmental entity, under the terms of contracts or otherwise, is required by reason of or in connection with any Borrower's or Subsidiary's execution and performance of this Agreement, the Promissory Notes and all other agreements, documents and actions required hereunder to the extent each is a party hereto and thereto.

4.6. Litigation. Except as set forth on Exhibit E hereto, there are no actions, suits, proceedings or claims which are pending or, to the best of Borrowers' and Subsidiaries' knowledge or information, threatened against any Borrower or Subsidiary which, if adversely resolved, would be reasonably likely to have a Material Adverse Effect.

4.7. Title to Assets. Except as set forth on Exhibit E hereto, each Borrower and each Subsidiary has good and marketable title to substantially all of its properties and assets as reflected in the financial statements of SunSource Inc. and its Consolidated Subsidiaries most recently delivered to Banks pursuant to Paragraphs 5.1(e), 6.2 and 6.3 hereof, free and clear of any liens and encumbrances, except the security interests permitted pursuant to Paragraph 7.4 hereof, and all such assets are in good order and repair and fully covered by the insurance required pursuant to Paragraph 6.7 hereof.

4.8. Capital Stock. The number of shares and classes of the capital stock of each Borrower and each Subsidiary and the ownership thereof, effective upon the 1998 Conversion, are accurately set forth on Exhibit E attached hereto; all such shares are validly existing, fully paid and non-assessable, and the issuance and sale thereof are in compliance with all applicable federal and state securities and other applicable laws; and the shareholders' ownership thereof is free and clear of any liens or encumbrances or other contractual restrictions.

4.9. Accuracy of Information; Full Disclosure.

(a) All information furnished to Banks concerning the financial condition of SunSource Inc. and its Consolidated Subsidiaries, including their annual audited financial statements for the period ending December 31, 1997 and their unaudited financial statements for the period ending September 30, 1998, copies of which have been furnished to Banks, have been prepared in accordance with GAAP and fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the dates and for the periods covered and discloses liabilities of SunSource Inc. and its Consolidated Subsidiaries required to be disclosed under GAAP and, except on the date hereof for the effect of the 1998 Conversion, there has been no Material Adverse Change from the date of such statements to the date hereof; and

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(b) All financial statements and other documents furnished by SunSource Inc. and its Consolidated Subsidiaries to the Banks in connection with this Agreement and the Promissory Notes do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading. Each Borrower and each Subsidiary has disclosed to the Banks in writing any and all facts which materially and adversely affect the business, properties, operations or condition, financial or otherwise, of any Borrower or Subsidiary or any Borrower's or Subsidiary's ability to perform its respective obligations under this Agreement and the Promissory Notes.

4.10. Taxes and Assessments.

(a) Each Borrower and each Subsidiary has duly and timely filed all information and tax returns and reports with all federal, state, local or foreign governmental taxing authorities, bodies or agencies; and all taxes, including without limitation income, gross receipt, sales, use,

excise and any other taxes, and any governmental charges, penalties, interest or fines with respect thereto, due and payable by any Borrower or Subsidiary have been paid, withheld or reserved for in accordance with GAAP or, to the extent they relate to periods on or prior to the date of the financial statements delivered from time to time pursuant to Paragraphs 5.1(e), 6.2 and 6.3 hereof (the "Financial Statements"), are reflected as a liability on the Financial Statements in accordance with GAAP.

(b) Each Borrower and each Subsidiary has properly withheld all amounts determined by it to be required by law to be withheld for income taxes and unemployment taxes, including without limitation all amounts required with respect to social security and unemployment compensation, relating to its employees, and has remitted such withheld amounts in a timely manner to the appropriate taxing authority, agency or body.

(c) As of the date of this Agreement, none of the federal income tax information returns of SDI or SDIPI have been audited. Except as set forth on Exhibit E hereto, no Borrower or Subsidiary has entered into any agreement for the extension of time for the assessment of any tax or tax delinquency, nor has any of them received outstanding and unresolved notices from the Internal Revenue Service or any other state, local or foreign taxing authority, agency or body of any proposed examination or of any proposed change in reported information which may result in a deficiency or assessment against any Borrower or Subsidiary, and there are no suits, actions, claims, investigations, inquiries or proceedings now pending against any Borrower or Subsidiary in respect of taxes, governmental charges or assessments.

4.11. Indebtedness. No Borrower or Subsidiary has any presently outstanding Indebtedness or obligations, including contingent obligations and obligations under leases of property from others which presents a liability in excess of One Million Dollars (\$1,000,000), except the Senior Notes, the Junior Subordinated Debentures and the Indebtedness and obligations described either on Exhibit E hereto or in the financial statements of SunSource, Inc. and its Consolidated Subsidiaries which have been furnished to Banks, and Indebtedness

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permitted to be incurred pursuant to Paragraph 7.1 hereof. There exists no default with respect to the payment of principal or interest under any such outstanding Indebtedness. The Indebtedness under the Senior Notes ranks pari passu and equal to the Indebtedness to Banks hereunder, without any priority. The Junior Subordinated Debentures rank junior and are subordinated to the Indebtedness to Banks, and all other Indebtedness of any Borrower or Subsidiary ranks either pari passu or junior to the Indebtedness to the Banks.

4.12. Management Agreements. The Company is a party to no other material management or consulting agreements for the provision of services to the Company, except as described in Exhibit E hereto.

4.13. Subsidiaries and Investments. No Borrower or Subsidiary has any Subsidiaries or Affiliates, or investments in or loans to any other individuals or business entities, except as described in Exhibit E hereto and except as are permitted to be acquired or created pursuant to Paragraph 7.8 hereof.

4.14. ERISA. Each Plan maintained by any Borrower, Subsidiary or ERISA Affiliate is, as of its most recently completed annual report, in compliance in all material respects with all applicable provisions of ERISA and the regulations promulgated thereunder; and, except as set forth in Exhibit E hereto:

(a) No Borrower, Subsidiary or ERISA Affiliate maintains or contributes to or has maintained or contributed to any multiemployer plan (as defined in Section 4001 of ERISA) under which any Borrower, Subsidiary or ERISA affiliate could have any withdrawal liability;

(b) No Borrower, Subsidiary or ERISA Affiliate sponsors or maintains any Plan under which there is an Accumulated Funding Deficiency, whether or not waived;

(c) The aggregate liability for accrued benefits and other ancillary benefits under each Plan that is or will be sponsored or maintained by any Borrower, Subsidiary or ERISA Affiliate (determined on the basis of the actuarial assumptions prescribed for valuing benefits under terminating single-employer defined benefit plans under Title IV of ERISA) does not exceed the aggregate fair market value of the assets under each such defined benefit pension Plan;

(d) No Borrower, Subsidiary or ERISA Affiliate has

liability arising out of or relating to a failure of any Plan to comply with the provisions of ERISA or the Code;

(e) There does not exist any unfunded liability (determined on the basis of actuarial assumptions utilized by the actuary for the Plan in preparing the most recent Annual Report) of any Borrower, Subsidiary or ERISA Affiliate under any plan, program or arrangement providing post-retirement life or health benefits; and

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(f) The matters described on Exhibit E attached hereto referencing clauses (a) through (e) of this Paragraph 4.14, would not, either singly or in the aggregate, have a Material Adverse Effect.

4.15. Fees and Commissions. No Borrower or Subsidiary owes any fees or commissions of any kind, or knows of any claim for any fees or commissions, in connection with Borrowers' obtaining the Commitment or the Loan from Banks, except those provided herein and fees payable to the Banks as may be agreed upon from time to time.

4.16. No Extension of Credit for Securities. No Borrower or Subsidiary is now, nor at any time has it been, engaged principally, or as one of its important activities, in the business of extending or arranging for the extension of credit, for the purpose of purchasing or carrying any margin stock or margin securities; nor will the proceeds of the Loan be used by any Borrower directly or indirectly, for such purposes.

4.17. Hazardous Wastes, Substances and Petroleum Products. Except as set forth in Exhibit E hereto:

(a) Each Borrower and each Subsidiary: (i) has received all permits and filed all notifications necessary to carry on its respective business(es); and (ii) is in compliance in all respects with all Environmental Control Statutes, except with respect to immaterial instances of noncompliance of which it has no knowledge.

(b) No Borrower or Subsidiary has given any written or oral notice, nor has it failed to give required notice, to the Environmental Protection Agency ("EPA") or any state or local agency with regard to any actual or imminently threatened removal, spill, release or discharge of Hazardous Substances on properties owned, leased or operated by a Borrower or Subsidiary or used in connection with the conduct of its business and operations.

(c) No Borrower or Subsidiary has received notice that it is potentially responsible for the performance of or payment of costs relating to clean-up or remediation of any actual or imminently threatened spill, release or discharge of Hazardous Substances pursuant to any Environmental Control Statute.

4.18. Solvency. SunSource Inc. and its Consolidated Subsidiaries are, on a consolidated basis, upon the 1998 Conversion, solvent such that (i) the fair value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is greater than the total amount of their liabilities, including without limitation, contingent liabilities, (ii) the present fair salable value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is not less than the amount that will be required to pay the probable liability on their debts as they become absolute and matured, and (iii) they are able to realize upon their assets and pay their debts and other

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liabilities, contingent obligations and other commitments as they mature in the normal course of business. SunSource Inc. and its Consolidated Subsidiaries (i) do not intend to, and do not believe that they will, incur debts or liabilities beyond their ability to pay as such debts and liabilities mature, or (ii) are not engaged in a business or transaction, or about to engage in a business or transaction, for which their property would constitute unreasonably small capital after giving due consideration to the prevailing practice and industry in which they are engaged. No creditor of the Company, any Subsidiary, SDI, SDIPI, SunSub A or SunSub B would have a reasonable likelihood of prevailing with respect to any claim to set aside payments to the Banks based on applicable

fraudulent conveyance principles. For purposes of this Paragraph 4.18, in computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual matured liability.

4.19. Year 2000 Compliance. Borrowers and Subsidiaries have conducted a comprehensive review and assessment of their computer systems and applications, microprocessor based goods and equipment owned or used by them in their business and are making inquiry of their material suppliers, vendors and customers, with respect to functionality before, during and after the year 2000 (the "Year 2000 Problem"). Borrowers and Subsidiaries have prepared a plan designed to ensure that all such systems, goods, equipment and products owned or used by them and material to the conduct of their business will be Year 2000 Compliant in a timely manner. The Company's report on Form 10-Q for the quarter ended September 30, 1998 describes such plan in all material respects. Borrowers reasonably believe, based on the foregoing review, assessment and inquiry that the Year 2000 Problem will not result in a Material Adverse Effect.

4.20. Foreign Assets Control Regulations. Neither the borrowing by the Borrowers of the Loan nor their use of the proceeds of any Advance thereof will violate the Foreign Assets Regulations, the Foreign Funds Control Regulations, the Transactions Control Regulations, the Cuban Assets Control Regulations, the Iranian Transaction Regulations, or the Iraqi Sanctions Regulations of the United States Treasury Department (31 C.F.R. Subtitle B, Chapter V, as amended).

4.21. Investment Company Act. No Borrower or Subsidiary is directly or indirectly controlled by or acting on behalf of any person which is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

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SECTION FIVE
CONDITIONS

5.1. First Advance. The obligation of Banks to make the first Advance under the Loan or issue a Letter of Credit shall be subject to Banks' receipt of the following documents, each in form and substance satisfactory to Banks:

(a) Promissory Notes. The Promissory Notes duly executed by Borrowers in favor of Banks.

(b) Authorization Documents. A certificate of the secretary of each Borrower, attaching and certifying as to (i) the certificate or articles of incorporation and bylaws of such entity; (ii) resolutions or other evidence of authorization by the board of directors of such entity, authorizing its execution and full performance of this Agreement, the Promissory Notes, and all other documents and actions required hereunder; and (iii) an incumbency certificate setting forth the name, titles and specimen signature of each officer of such entity who is authorized to execute the Loan Documents on behalf of such entity.

(c) Opinion of Counsel. An opinion letter from counsel for Borrowers in form and substance reasonably satisfactory to Banks.

(d) Insurance. Certificates of insurance with respect to all of Borrowers' fire, casualty, liability and other insurance covering their respective property and business.

(e) Financial Information. A certificate signed by the chief financial officer or controller of the Company attaching: (i) cash flow projections for SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis, for the two (2) year period immediately following the date hereof, satisfactory to Agent and certified as reasonable by the chief financial officer or controller of SunSource Inc. (such cash flow projections shall take into account the transactions contemplated by this Agreement and shall identify the sources of cash the Company intends to use to meet its cash needs during such two year period); and (ii) financial projections for SunSource Inc. and its Consolidated Subsidiaries for the period from closing through December 31, 2001 on a consolidated basis satisfactory to Agent; and with respect to the matters set forth in Paragraph 4.18 hereof.

(f) Advance Request. A completed Advance/Credit Request Form required under Paragraphs 2.1(b), 2.7 and 3.1(c) hereof, and any other documents or information reasonably required by Banks in connection therewith.

(g) Fees. Payment of the fees required by Section 2 hereof.

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(h) Officer's Certificate. A certificate signed by the chief financial officer or controller of the Company stating: (i) that there exists no Default or Event of Default hereunder, (ii) except for the 1998 Conversion, that there has been no Material Adverse Change in the financial condition, assets, nature of the assets, operations or prospects of the Borrowers and Subsidiaries since September 30, 1998, (iii) that there exists no default under any Indebtedness of any Borrower or Subsidiary and (iv) that the 1998 Conversion, as outlined in the letter from the Company to the Agent dated December 9, 1998, will be completed simultaneously with the effectiveness of this Agreement.

(i) Senior Notes. Borrowers shall, simultaneously with the 1998 Conversion, have amended and restated the Existing Note Purchase Agreement and provided copies of the Note Purchase Agreement, as amended, to Banks.

(j) Tax Forms. A facially complete Internal Revenue Service Form 4224 from each of The Bank of Nova Scotia and each other non-U.S. Bank certifying as to such Bank's entitlement to exemption from, or reduction of, United States withholding tax on payments to be made hereunder or under the Promissory Notes.

(k) Junior Subordinated Debentures. (i) Evidence satisfactory to Agent that: (a) the Junior Subordinated Debentures shall, after the Effective Date, remain outstanding under terms of subordination satisfactory to the Required Banks and (b) all required consents under the Indenture or otherwise in connection with the Junior Subordinated Debentures have been obtained and delivered and (ii) a duly executed copy of the Reassignment and Reassumption Agreement executed in connection with the 1998 Conversion.

(l) Other Documents. Such additional documents as Banks reasonably may request.

5.2. Subsequent Advances. The obligation of Banks to make additional Advances under the Loan shall be subject to Banks' receipt of a completed Advance/Credit Request Form.

5.3. Additional Condition to Banks' Obligations. It shall be a condition to Banks' obligation hereunder to make any Advance that the representations and warranties set forth herein shall be true and correct as if made on the date of such Advance, that no Event of Default or Default shall have occurred and be continuing on the date of such Advance or be caused by such Advance, that all fees required hereunder have been paid as and when due, and there shall have been no Material Adverse Change since the date hereof.

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SECTION SIX
AFFIRMATIVE COVENANTS

Each Borrower and each Subsidiary covenants and agrees that so long as the Commitment of Banks to Borrowers or any Indebtedness of Borrowers to Banks is outstanding hereunder, each Borrower and each Subsidiary will (and with respect to Paragraph 6.12, Borrowers will cause each ERISA Affiliate to):

6.1. Existence and Good Standing. Preserve and maintain its existence as a corporation and its good standing in all states in which it conducts business and the validity of all its material franchises, licenses and permits required in the conduct of its business.

6.2. Quarterly Financial Statements. Furnish Banks within forty-five (45) days of the end of each quarterly fiscal period hereafter, other than the last quarterly fiscal period in the fiscal year, with unaudited quarterly consolidated financial statements of SunSource Inc. and its Consolidated Subsidiaries, in form and substance as required by GAAP, including for each such quarter (i) a consolidated balance sheet, (ii) a consolidated statement of income, (iii) a consolidated statement of cash flow and (iv) a

certificate in the form of Exhibit F attached hereto executed by the chief financial officer or controller of the Company showing the calculation of the covenants set forth in Paragraphs 6.13 through 6.15 and Section Seven hereof prepared in accordance with GAAP consistently applied and stating that the financial statements fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date and for the periods covered and that as of the date of such certificate there exists no violation of any provision of this Agreement or the happening of any Event of Default or Default.

6.3. Annual Financial Statements. Furnish Banks within ninety (90) days after the close of each fiscal year commencing with fiscal 1998 with audited consolidated annual financial statements of SunSource Inc. and its Consolidated Subsidiaries, including the financial statements, certificate in the form of Exhibit F attached hereto and information required under Paragraph 6.2 hereof, which consolidated financial statements shall be prepared in accordance with GAAP. The financial statements delivered pursuant to the preceding sentence shall be certified without qualification (except with respect to changes in GAAP as to which the Company's independent certified public accountants have concurred) by an independent certified public accounting firm satisfactory to Banks; and the Company shall cause Banks to be furnished, at the time of the completion of the annual audit, with a certificate signed by such accountants showing the calculation of the covenants set forth in Paragraphs 6.13 through 6.15 hereof and stating that to the best of their knowledge there exists no violations of any provisions of this Agreement or the happening of any Event of Default or Default hereunder.

6.4. Annual Budget. Furnish to Banks, on or before March 31 of each year, commencing with fiscal year 1999, an annual budget of SunSource Inc. and its Consolidated Subsidiaries, showing net income and cash flows of SunSource Inc. and its Consolidated

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Subsidiaries on a consolidated basis for the twelve (12) month period ending on December 31 of such year.

6.5. Public Information. Deliver to Banks, promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as the Company shall send to its shareholders or to the holders of the Senior Notes or the Junior Subordinated Debentures, copies of all registration statements (without exhibits), and all annual, quarterly or other reports which the Company files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission) including without limitation, Form 10Q and Form 10K; and copies of all auditors' annual management letters delivered to the Company.

6.6. Books and Records. Keep and maintain satisfactory and adequate books and records of account in accordance with GAAP and make or cause the same to be made available to Banks or their agents or nominees at any reasonable time during normal business hours upon reasonable notice for inspection and to make extracts thereof and permit Agent or any Bank to discuss contents of same with senior officers of any Borrower or Subsidiary and also with outside auditors and accountants of any Borrower or Subsidiary.

6.7. Properties; Insurance. Keep and maintain all of its property and assets in good order and repair and materially covered by insurance with reputable and financially sound insurance companies against such hazards and in such amounts as is customary in the industry, under policies requiring the insurer to furnish reasonable notice to Banks and opportunity to cure any non-payment of premiums prior to termination of coverage; and, as required above, furnish Banks with certificates of such insurance.

6.8. Notices to Banks. Notify Banks in writing immediately of (i) the institution of any litigation, the commencement of any administrative proceedings, the happening of any event or the assertion or threat of any claim which might reasonably be expected to have a Material Adverse Effect, (ii) the occurrence of any Event of Default or Default hereunder or (iii) any notice delivered to the Trustee (as defined in the Indenture) from the Company or the holder of any Senior Indebtedness (as defined in the Indenture) in respect of Section 14.06 of the Indenture.

6.9. Taxes. Pay and discharge all taxes, assessments or other governmental charges or levies imposed on it or any of its property or assets prior to the date on which any penalty for non-payment or late payment is incurred, unless the same are (a) being contested in good faith by appropriate proceedings and (b) are covered by appropriate reserves maintained in cash or cash equivalents in accordance with GAAP.

6.10. Costs and Expenses. Pay or reimburse Agent for all

reasonable out-of-pocket costs and expenses (including but not limited to reasonable attorneys' fees and disbursements) Agent may pay or incur in connection with the preparation and review of this

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Agreement and all waivers, consents and amendments in connection therewith and all other documentation related thereto and the making of the Loan hereunder; and pay or reimburse Banks for all reasonable out-of-pocket costs and expenses (including but not limited to reasonable attorneys' fees and disbursements) Banks may pay or incur in connection with the collection or enforcement of the same, including without limitation any fees and disbursements incurred in defense of or to retain amounts of principal, interest or fees paid. All obligations provided for in this Paragraph 6.10 shall survive any termination of this Agreement or the Commitment and the repayment of the Loan.

6.11. Compliance; Notification.

(a) Except to the extent that noncompliance would not have a Material Adverse Effect, comply in all respects with all local, state and federal laws and regulations applicable to its business, including without limitation the Environmental Control Statutes, the Securities Act, and all laws and regulations of the Local Authorities, and the provisions and requirements of all franchises, permits, licenses and other like grants of authority held by any Borrower or Subsidiary; and notify Banks immediately in detail of any actual or alleged failure to comply with, failure to perform, breach, violation or default under any such laws or regulations or under the terms of any of such franchises, permits, certificates, licenses or grants of authority, or of the occurrence or existence of any facts or circumstances which with the passage of time, the giving of notice or otherwise could create such a failure, breach, violation or default or could occasion the termination of any of such franchises, permits, certificates, licenses or grants of authority, except to the extent that such matter would not have a Material Adverse Effect.

(b) With respect to the Environmental Control Statutes, promptly notify Agent when, in connection with the conduct of any Borrower's or Subsidiary's business(es) or operation(s), any person (including, without limitation, EPA or any state or local agency) provides oral or written notification to any Borrower or Subsidiary or any Borrower or Subsidiary otherwise becomes aware of a condition with regard to an actual or imminently threatened removal, spill, release or discharge of hazardous or toxic wastes, substances or petroleum products that requires notification to the applicable governmental authority under an Environmental Control Statute and would have an Environmental Material Adverse Effect; and notify Banks in detail promptly upon the receipt by any Borrower or Subsidiary of an assertion of liability under the Environmental Control Statutes, of any actual or alleged failure to comply with or perform, breach, violation or default under any such statutes or regulations or of the occurrence or existence of any facts, events or circumstances which with the passage of time, the giving of notice, or both, could create such a breach, violation or default and would have an Environmental Material Adverse Effect.

(c) With respect to each disclosure previously made to Agent pursuant to Exhibit E attached hereto or Paragraph 6.11(b) hereof regarding alleged or actual liability under Environmental Control Statutes, not later than twenty (20) days after the last day of each fiscal quarter, deliver to Agent a report describing (i) the estimated dollar amount, when initially

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determined, of any such liability (including costs of investigation and remediation) and if any such initial estimate with respect to a disclosed matter shall be modified thereafter by more than \$1,000,000, the modified dollar amount; and (ii) any information or change in circumstances regarding actual or alleged liability under Environmental Control Statutes of any Borrower or Subsidiary, if the effect thereof would be to increase liability in connection with the investigation or remediation with respect thereto by more than \$1,000,000.

6.12. ERISA. (a) Comply, and cause any Plan maintained for the employees of any Borrower or Subsidiary to comply, in all material respects with the provisions of ERISA; (b) not incur any material Accumulated Funding Deficiency or any material liability to the PBGC (as established by ERISA); (c) permit any event to occur (i) as described in Section 4042 of ERISA or (ii)

which may result in the imposition of a lien on its properties or assets; and (d) notify Banks in writing promptly after it has come to the attention of senior management of any Borrower or Subsidiary of the assertion or threat of any "reportable event" or other event described in Section 4042 of ERISA (relating to the soundness of a Plan), except those with respect to which the PBGC has waived the 30 day notice rule, or the PBGC's ability to assert a material liability against it) or impose a lien on any Borrower's or Subsidiary's properties or assets.

6.13. Capitalization Ratio. Maintain a Capitalization Ratio not to exceed: (i) with respect to the last day of each of the first two fiscal quarters in each fiscal year, sixty-two percent (62%) and (ii) with respect to the last day of each of the last two fiscal quarters of each fiscal year, sixty percent (60%).

6.14. Fixed Charge Coverage Ratio. Maintain as of the last day of each fiscal quarter set forth in the left hand column, for the Rolling Period ending on such date, a Fixed Charge Coverage Ratio for SunSource Inc. and its Consolidated Subsidiaries of not less than the amount set forth in the right hand column:

Period -----	Minimum Ratio -----
Date of Agreement through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

6.15. Leverage Ratio. Maintain on the last day of each fiscal quarter a Leverage Ratio of not greater than 3.25:1.

6.16. Management Changes. Notify Banks in writing within thirty (30) days after any change of its management group as described in the "Change of Control" definition.

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6.17. Subsequent Credit Terms.

(a) Notify Bank in writing not less than five (5) Business Days prior to its entering into any amendment or modification of any credit arrangement, whether now in effect or hereafter incurred, pursuant to which any Borrower or Subsidiary agrees to financial covenants which are more restrictive to such Borrower or Subsidiary than those contained in sections Six and Seven hereof. Upon entering into any such amendment or modification, and with respect to the covenants in the Note Purchase Agreements, the corresponding covenants, terms and conditions of this Agreement are and shall be deemed to be automatically and immediately amended to conform with and to include the applicable covenants, terms and/or conditions of such other agreement; provided, however, that the foregoing shall not be applicable to or be deemed to affect any provision of this Agreement to the extent that any amendment or modification is less restrictive than the corresponding provisions of this Agreement.

(b) Each Borrower and each Subsidiary hereby agrees promptly to execute and deliver any and all such documents and instruments and to take all such further actions as Agent may, in its sole discretion, deem necessary or appropriate to effectuate the provisions of this Paragraph 6.17.

6.18. Use of Proceeds. Use the proceeds of the Loan only for the purposes set forth in Paragraph 2.4 hereof.

6.19. Successor Agent. In the event of the appointment of any successor Agent pursuant to Paragraph 10.15 hereof, execute and deliver any documents reasonably requested by Banks to effectuate and confirm the transfer to such successor Agent of all rights, powers, duties, obligations and property vested in its predecessor Agent hereunder.

6.20. Transactions Among Affiliates. Cause all transactions between and among Affiliates to be on an arms-length basis and on such terms and conditions as are customary in the applicable industry between and among unrelated entities.

6.21. Joinder of Subsidiaries. If any Subsidiary or any newly created or acquired Subsidiary: (i) is or becomes a Material Subsidiary and (ii) is not at such time of determination a Borrower or Guarantor, promptly notify Agent of the same and cause such Material Subsidiary to execute joinder documents in form and substance satisfactory to Agent, joining such Subsidiary under this Agreement as either a Borrower or a Guarantor, which determination

shall be made in the discretion of Agent, and cause to be delivered such opinions and certificates as Agent shall reasonably request.

6.22. Year 2000 Compliance. Take all action necessary to assure that a Material Adverse Effect shall not result from any failure of Borrowers' computer systems and applications, micro-processor based goods and equipment owned or used by them in their business to be Year 2000 Compliant; and use reasonable best efforts to assure the Year 2000

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Compliance of their material vendors and suppliers or to assure that failures to be Year 2000 Compliant by such vendors and suppliers will not have a Material Adverse Effect to the extent that any such information shall not be included in the Company's periodic reports filed with the Securities and Exchange Commission from time to time. Borrowers shall provide to Bank any material updates or revisions to its plan for Year 2000 Compliance referred to in Paragraph 4.19 and notice of any material increase in the estimated costs to Borrowers of achieving Year 2000 Compliance in accordance with such plan; and, at the request of Bank, Borrowers shall provide Bank assurances acceptable to Bank regarding the Year 2000 Compliance and/or contingency plans related thereto, of Borrowers and their material vendors and suppliers.

6.23. Supporting Information. Use reasonable efforts to obtain from the Company's accountants such supporting opinions or information with respect to the matters set forth in Paragraph 4.18 hereof as the Banks shall reasonably request.

6.24. Other Information. Provide Banks with any other documents and information, financial or otherwise, reasonably requested by Banks from time to time.

SECTION SEVEN
NEGATIVE COVENANTS

So long as the Commitment or any Indebtedness of Borrowers to Banks remains outstanding hereunder, each Borrower and each Subsidiary covenants and agrees that it will not:

7.1. Indebtedness. Borrow any monies or create any Indebtedness except (i) borrowings from Banks hereunder; (ii) Indebtedness evidenced by the Senior Notes not to exceed Sixty Million Dollars (\$60,000,000) aggregate principal amount outstanding at any time, which shall rank equally and are pari passu with the obligations to the Banks hereunder; (iii) Indebtedness under the Junior Subordinated Debentures, not to exceed One Hundred Five Million Five Hundred Thousand Dollars (\$105,500,000) principal amount outstanding at any time (but not including any amounts which constitute Compounded Interest, as defined in the Indenture), which shall be subordinate and junior to the obligations to the Banks hereunder; (iv) trade Indebtedness in the normal and ordinary course of business for value received, of which no more than Five Million Dollars (\$5,000,000) shall be outstanding at any time under Trade Notes; (v) Indebtedness and obligations incurred or assumed to purchase or lease fixed or capital assets, provided, however, that the total principal amount of such Indebtedness and obligations incurred in any calendar year shall not exceed in the aggregate Seven Million Five Hundred Thousand Dollars (\$7,500,000); (vi) borrowings from any Borrower by any Borrower; (vii) borrowings from any Borrower by a Subsidiary which is not a Borrower to the extent Borrowers are permitted to make such loans pursuant to Paragraph 7.3(ii) hereof; (viii) Indebtedness outstanding on the date hereof and disclosed on Exhibit E hereto, but without any increase in the outstanding principal amount thereof; (ix) Indebtedness of non-Borrower, non-Guarantor Subsidiaries incorporated in a jurisdiction in the United States, up to Ten Million Dollars (\$10,000,000) aggregate principal amount outstanding at any time; (x) Indebtedness of non-

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Borrower, non-Guarantor Subsidiaries incorporated in a jurisdiction outside of the United States, up to Ten Million Dollars (\$10,000,000) aggregate principal

amount outstanding at any time (which shall include the revolving credit facility with the Bank of Nova Scotia); and (xi) unsecured promissory notes in favor of sellers of assets or stock in acquisitions otherwise permitted pursuant to Paragraph 7.8 hereof not to exceed Ten Million Dollars (\$10,000,000); provided, however, that Indebtedness of non-Borrower, non-Guarantor Subsidiaries under clauses (v), (ix) and (x) hereof shall in no event exceed in the aggregate outstanding at any time Ten Million Dollars (\$10,000,000).

7.2. Guaranties. Guarantee or assume or agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liability of others (except hereunder and with respect to the Senior Notes and to endorse checks or drafts in the ordinary course of business), except that (i) Borrowers may guarantee Indebtedness which in the aggregate shall not exceed Five Million Dollars (\$5,000,000) outstanding at any time, and (ii) any entity may guarantee debt of another entity otherwise permitted hereunder.

7.3. Loans. Make any loans or advances to others, provided that any Borrower may make loans and advances to (i) any other Borrower; (ii) non-Borrower, non-Guarantor Subsidiaries incorporated in a jurisdiction in the United States or (iii) non-Borrower, non-Guarantor Subsidiaries incorporated in a jurisdiction outside of the United States, such that loans or advances from all Borrowers to all such non-Borrower, non-Guarantor Subsidiaries shall not exceed Ten Million Dollars (\$10,000,000) in aggregate outstanding principal amount at any time, and (iv) its sales personnel in the ordinary course of business.

7.4. Liens and Encumbrances. Create, permit or suffer the creation of any liens, security interests, or any other encumbrances on any of its property, real or personal, except (i) liens arising in favor of sellers or lessors for indebtedness and obligations incurred to purchase or lease fixed or capital assets permitted under Paragraph 7.1(v) hereof, provided, however, that such liens secure only the Indebtedness and obligations created thereunder and are limited to the assets purchased or leased pursuant thereto; (ii) liens for taxes, assessments or other governmental charges, federal, state or local, which are then being currently contested in good faith by appropriate proceedings and are covered by appropriate reserves maintained in cash or cash equivalents and in accordance with GAAP; (iii) pledges or deposits to secure obligations under workmen's compensation, unemployment insurance or social security laws or similar legislation; (iv) deposits to secure performance or payment bonds, bids, tenders, contracts, leases, franchises or public and statutory obligations required in the ordinary course of business; (v) deposits to secure surety, appeal or custom bonds required in the ordinary course of business and (vi) liens and security interests securing up to Five Million Dollars (\$5,000,000) of Indebtedness outstanding under Trade Notes.

7.5. Additional Negative Pledge. Agree or covenant with or promise any person or entity other than Banks and the holders of the Senior Notes that it will not pledge its assets or

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properties or otherwise grant any liens, security interests or encumbrances on its property on terms similar to those set forth in Paragraph 7.4 hereof.

7.6. Restricted Payments. Make any Restricted Payments; provided, however that so long as there exists no Event of Default or Default under this Agreement and no Event of Default or Default will result therefrom: (i) the Company may pay dividends on its common stock; and (ii) the Company may make regularly scheduled interest payments on the Junior Subordinated Debentures as in effect on the date hereof; provided further that if the Leverage Ratio immediately prior to and after giving effect to such purchase is less than 2.25 to 1, as set forth in a certificate of the chief financial officer or controller of the Company and delivered to Agent, then the Company may purchase or redeem its common stock or purchase Trust Preferred Securities, provided a like amount of the Junior Subordinated Debentures are simultaneously purchased.

7.7. Transfer of Assets. Sell, lease, transfer or otherwise dispose of all or any portion of its assets, real or personal, other than such transactions made on an arm's length basis in the normal and ordinary course of business for value received; provided, however, that in the absence of a Default or an Event of Default, and, if a Default or Event of Default would not result therefrom, Borrowers may (i) consummate a Sale of Material Assets, provided that the Commitment shall be permanently reduced and the Loan shall be repaid in connection therewith pursuant to Paragraphs 2.8(c) and (d) hereof by an amount equal to the Banks' Applicable Share received by Borrowers on account of such sale(s), to the extent such sale(s), in the aggregate, exceed Fifteen Million Dollars (\$15,000,000) and (ii) consummate the 1998 Conversion.

7.8. Acquisitions and Investments. (a) Purchase or otherwise acquire any part or amount of the capital stock or assets of, or make any

investments in, any other entity or corporation, except Permitted Investments; (b) create, acquire or maintain any Material Subsidiary not listed on Schedule 1 or 2 hereto, except if the Subsidiary executes a joinder to this Agreement and the Promissory Notes to become a joint and several obligor hereunder or a Guarantor hereunder, in each case pursuant to Paragraph 6.21 hereof; (c) enter into any new business activities or ventures not directly related to its present business; or (d) merge or consolidate with or into any other entity or corporation, except that any Subsidiary may be merged into the Company if the Company is the surviving entity and any Subsidiary may merge into any other Subsidiary; provided, however, that in the absence of a Default or an Event of Default hereunder, and if a Default or Event of Default would not result therefrom, Borrowers may make acquisitions (by merger or purchase) of substantially all but not less than substantially all of other entities or corporations in the same or substantially the same business as Borrowers. Borrowers shall provide to Agent a financial projection, including an income statement and cash flow, from the date of any proposed acquisition with a purchase price exceeding Ten Million Dollars (\$10,000,000), showing prospective compliance with Paragraphs 6.13 through 6.15 and Section Seven of this Agreement through the Termination Date and a pro forma combined historical balance sheet as of the end of the most recent fiscal quarter for the Company and the target.

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7.9. Use of Proceeds. Use any of the proceeds of the Loan, directly or indirectly, to purchase or carry margin securities within the meaning of Regulation U of the Board of Governors of the Federal Reserve System; or engage as its principal business in the extension of credit for purchasing or carrying such securities.

7.10. Amendment of Documents. (a) Without the consent of Agent, which consent shall not be withheld unreasonably, amend or permit any amendments to: any Borrower's or any Subsidiary's organizational documents; the Declaration of Trust; the Indenture; the Terms of Common Securities of the Trust; the Terms of Preferred Securities of the Trust; the Preferred Securities Guaranty; and (b) with respect to those provisions of the Note Purchase Agreement relating to financial covenants (Paragraph 5.12 through 5.14), events of default (Section 8), mandatory or voluntary prepayments (Paragraphs 4.2, 4.3, 4.4, 4.7 and 4.8) and all definitions related thereto, any amendment, waiver or consent thereto shall require the simultaneous amendment, waiver or consent of the Banks or Required Banks, as applicable, to the corresponding provision in this Agreement.

7.11. Payment of Senior Notes. Make any payment of principal on the Senior Notes except if simultaneously with such payment a reduction of Commitment and prepayment to the extent of Bank's Applicable Share of such payment is made pursuant to Paragraph 2.8 hereof.

SECTION EIGHT
RIGHT OF SETOFF

After and during the continuation of any Event of Default hereunder, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other Indebtedness at any time owing by such Bank to or for the credit or the account of the Borrowers against any and all of the obligations of the Borrowers now or hereafter existing under this Agreement and the Promissory Note held by such Bank; provided, that to the extent not prohibited by applicable law or affecting the Banks' or the holders of the Senior Notes' right to retain such funds, Banks shall retain Banks' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the holder of the Senior Notes. Each Bank agrees promptly to notify the Borrowers and Agent after any such setoff and application made by such Bank; provided, however, that the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Bank under this Section Eight are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

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SECTION NINE
DEFAULT

9.1. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) If any Borrower or Subsidiary shall fail to pay (i) any installment of principal, or interest when due or (ii) fees, costs, expenses or any other sum payable to Banks hereunder or otherwise within 5 days after notice from Agent it is due;

(b) If any representation or warranty made herein or in connection herewith or in any statement, certificate or other document furnished hereunder is incorrect, false or misleading in any material respect when made;

(c) If any Borrower or Subsidiary shall default in the payment or performance of any obligation or Indebtedness to another, either singly or in the aggregate in excess of \$1,000,000, whether now or hereafter incurred;

(d) If there shall be a default in or failure to observe at any test date the covenants set forth in Paragraphs 6.13 through 6.15 or Section Seven hereof;

(e) If any Borrower or Subsidiary shall default in the performance of any other agreement or covenant contained herein (other than as provided in subparagraphs (a), (b) or (d) above) or in any document executed or delivered in connection herewith, and such default shall continue uncured for twenty (20) days after the earlier of (i) any Borrower having actual knowledge of such default, and (ii) notice thereof to Borrowers given by Agent pursuant to the direction of Required Banks;

(f) If a Change of Control shall occur;

(g) If custody or control of any substantial part of the property of any Borrower or Subsidiary shall be assumed by any governmental agency or any court of competent jurisdiction at the instance of any governmental agency; if any material license or franchise shall be suspended, revoked or otherwise terminated; if any governmental regulatory authority or judicial body shall make any other final non-appealable determination the effect of which would be to affect materially and adversely the operations of any Borrower or Subsidiary as now conducted;

(h) If any Borrower or Subsidiary: becomes insolvent, bankrupt or generally fails to pay its debts as such debts become due; is adjudicated insolvent or bankrupt; admits in writing its inability to pay its debts; or shall suffer a custodian, receiver or trustee for it or substantially all of its property to be appointed and if appointed without its consent, not be discharged within thirty (30) days; makes an assignment for the benefit of creditors; or suffers

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proceedings under any law related to bankruptcy, insolvency, liquidation or the reorganization, readjustment or the release of debtors to be instituted against it and if contested by it not dismissed or stayed within thirty (30) days; if proceedings under any law related to bankruptcy, insolvency, liquidation, or the reorganization, readjustment or the release of debtors is instituted or commenced by any Borrower; if any order for relief is entered relating to any of the foregoing proceedings; if any Borrower or Subsidiary shall call a meeting of its creditors with a view to arranging a composition or adjustment of its debts; or if any Borrower or Subsidiary shall by any act or failure to act indicate its consent to, approval of or acquiescence in any of the foregoing;

(i) any event or condition shall occur or exist with respect to any activity or substance regulated under the Environmental Control Statutes and as a result of such event or condition, any Borrower or Subsidiary has incurred or in the opinion of such Borrower or Subsidiary is reasonably likely to incur a liability in excess of \$1,000,000 during any consecutive twelve (12) month period;

(j) if any judgment, writ, warrant or attachment or execution or similar process which calls for payment or presents liability in excess of \$1,000,000 shall be rendered, issued or levied against any Borrower or Subsidiary or its respective property and such process shall not be paid, waived, stayed, vacated, discharged, settled, satisfied or fully bonded within sixty (60) days after its issuance or levy; provided, however that if a judgment, writ, warrant or attachment or execution or similar process relates to federal or state taxation, then an Event of Default shall occur if the same shall not be paid, waived, stayed, vacated, discharged, settled, satisfied or

fully bonded within one hundred twenty (120) days after its issuance or levy; or

(k) If the Company makes a payment of principal or interest on or purchases or redeems the Junior Subordinated Debentures and the Trust does not immediately use such funds to make Distributions Paid on Trust Securities.

9.2. Remedies. Upon the happening and during the continuation of any Event of Default, at the election of Required Lenders, and by notice by Agent to Borrowers (except if an Event of Default described in Paragraph 9.1(h) shall occur in which case acceleration shall occur automatically without notice), Required Lenders may declare the entire unpaid balance, principal, interest and fees, of all Indebtedness of Borrowers to Banks, hereunder or otherwise, to be immediately due and payable. Upon such declaration, the Commitment shall immediately and automatically terminate and Banks shall have no further obligation to make any Advances and the immediate right to enforce or realize on any collateral security granted therefor in any manner or order they deem expedient without regard to any equitable principles of marshaling or otherwise. In addition to any rights granted hereunder or in any documents delivered in connection herewith, Banks shall have all the rights and remedies granted by any applicable law, all of which shall be cumulative in nature.

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SECTION TEN
THE BANKS

This Section sets forth the relative rights and duties of Agent, Documentation Agent and Banks respecting the Loan and does not confer any enforceable rights on Borrowers against Banks or create on the part of Banks any duties or obligations to the Borrowers.

10.1. Application of Payments. Agent shall apply all payments of principal, interest, commitment fee or other amounts hereunder made to Agent by or on behalf of Borrowers, to Banks on the basis of their Pro Rata Shares of the outstanding principal balance of the Loan hereunder, and shall apply the fees paid to the Agent on its own behalf upon the issuance of each Letter of Credit in Paragraph 3.4 hereof.

10.2. Setoff. In the event a Bank, by exercise of its right of setoff, or otherwise, receives any payment of the Indebtedness owing to it hereunder in an amount greater than its Pro Rata Share of such payment based upon the Banks' respective shares of the Loan outstanding immediately before such payment, such Bank shall purchase a portion of the Loan hereunder owing to each other Bank so that after such purchase each Bank shall hold its Pro Rata Share of Loan then outstanding hereunder, provided that if all or any portion of such excess payment is thereafter recovered from such Bank, such purchase shall be rescinded and the purchase price restored to the extent of any such recovery, but without interest.

10.3. Modifications and Waivers. No modification or amendment hereof, consent hereunder or waiver of Event of Default shall be effective except by written consent of the Required Banks, provided, however, (A) that the written consent of all Banks shall be required to: (i) decrease the rate of interest or fees due hereunder, (ii) increase or, other than in the case of pro rata reductions pursuant to Paragraph 2.8 hereof, decrease the amount of the Commitment or the Banks' respective Pro Rata Shares thereof, (iii) modify, amend or waive compliance with the dates of payment of principal, interest or fees hereunder, (iv) modify, amend or waive compliance with the commitment fee, (v) modify, amend, waive or release any Guarantor from the provisions of Section Eleven hereof; or (vi) amend or modify the provisions of the definition of Required Banks or this Paragraph 10.3; (B) with respect to: (i) Paragraphs 6.13, 6.14 and 6.15 and Section Seven hereof; (ii) any of the Events of Default set forth in Paragraph 9.1 hereof; (iii) the mandatory and voluntary prepayment provisions of Paragraph 2.8 hereof; and (iv) any of the definitions relating to the matters described in clauses (i) through (iii) above, the holders of the Senior Notes shall have simultaneously amended, waived or modified the corresponding provision to the Note Purchase Agreement; and (C) that any increase in the Commitment pursuant to Paragraph 2.1(d) shall not require the consent of any Bank (except Agent) and each Bank hereby agrees to execute such documentation as is requested by Agent to implement the Additional Commitment. The Borrowers hereby agree to execute such further documents, including without limitation certificates and amendments to this Agreement and the Promissory Note(s), and deliver such opinions as the Agent and its counsel shall so request to implement any termination or replacement contemplated hereby. Any amendment or waiver

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made pursuant to this Section 10.3 shall apply to and bind all of the Banks and any future holder of any Promissory Notes. No modification or waiver of any provision of this Agreement or any Promissory Note, nor any consent to any departure by the Borrowers herefrom or therefrom, shall in any case be effective unless the same be in writing, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in any similar or other circumstances.

10.4. Obligations Several. The obligations of the Banks hereunder are several, and each Bank hereunder shall not be responsible for the obligations of the other Banks hereunder, nor will the failure of one Bank to perform any of its obligations hereunder relieve the other Banks from the performance of their respective obligations hereunder.

10.5. Banks' Representations. Each Bank represents and warrants to the other Banks that (i) it has been furnished all information it has requested for the purpose of evaluating its proposed participation under this Agreement; and (ii) it has decided to enter into this Agreement on the basis of its independent review and credit analysis of Borrowers, this Agreement and the documentation in connection therewith and has not relied for such analysis on any information or analysis provided by any other Bank.

10.6. Investigation. No Bank shall have any obligation to the others to investigate the condition of the Borrowers or any other matter concerning the Loan.

10.7. Powers of Agent; Rights and Duties of Documentation Agent. Agent shall have and may exercise those powers specifically delegated to Agent herein, together with such powers as are reasonably incidental thereto. The parties hereby agree that Documentation Agent, in its capacity as Documentation Agent hereunder, shall not have any obligations, rights or duties hereunder.

10.8. General Duties of Agent, Immunity and Indemnity. In performing its duties as Agent hereunder, Agent will take the same care as it takes in connection with loans in which it alone is interested, subject to the limitations on liabilities contained herein; provided that Agent shall not be obligated to ascertain or inquire as to the performance of any of the terms, covenants or conditions hereof by Borrowers. Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action or omission by any of them hereunder or in connection herewith except for gross negligence or willful misconduct. Subject to such exception, each of the Banks hereby indemnifies Agent on the basis of such Bank's Pro Rata Share, against any such liability, claim, loss or expense.

10.9. No Responsibility for Representations or Validity, etc. Each Bank agrees that Agent shall not be responsible to any Bank for any representations, statements, or warranties of Borrowers herein. Agent will promptly deliver to Banks such reports, notices and material information which it receives from Borrowers. Neither Agent nor any of its directors, officers,

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employees or agents shall be responsible for the validity, effectiveness, sufficiency, perfection or enforceability of this Agreement or any documents relating thereto.

10.10. Action on Instruction of Banks; Right to Indemnity. Agent shall in all cases be fully protected in acting or refraining from acting hereunder in accordance with written instructions to it signed by Required Banks unless the consent of all the Banks is expressly required hereunder in which case Agent shall be so protected when acting in accordance with such instructions from all the Banks. Such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks, provided that except as otherwise provided herein, Agent may act hereunder in its own discretion without requesting such instructions. Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be specifically indemnified to its satisfaction by the other Banks on the basis of their respective Pro Rata Shares, against any and all liability and expense which it may incur by reason of taking or continuing to take any such action.

10.11. Employment of Agents. In connection with its activities

hereunder, Agent may employ agents and attorneys-in-fact and shall not be answerable, except as to money or securities received by it or its authorized agents, for the default or misconduct of agents or attorneys-in-fact selected with reasonable care.

10.12. Reliance on Documents. Agent shall be entitled to rely upon any paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons and upon the opinion of its counsel with respect to legal matters.

10.13. Agent's Rights as a Bank. With respect to its share of the Indebtedness hereunder, Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not Agent. Each of the Banks may accept deposits from, lend money to, and generally engage in any kind of banking or trust business with Borrowers as if it were not Agent or a Bank hereunder.

10.14. Expenses. Each of the Banks shall reimburse Agent, from time to time at the request of Agent, for its Pro Rata Share of any expenses incurred by Agent in connection with the performance of its functions hereunder, provided however that in the event Banks shall reimburse Agent for expenses for which Borrowers subsequently reimburse Agent, Agent shall remit to each Bank the respective amount received from such Bank against such expenses.

10.15. Resignation of Agent. Agent may at any time resign its position as Agent, without affecting its position as a Bank, by giving written notice to Banks and Borrowers. Such resignation shall take effect upon the appointment of a successor Agent in accordance with this Paragraph. In the event Agent shall resign, Banks shall appoint a bank as successor Agent. If within thirty (30) days of the Agent's notice of resignation no successor Agent shall have been appointed by Banks and accepted such appointment, then Agent, in its discretion may appoint any other bank as a successor Agent.

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10.16. Successor Agent. The successor Agent appointed pursuant to Paragraph 10.15 shall execute and deliver to its predecessor and Banks an instrument in writing accepting such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the properties, rights, duties and obligations of its predecessor Agent. The predecessor Agent shall deliver to its successor Agent forthwith all collateral security, documents and moneys held by it as Agent, if any, whereupon such predecessor Agent shall be discharged from its duties and obligations as Agent under this Agreement.

10.17. Collateral Security. Agent will hold, administer and manage any collateral security pledged from time to time hereunder either in its own name or as Agent, but each Bank shall hold a direct, undivided pro-rata beneficial interest therein, on the basis of its Pro Rata Share, by reason of and as evidenced by this Agreement.

10.18. Enforcement by Agent. All rights of action under this Agreement and under the Promissory Notes and all rights to the collateral security, if any, hereunder may be enforced by Agent and any suit or proceeding instituted by Agent in furtherance of such enforcement shall be brought in its name as Agent without the necessity of joining as plaintiffs or defendants any other Banks, and the recovery of any judgment shall be for the benefit of Banks subject to the expenses of Agent.

SECTION ELEVEN
GUARANTY

11.1. Guaranty. Each Guarantor hereby irrevocably, absolutely and unconditionally guarantees and becomes surety for the full, prompt and punctual payment to Banks, as and when due, whether at maturity, by acceleration or otherwise, of any and all Indebtedness, liabilities and obligations of the Borrowers to Banks created at any time under, or pursuant to the terms of, this Agreement and of the Promissory Notes, whether for principal, interest, premiums, fees, expenses or otherwise (all such indebtedness, liabilities and obligations being called in this Section Eleven collectively the "Obligations"), together with any and all reasonable expenses, including attorneys' fees and disbursements, which may be incurred by Agent in enforcing any and all rights against Guarantors under this Agreement (herein the "Expenses").

11.2. Bankruptcy. Without limiting Guarantors' obligations hereunder and notwithstanding any purported termination of this Section Eleven or this Agreement, if any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation, dissolution, assignment for the benefit

of creditors, or similar event with respect to the Borrowers or any additional guarantor or endorser of all or any of the Obligations and Expenses shall occur, and such occurrence shall result in the return of (or if in such event a Bank shall be requested to return) any payment or performance of any of the Obligations or Expenses, then the obligations of each Guarantor hereunder shall be reinstated with respect to such payment or performance

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returned or requested to be returned and with respect to all further obligations arising as a result of such return or request, and each Guarantor shall thereupon be liable therefor, without any obligation on the part of any Bank to contest or resist any such return.

11.3. Nature and Term of Guaranty. The obligations of each Guarantor under this Section Eleven shall be independent, absolute, irrevocable and unconditional and shall remain in full force and effect until the Obligations and all other amounts payable hereunder shall have been paid in full (subject, however, to reinstatement under Paragraph 11.2 hereof).

11.4. Rights and Remedies of Agent. Agent, acting on behalf of Banks, may proceed to exercise any right or remedy which it may have under this Section Eleven against Guarantors without first pursuing or exhausting any rights or remedies which it may have against the Borrowers, any additional guarantor or against any other person or entity or any collateral security, and may proceed to exercise any right or remedy which it may have under this Section Eleven without regard to any actions or omissions of any other person or entity, in any manner or order, without any obligation to marshal in favor of Guarantors or other persons or entities and without releasing any of Guarantors' obligations hereunder with respect to any unpaid Obligations and Expenses. No remedy herein conferred upon or reserved to Agent is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Section Eleven or now or hereafter existing at law or in equity.

11.5. Actions by Agent Not Affecting Guaranty. Agent, acting on behalf of Banks, or Banks, in accordance with Paragraph 10.3 of this Agreement, may, at any time or from time to time, in such manner and upon such terms as Banks may deem proper, extend or change the time of payment or the manner or place of payment of, or otherwise modify or waive any of the terms of, or release, exchange, settle or compromise any or all of the Obligations and Expenses or any collateral security therefor, or subordinate payment of the same, or any part thereof, to the payment of any other indebtedness, liabilities or obligations of Borrowers which may at any time be due or owing to Banks or anyone, or elect not to enforce any of Banks' rights with respect to any or all of the Obligations and Expenses or any collateral security therefor, all without notice to, or further assent of, Guarantors and without releasing or affecting Guarantors' obligations under this Section Eleven.

11.6. Payment in Accordance with Promissory Notes and Credit Agreement. This Section Eleven shall be construed as guaranteeing that the Obligations and Expenses shall be paid strictly in accordance with the terms of the Promissory Notes and this Agreement, regardless of any non-perfection of any collateral security for the Obligations; any invalidity or unenforceability of this Agreement, the Promissory Notes or any of the Obligations; the voluntary or involuntary liquidation, dissolution, sale or other disposition of all, or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings affecting Borrowers, Guarantors or any

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additional guarantor or endorser of any or all of the Obligations and Expenses or any of the assets of any of them, or any contest of the validity of this Section Eleven in any such proceeding; or any law, regulation or decree now or hereafter in effect in any jurisdiction which might in any manner affect any of such terms or provisions or any of the rights of Agent with respect thereto or which might cause or permit Borrowers or any additional guarantor or endorser of the Obligations and Expenses to invoke any defense to, or any alteration in the time, amount or manner of payment of any or all of the Obligations and Expenses or performance of this Section Eleven.

11.7. Payments Under Guaranty. All payments by Guarantors

hereunder shall be made in immediately available funds and in lawful money of the United States of America to Agent at its office at 1339 Chestnut Street, Philadelphia, PA 19107 or at such other location as Agent shall specify by notice to Guarantors.

11.8. Waivers and Modifications. No failure or delay on the part of Agent in exercising any power or right under this Section Eleven against Guarantors shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power under this Section Eleven. No modification or waiver of any provision of this Section Eleven, nor consent to any departure therefrom, shall, in any event, be effective unless the same is in writing signed by Agent and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to, or demand on Guarantors, in any case, shall entitle the Guarantors to any other or further notice or demand in similar or other circumstances.

11.9. Waiver. Each Guarantor hereby waives promptness, diligence, presentment, demand, notice of acceptance and any other notice with respect to any of the Obligations and this Section Eleven, except notice of demand for payment hereunder.

11.10. Subordination of Rights of Subrogation. Guarantors shall not exercise any rights which Guarantors may acquire by way of subrogation under this Section Eleven, applicable law or otherwise, by any payment made hereunder or otherwise, until all of the Obligations and Expenses and all other amounts payable hereunder (including amounts which may become due following a reinstatement hereof under Paragraph 11.2 hereof) shall have been paid in full in cash. If any amount shall be paid to any Guarantor on account of such rights at any time when all the Obligations and Expenses shall not have been paid in full (including amounts which may become due following a reinstatement hereof under Paragraph 11.2 hereof), such amount paid to such Guarantor shall be held in trust for the benefit of Banks and shall forthwith be paid to Agent to be credited and applied against the Obligations and Expenses, whether matured or unmatured, in accordance with the terms of the Promissory Notes and this Agreement; provided, however, that to the extent not prohibited by applicable law or affecting the Banks' or holder of the Senior Notes right to retain such funds, Banks shall retain Banks' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the holder of the Senior Notes. If any Guarantor shall make payment to Agent of all or any part of the Obligations

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and Expenses and all of the Obligations and Expenses shall be paid in full, Agent shall, at such Guarantor's request, execute and deliver to such Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer, by subrogation, to Guarantor of an interest in the Obligations resulting from such payment by Guarantor.

11.11. No Setoff by Guarantors. No setoff, counterclaim, reduction, or diminution of any obligation, or any defense of any kind or nature which Guarantors have or may have against Borrowers or any Bank shall be available hereunder to Guarantors.

11.12. Continuing Guaranty; Transfer of Promissory Note. Except as provided in Paragraph 11.2. hereof, this Section Eleven is a continuing guaranty and shall (i) remain in full force and effect until the Obligations and Expenses and all other amounts payable under this Section Eleven shall have been paid in full (subject, however, to reinstatement under Paragraph 11.2 hereof), (ii) be binding upon Guarantors and the successors and assigns of Guarantors, and (iii) inure to the benefit of Banks, and be enforceable by Agent and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Bank may, to the extent permitted in this Agreement endorse, assign or otherwise transfer its Promissory Notes to any other person or entity, including the Federal Reserve, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to such Bank herein or otherwise.

11.13. Representations and Warranties; Covenants. By signing in the place provided below, each Guarantor hereby makes the representations and warranties set forth in this Agreement and hereby agrees to the covenants and other agreements of the Guarantors to the extent set forth in this Agreement.

12.1. Indemnification. Each Borrower and each Guarantor hereby agrees to defend Agent and each Bank and its directors, officers, agents, employees and counsel (each an "Indemnified Party") from, and hold each of them harmless against, any and all losses, liabilities (including without limitation settlement costs and amounts, transfer taxes, documentary taxes, or assessments or charges made by any governmental authority other than taxes imposed on the net income of a Bank), claims, damages, interests, judgments, costs, or expenses, including without limitation reasonable fees and disbursements of counsel, incurred by any of them arising out of or in connection with or by reason of this Agreement, the Commitment or the making of the Loan, including without limitation, any and all losses, liabilities, claims, damages, interests, judgments, costs or expenses relating to or arising under any Environmental Control Statute or the application of any such Statute to any Borrower's or Subsidiary's properties or assets, provided, that no Borrower or Subsidiary shall be liable for any portion of such losses, liabilities, claims,

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damages, interests, judgments, costs and expenses resulting from the gross negligence or willful misconduct of an Indemnified Party. All obligations provided for in this Paragraph 12.1 shall survive any termination of this Agreement or the Commitment and the repayment of the Loan.

12.2. Participations and Assignments. Each Borrower hereby acknowledges and agrees that a Bank may at any time: (a) grant Participations in its right, title and interest therein or in or to this Agreement (collectively, "Participations") to any other lending office or to any other bank, lending institution or other entity which has the requisite sophistication to evaluate the merits and risks of investments in Participations (collectively, "Participants"); provided, however, that: (i) all amounts payable by Borrowers hereunder shall be determined as if such Bank had not granted such Participation; and (ii) any agreement pursuant to which any Bank may grant a Participation: (x) shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of Borrowers hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provisions of this Agreement; (y) such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement without the consent of the Participant if such amendment, modification or waiver would reduce the principal of or rate of interest on the Loan or postpone the date fixed for any payment of principal of or interest on the Loan or release the guaranty provided for herein; and (z) shall not relieve such Bank from its obligations, which shall remain absolute, to make Advances hereunder and (b) assign its right, title and interest therein or in and to this Agreement in an aggregate amount of at least the lesser of (i) Five Million Dollars (\$5,000,000) or (ii) its remaining interest in the Loan, to a third party with the prior written consent of the Agent and in the absence of a Default or an Event of Default, the Company, which consent of the Company shall not be unreasonably withheld (provided, however, that a Bank may assign up to one hundred percent (100%) of its interests and consent shall not be required in connection with (i) an assignment from a Bank to its affiliate or another Bank or (ii) a pledge by a Bank to its Federal Reserve Bank) and upon payment to Agent of a transfer fee in the amount of \$3,500.

12.3. Binding and Governing Law. This Agreement and all documents executed hereunder shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Borrowers may not assign this Agreement without the prior written consent of Banks, and shall be governed as to their validity, interpretation and effect by the laws of the Commonwealth of Pennsylvania.

12.4. Survival. All agreements, representations, warranties and covenants of Borrowers contained herein or in any documentation required hereunder shall survive the execution of this Agreement and the making of the Loan hereunder and except for Paragraphs 6.10 and 12.1 which provide otherwise and any amounts which may arise under Paragraphs 2.6(d), 2.7(c) and 2.10 hereof, will continue in full force and effect as long as any indebtedness or other obligation of Borrowers to any Bank remains outstanding.

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12.5. No Waiver; Delay. If Banks or any of them shall waive any power, right or remedy arising hereunder or under any applicable law, such waiver shall not be deemed to be a waiver upon any other Bank or the later occurrence or recurrence of any of said events with respect to any Bank. No delay by Banks in the exercise of any power, right or remedy shall, under any circumstances, constitute or be deemed to be a waiver, express or implied, of the same and no course of dealing between the parties hereto shall constitute a waiver of Banks' powers, rights or remedies. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

12.6. Modification/Waiver. Except as otherwise provided in this Agreement, no modification or amendment hereof, or waiver or consent hereunder, shall be effective unless made in a writing signed by appropriate officers of the parties hereto.

12.7. Headings. The various headings in this Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Agreement or any provision hereof.

12.8. Notices. Any notice, request or consent required hereunder or in connection herewith shall be deemed satisfactorily given if in writing (including by facsimile transmissions) and delivered by hand or mailed (registered or certified mail) to the Banks to the attention of the individuals and at the respective addresses or telecopier numbers set forth in Schedule 3 to this Agreement and to Borrowers and Guarantors to the attention of the Chief Financial Officer, SunSource Inc. at the address of Borrowers set forth on page 1 hereof and at telecopy number 215-282-1309 or such other addresses or telecopier numbers as may be given by any party to the others in writing.

12.9. Payment on Non-Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day other than a Business Day, such payment may be made on the next succeeding Business Day, provided however that such extension of time shall be included in the computation of interest due in conjunction with such payment or other fees due hereunder, as the case may be.

12.10. Time of Day. All time of day restrictions imposed herein shall be calculated using Agent's local time.

12.11. Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

12.12. Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document, and each such counterpart shall be deemed to be an original.

12.13. Consent to Jurisdiction and Service of Process. Each Borrower and each Subsidiary irrevocably appoints each and every officer of the Company as its attorney

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upon whom may be served any notice, process or pleading in any action or proceeding against it arising out of or in connection with this Agreement, the Promissory Notes or any document executed or action taken in connection therewith; and each Borrower hereby consents that any action or proceeding against it be commenced and maintained in any court within the Commonwealth of Pennsylvania or in the United States District Court for the Eastern District of Pennsylvania by service of process on any such officer; and each Borrower agrees that the courts of the Commonwealth of Pennsylvania and the United States District Court for the Eastern District of Pennsylvania shall have jurisdiction with respect to the subject matter hereof and the person of each Borrower. Notwithstanding the foregoing, a Bank, in its absolute any discretion may also initiate proceedings in the courts of any other jurisdiction in which each Borrower may be found or in which any of its properties may be located.

12.14. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE PROMISSORY NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY BANK OR AGENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR EACH BANK'S ENTERING INTO THIS AGREEMENT.

12.15. ACKNOWLEDGMENTS. EACH BORROWER AND EACH SUBSIDIARY

ACKNOWLEDGES THAT IT HAS HAD THE ASSISTANCE OF COUNSEL IN THE REVIEW AND EXECUTION OF THIS AGREEMENT AND, SPECIFICALLY, PARAGRAPH 12.14 HEREOF, AND FURTHER ACKNOWLEDGES THAT THE MEANING AND EFFECT OF THE FOREGOING WAIVER OF JURY TRIAL HAVE BEEN FULLY EXPLAINED TO EACH BORROWER AND EACH SUBSIDIARY BY SUCH COUNSEL.

12.16. Complete Agreement. This Agreement sets forth the complete agreement of the parties hereto with respect to the matters addressed herein, and supersedes any prior

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written agreement or any prior or simultaneous oral agreements between the parties with respect to the same subject matter.

IN WITNESS WHEREOF, the undersigned, by their duly authorized partners or officers, as applicable, have executed this Agreement the day and year first above written.

SUNSOURCE INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INVESTMENT COMPANY,
INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSUB A INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

THE HILLMAN GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

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HARDING GLASS, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INDUSTRIAL SERVICES
COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE CORPORATE GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

KAR PRODUCTS INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INVENTORY
MANAGEMENT COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

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SUNSOURCE TECHNOLOGY SERVICES
INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

FIRST UNION NATIONAL BANK, successor
by merger to CoreStates Bank, N.A.,
individually and in its capacity as
Agent hereunder

By: _____
Name:
Title:

THE BANK OF NOVA SCOTIA

By: _____
Name:
Title:

FIFTH THIRD BANK

By: _____
Name:
Title:

SUNTRUST BANK, ATLANTA

By: _____

Name:
Title:

By: _____
Name:
Title:

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SCHEDULE I

SUBSIDIARIES OF SUNSOURCE INC.
THAT ARE BORROWERS UNDER THE CREDIT AGREEMENT

SunSource Investment Company, Inc.
SunSub A Inc.
The Hillman Group, Inc.
Harding Glass, Inc.
SunSource Industrial Services Company, Inc.
SunSource Corporate Group, Inc.
SunSource Inventory Management Company, Inc.
SunSource Technology Services Inc.
Kar Products Inc.

SCHEDULE II

SUBSIDIARIES OF SUNSOURCE INC.
THAT ARE GUARANTORS UNDER THE CREDIT AGREEMENT

None

Superseded by Exhibit B to Joinder

SCHEDULE 3

Banks -----	Maximum Principal Amount -----	Percentage of Commitment -----
First Union National Bank 1339 Chestnut Street Philadelphia, Pennsylvania 19101 Attention: Robert Brown Telecopy No.: (215) 786-2877	\$23,000,000	30.67%
The Bank of Nova Scotia 26th Floor One Liberty Plaza New York, New York 10006 Attention: Philip N. Adsetts Telecopy No.: (212) 225-5091	\$23,000,000	30.67%
Fifth Third Bank 38 Fountain Square Plaza MD 109054 Cincinnati, Ohio 45263 Attention: Thomas G. Welch, Jr. Telecopy No.: (513) 579-5226	\$13,000,000	17.33%
SunTrust Banks, Inc. 711 Fifth Avenue, 16th Floor New York, New York 10022 Attention: Maria Mamilovich Telecopy No.: (212) 371-9386	\$16,000,000	21.33%
Total	----- \$75,000,000	----- 100%

EXHIBIT A

ADVANCE/CREDIT REQUEST FORM

In accordance with Paragraph 2.7, 2.13 or 3.3 (as applicable) of the Second Amended and Restated Credit Agreement (as amended, the "Agreement") dated December 31, 1998 among First Union National Bank, for itself and as Agent, The Bank of Nova Scotia, for itself and as Documentation Agent, and the Banks set forth on Schedule 3 to the Agreement (collectively referred to herein as the "Banks"); SunSource, Inc. and its Subsidiaries as set forth on Schedule 1 to the Agreement (the "Borrowers"); and the Subsidiaries as set forth on Schedule 2 to the Agreement (the "Guarantors"), Borrowers hereby request an Advance and/or a Letter of Credit under the Commitment.

The undersigned hereby requests, represents and certifies that as of the date hereof and the date of the requested Advance and/or Letter(s) of Credit (receipt of such Advance and/or issuance of such Letter(s) of Credit, as applicable, being deemed an affirmation of paragraphs (a) through (i) below):

(a) The aggregate amount of the requested Advance is \$ _____ (1) and/or the aggregate face amount of the requested Letter(s) of Credit is _____ (2);

(b) The interest rate options which the Borrowers elect to apply to the Advance are the Adjusted Libor Rate for a Portion of \$ _____ with an Interest Period of ____ month(s); and the Base Rate for a Portion of \$ _____;

(c) The Advance is to be used for purposes permitted by Paragraph 2.4 of the Agreement;

(d) The date on which the requested Advance is to be made and/or Letter(s) of Credit is (are) to be issued is _____.

- -----
(1) Advances for Base Rate Loans and Adjusted Libor Rate Loans must be in multiples of \$100,000, but not less than the lesser of \$2,000,000 or the unborrowed balance of the Commitment.

(2) If a Letter of Credit is requested, a completed Letter of Credit Application shall accompany this Advance Request Form.

(e) The Borrowers are in compliance and will be in compliance following receipt of the requested Advance or the issuance of the Letter of Credit, as applicable, with Paragraphs 6.13 through 6.15 and Section Seven of the Agreement;

(f) The representations and warranties set forth in Section Four of the Agreement are true and correct;

(g) No Default or Event of Default under the Agreement has occurred and is continuing or will be caused by the requested Advance and/or Letter of Credit; and

(h) There has been no Material Adverse Change since the date of the quarterly and audited annual financial statements most recently delivered to Banks pursuant to Paragraph 5.1(e), 6.2 or 6.3 of the Agreement (as applicable).

Capitalized terms used herein and not defined shall have the respective meanings set forth in the Agreement.

IN WITNESS WHEREOF, the undersigned, being the Chief Financial Officer or Controller of SunSource Inc., has executed this Advance/Credit Request Form this ____ day of _____, ____.

SUNSOURCE INC., for itself and on behalf of
the other Borrowers

By: _____
Name:
Title:

EXHIBIT B

FORM OF PROMISSORY NOTE

\$ _____ December __, 1998

FOR VALUE RECEIVED, the undersigned, SUNSOURCE, INC., a Delaware corporation, and its Subsidiaries set forth on Schedule 1 to the Credit Agreement referenced below (the "Borrowers"), promise on a joint and several basis to pay to the order of _____, a _____ (herein "Bank") at the office designated below of First Union National Bank (the "Agent") the principal sum of _____ (\$ _____) (the "Loan") or such lesser amount as set forth below, payable on the Termination Date (as defined in accordance with the Credit Agreement); together with interest on the unpaid balance hereof in accordance with Paragraphs 2.6 and 2.13 of the Credit Agreement.

This Promissory Note arises out of a certain Second Amended and Restated Credit Agreement dated the date hereof among Bank, First Union National Bank, for itself and as Agent, The Bank of Nova Scotia, for itself and as Documentation Agent, and the Banks set forth on Schedule 3 attached thereto (collectively, the "Banks"), Borrowers, and the Subsidiaries of SunSource, Inc. set forth on Schedule 2 thereof ("Guarantors") (as amended and as may be further amended from time to time, the "Credit Agreement"). Reference is made to the Credit Agreement for a statement of the respective rights and obligations of the parties and the terms and conditions therein provided under which all or any part of the principal hereof, accrued interest thereon, and other amounts payable under the Credit Agreement may become immediately due and payable. Capitalized terms used, but not otherwise defined, in this Promissory Note shall have the meanings given to them in the Credit Agreement.

Notwithstanding the face amount of this Promissory Note, the Borrowers' liability hereunder shall be limited to their actual outstanding principal indebtedness to the Bank under the Credit Agreement comprising the aggregate outstanding principal amount of the Bank's Pro Rata Share of all

Advances of the Loan, reimbursement obligations with respect to Letters of Credit and all interest, fees and expenses in connection with the foregoing.

All principal and interest shall be payable in lawful money of the United States of America in immediately available funds at the office of 1339 Chestnut Street, Philadelphia, Pennsylvania 19101, as Agent.

The occurrence of an Event of Default under the Credit Agreement constitutes an Event of Default under this Promissory Note and entitles the Banks, in accordance with the Credit Agreement, to declare this Promissory Note immediately due and payable.

The Borrowers hereby waive presentment, demand for payment, notice of dishonor or acceleration, protest and notice of protest, and any and all other notices or demands in connection with the delivery, acceptance, performance, default or enforcement of this Promissory Note, except any notice requirements set forth in the Credit Agreement.

This Promissory Note shall be binding upon the Borrowers and their successors and assigns and shall inure to the benefit of the Bank and its successors and assigns. This Promissory Note shall be governed as to validity, interpretation and effect by the laws of the Commonwealth of Pennsylvania.

In the event any interest rate applicable hereto is in excess of the highest rate allowable under applicable law, then the rate of such interest will be reduced to the highest rate not in excess of such maximum allowable interest and any excess previously paid by the Borrowers shall be deemed to have been applied against the principal of the Loan.

THE BORROWERS HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS PROMISSORY NOTE OR THE CREDIT AGREEMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY BANK OR AGENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR BANKS' ENTERING INTO THE CREDIT AGREEMENT.

THE BORROWERS ACKNOWLEDGE THAT THEY HAVE HAD THE ASSISTANCE OF COUNSEL IN THE REVIEW AND EXECUTION OF THIS PROMISSORY NOTE AND THAT THE MEANING AND EFFECT OF THE FOREGOING WAIVER OF JURY TRIAL HAS BEEN FULLY EXPLAINED TO THE BORROWERS BY SUCH COUNSEL.

IN WITNESS WHEREOF, the undersigned have executed this Promissory Note under seal the day and year first above written.

SUNSOURCE INC.

By: _____
Name:
Title:

SUNSOURCE INVESTMENT COMPANY,
INC.

By: _____
Name:
Title:

SUNSUB A INC.

By: _____
Name:
Title:

THE HILLMAN GROUP, INC.

By: _____
Name:
Title:

[EXECUTIONS CONTINUED]

HARDING GLASS, INC.

By: _____
Name:
Title:

SUNSOURCE INDUSTRIAL SERVICES
COMPANY, INC.

By: _____
Name:
Title:

SUNSOURCE CORPORATE GROUP, INC.

By: _____
Name:
Title:

KAR PRODUCTS INC.

By: _____
Name:
Title:

SUNSOURCE INVENTORY MANAGEMENT
COMPANY, INC.

By: _____
Name:
Title:

SUNSOURCE TECHNOLOGY SERVICES
INC.

By: _____
Name:
Title:

EXHIBIT C

FUNDING COSTS CALCULATION

If a Borrower is liable to a Bank for funding costs pursuant to Paragraph 2.6(d), 2.7(c) or 2.10 of the Credit Agreement, then on (i) the date of failure to meet the conditions to an Advance for which the Libor-Based Rate has been selected or (ii) the repayment or prepayment date, as the case may be, such Borrower shall pay such Bank an amount, not less than zero, as calculated by Agent in accordance with the following formula:

(Libor-Based Rate, applicable to the Portion not funded or being repaid or prepaid minus one and one-fourth percent (1 1/4%) per annum) - (the Applicable Libor Rate)

X

(the principal amount of the Portion not funded or being repaid or prepaid)

X

(the number of days in the Interest Period selected for any Portion not funded or the number of days to but excluding the last day in the Interest Period for any Portion being repaid or prepaid) divided by 365

The "Applicable Libor Rate" shall mean the Adjusted Libor Rate as defined in the Credit Agreement, determined at or about 11:00 a.m. London time on the first Business Day in London following the date of failure to meet the conditions to an Advance or of repayment or prepayment for deposits of United States Dollars in amount or amounts substantially equal in the aggregate to the amount not funded or being repaid or prepaid and with a maturity or maturities substantially equal to the period or periods of time between the date of failure to fund or date of repayment or prepayment and the date or dates such amount would otherwise have matured and become repayable under the Credit Agreement.

EXHIBIT E

Page 1 of 4

DISCLOSURE PURSUANT TO REPRESENTATIONS AND WARRANTIES

4.4 Material Contracts

- -----

None

4.5 Compliance

- -----

None

4.6 Litigation

- -----

On February 27, 1996, a lawsuit was filed against the Company by the buyer of its Dorman Products division, R&B, Inc. ("R&B") for alleged misrepresentation of certain facts by the Company upon which R&B allegedly based its offer to purchase Dorman. The complaint seeks damages of approximately \$21,000,000, although the Company believes that any recovery by R&B will be substantially lower. In 1998, the Company and R&B agreed to an arbitration process with respect to certain unresolved post-closing adjustments. In the third quarter the Company recorded a pre-tax charge of \$1,300,000 which management estimates is the Company's maximum exposure related to these post-closing issues. On December 4, 1998 a hearing was held by the arbitrator on these matters and his decision is expected by January 7, 1998. It is unclear what impact the arbitration decision will have on the ultimate resolution of this litigation. R&B has offered to settle the arbitration and litigation for the amount of \$10,000,000. The Company is in the process of determining its response to this settlement offer but would not expect to exceed the amount of the reserve indicated above.

4.7 Title to Assets

- -----

See the Attached Schedule of Indebtedness and Obligations for Secured Assets and Lease Obligations as of November 30, 1998 also as described in Notes 9, 10 and 11 to Consolidated Financial Statements of the Company and Subsidiaries as of and for the period ended December 31, 1997, previously furnished to the Banks.

4.8 Capital Stock

- -----

The number of shares and classes of capital stock of each Borrower and each Subsidiary and the ownership thereof effective upon the 1998 Conversion are as follows:

Ownership of the Company
- -----

Authorized Shares: 1,000 shares of Preferred Stock, \$.01 par value per share
20,000,000 shares of Common Stock, \$.01 par value per share

Outstanding: Preferred stock: none
Common stock: 6,756,129 shares (directors and executive officers ownership is approximately 21% of shares outstanding).

Treasury: 461,100 common shares.

Ownership of SunSource Investment Company, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSource, Inc.

Ownership of SunSub A Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSource Investment Company, Inc.

Ownership of The Hillman Group, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSub A Inc.

Ownership of Harding Glass, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Industrial Services Company, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Corporate Group, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSub A Inc.

Ownership of SunSource Inventory Management Company, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSource Industrial Services Company, Inc.

4.8 Capital Stock, continued
- -----

Ownership of SunSource Technology Services Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSource Industrial Services Company, Inc.

Ownership of Kar Products, Inc.
- -----

Authorized Shares: 100 shares of Common Stock, \$.01 par value per share
Outstanding: 100 shares issued to SunSource Industrial Services Company, Inc.

Ownership of A & H Holding Co., Inc.
- -----

Outstanding: 100 shares issued to Kar Products Inc.

Ownership of Hydra Power de Mexico
- -----

Outstanding 49,998 shares of Common Stock issued to A&H Holding Co., Inc.

Ownership of SIMCO de Mexico
- -----

Outstanding 98 shares of Common Stock issued to A&H Holding Co., Inc.

Ownership of SunSource Canada Investment company LLC
- -----

Outstanding 100 shares of Common Stock issued to A&H Holding Co., Inc.

Ownership of J. N. Fauver (Canada), Ltd.
- -----

Outstanding: 5 shares of Common Stock issued to SunSource Canada
Investment Company LLC.

Ownership of A & H Bolt & Nut Company, Ltd.
- -----

Outstanding: 306 Class B special shares issued to SunSource Canada
Investment Company LLC

4.10 (c) Taxes and Assessments - -----

The Internal Revenue Service and/or various State Taxing Authorities have in progress income tax audits of records for the years 1982 through 1984. The Company has assumed the agreements of Sun Distributors, Inc., to extend the time for assessment of tax for tax periods 1985, 1986 and January 1, 1987 through February 11, 1987. There have been no tax audits by the Internal Revenue Service of records of the Company, SDI, SDIPI, SunSub A and SunSub B to date nor have agreements to extend the time for assessment been executed to date. Various State taxing authorities have in progress tax audits of records of the Company.

Page 4 of 4

4.11 Indebtedness - -----

- - See the Attached Schedule of Indebtedness and Obligations
- - Lease Obligations as described in Note 11 to Consolidated Financial Statements of SunSource Inc. and Subsidiaries as of and for the period ended December 31, 1997, furnished to the Banks.

4.12 Management Agreements - -----

Arthur Anderson -- Restructuring Consulting
PricewaterhouseCoopers -- Annual Audit and Tax Compliance
Registrar & Transfer Co. -- Transfer Agent
Frank Russell Trust Co. -- Investment Manager, Retirement Plans

4.13 Subsidiaries and Investments - -----

Employee advances aggregating \$ 20,000 as of September 30, 1998.

4.14 ERISA - -----

Unfunded liabilities for post-retirement life or health benefits are estimated for the following Operating Division: J. N. Fauver Company \$452,000

The Company is a party to multi-employer pension plans of which there was no withdrawal liability as of December 31, 1997, but which could have withdrawal liability in the future. The multi-employer pension plans are as follows:

Harding Glass Industries - International Brotherhood of Painters and Allied Trades Pension Trust--Glaziers, Architectural

Metal and Glassworkers Local #930 and Glaziers
 Local #911
 - Glaziers Local #930 Pension Trust
 - Western Conference of Teamsters Pension Trust

4.17 Hazardous Wastes, Substances and Petroleum Products

Philips & Company

Mid-MO Superfund Site --Limited Liability Expected

Downey Glass Company

Operating Industries, Inc. Landfill Superfund Site
 Liability not expected to exceed \$300,000 recorded on the books of SunSource
 Inc. as of September 30, 1998.

<TABLE>
 <CAPTION>

SDI OPERATING PARTNERS, L.P.
 SCHEDULE OF INDEBTEDNESS
 AS OF 11/30/98

(in thousands)

SECURITY	OBLIGOR	HOLDER	TOTAL OUTSTANDING PRINCIPAL BALANCE
=====	=====	=====	=====
<S> s		<C>	<C>
Unsecured	SDI Operating Partners, L.P.	Teachers Insurance Co.	\$ 60,000
Senior Debt			
Unsecured	SDI Operating Partners, L.P.	Cananwell Finance Co.	884
Debt			
Unsecured	SDI Operating Partners, L.P.	First Union National Bank - Revolving Credit	11,440
Senior Debt			
Unsecured		The Bank of Nova Scotia - Revolving Credit	11,440
Senior Debt			
Unsecured		Fifth Third Bank - Revolving Credit	
6,160			
Senior Debt			
Unsecured		SunTrust Banks, Inc. - Revolving Credit	
6,160			
Senior Debt			
Unsecured		The Fuji Bank, Limited - Revolving Credit	8,800
-- Senior Debt			-----
44,000		Total Revolving Credit	-----
--			
Unsecured	A&H Bolt - A division of SDI Operating Partners, L.P.	Bank of Nova Scotia	-
line of			
credit			
	Harding Glass - A division of SDI Operating Partners, L.P.	L.O.F. Trade Notes	974
	Glass		
	Inventory		

Leases -
Packaging
Equipment
--

Total \$

106,720

=====
</TABLE>
<TABLE>
<CAPTION>

SDI OPERATING PARTNERS, L.P.
EXISTING LETTERS OF CREDIT
AS OF 11/30/98

(in thousands)

AMOUNT	DIVISION	ISSUING BANK	BENEFICIARY
<S>		<C>	<C>
Stand-By Letters of Credit:			
Business Insurance - Loss Casualty Program:			
SunSource Headquarters		First Union	Legion Ins. Co. - 5th/6th Policy Years
\$ 1,750			
SunSource Headquarters		First Union	Mutual Indemnity - 1st - 4th Policy Years(1)
1,300			

Total Stand-By Letters of Credit

\$ 3,050

Documentary or Trade Letters of Credit:

Hillman Fastener	First Union
467	
Kar Products	First Union
23	

Total Documentary Letters of Credit

\$ 490

Grand Total - All LOC's

\$ 3,540

=====
</TABLE>

(1) Issued on December 15, 1998

EXHIBIT F

Form of Compliance Certificate

To: The Banks, as defined in the Second Amended and Restated Credit Agreement dated December 31, 1998 (as may be further amended, the "Agreement")

Attached hereto are the financial statements and other items required to be delivered to Banks pursuant to Paragraph 6.2 or 6.3 of the Agreement. All capitalized terms used but not defined in this certificate shall have the meanings set forth in the Agreement.

The undersigned hereby certify that:

- 1. The attached financial statements were prepared in accordance with GAAP consistently applied and fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date made and for the period covered.
2. As of the date of such financial statements, there exists no violation of any provision of the Agreement and there has not been an Event of Default or a Default, except as described in Item 3 below.
3. The following event or circumstance, is, or with the passage of time or giving of notice will be, an Event of Default:

- 4. The following actions are being taken with respect to the matter(s) identified in Item 3 above:

- 5. Attached hereto as Schedule 1 are the calculations of the covenants set forth in Paragraphs 6.13 through 6.15 and certain paragraphs in Section Seven of the Agreement.

IN WITNESS WHEREOF, the undersigned, being the chief financial officer or controller of SunSource Inc., has executed and delivered this certificate this ___ day of _____, ____.

SUNSOURCE INC., for itself and on behalf of the other Borrowers

By: _____
Name:
Title:

<TABLE>
<CAPTION>

SCHEDULE 1

<S> <C> <C>

I. CAPITALIZATION RATIO (Paragraph 6.13 of the Credit Agreement)

A. Funded Debt

Indebtedness for borrowed money

\$ _____

Indebtedness evidenced by notes, debentures

\$ _____

or similar instruments

Capital Leases

\$ _____

Guarantees of Indebtedness or Capital Leases

\$ _____

Letters of Credit and letter of credit

\$ _____

reimbursement obligations

(A) \$ _____

B. Net Worth

Total Assets

\$ _____

Minus Total Liabilities

\$ _____

(B) \$ _____

C. Total Capital

Funded Debt (Line A above)

\$ _____

Outstanding principal amount of Junior

\$ _____

Subordinated Debentures

Net Worth (Line B Above)

\$ _____

(C) \$ _____

Capitalization Ratio (ratio of (A) to (C)): _____

Covenant:

(i) last day of each of the first two fiscal quarters of each fiscal year: 62%

(ii) last day of each of the last two fiscal quarters of each fiscal year: 60%

Compliance: _____ YES _____ NO

II. FIXED CHARGE COVERAGE RATIO (Paragraph 6.14 of the Credit Agreement)

A. Adjusted EBITDAR for the most recent Rolling Period

1. EBITDA

a. Net Income

Gross revenue (excluding extraordinary gains and losses) \$ _____

minus all expenses and other proper charges (including taxes on income) \$ _____

\$ _____

b. Interest Expense (including all interest paid on the Junior Subordinated Debentures

\$ _____

(whether paid in cash or in kind))

c. All provisions for income taxes \$ _____

\$ _____
d. Depreciation and amortization expense

\$ _____
e. Extraordinary losses minus extraordinary gains

(A) \$ _____

2. Adjusted EBITDAR

\$ _____
a. EBITDA (Total (A) above)

b. Rent expense

\$-----

--
\$ _____
c. minus Capital Expenditures

(B) \$ _____

3. Fixed Charges

\$ _____
a. Interest Expense (including interest paid on the Junior Subordinated Debentures to the extent paid in cash)

b. Rent expense

\$ _____

\$ _____
c. Scheduled maturities paid on Funded Debt (excluding the Loan)

\$ _____
d. Cash dividends paid by SunSource Inc.
(C) \$ _____

Fixed Charge Coverage Ratio (ratio of (B) to (C)): _____

Covenant: As of the last day of each fiscal quarter set forth in the left hand column, for the Rolling Period ending on such date, the ratio must not be less than the amount set forth in the right hand column:

Period	Minimum Ratio
-----	-----
Date of Agreement through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

Compliance: _____ YES _____ NO

III. LEVERAGE RATIO (Paragraph 6.15 of the Credit Agreement)

A. Funded Debt (as calculated above) (A)
\$ _____

B. EBITDA (as calculated above) (B)
\$ _____

Leverage Ratio (ratio of (A) to (B)): _____

Covenant: ratio must not be greater than 3.25:1.

Compliance: _____ YES _____ NO

IV. INDEBTEDNESS (Paragraph 7.1 of the Credit Agreement)

A. Trade Indebtedness (7.1(iv))
\$ _____

B. Indebtedness for purchase or lease of fixed assets (7.1(v))
\$ _____

C. Additional principal amounts outstanding of domestic
non-Borrower, non-Guarantor Subsidiaries (7.1(ix))
\$ _____

D. Additional principal amounts outstanding of foreign
non-Borrower, non-Guarantor Subsidiaries (7.1(x))
\$ _____

E. Purchase money indebtedness (7.1(xi))
\$ _____

Compliance _____ YES _____ NO

V. GUARANTIES (Paragraph 7.2 of the Credit Agreement)

A. Guaranties (7.2(i))
\$ _____

Compliance _____ YES _____ NO

VI. LOANS (Paragraph 7.3 of the Credit Agreement)

A. Loans to domestic non-Borrower, non-Guarantor
Subsidiaries (7.3(ii))
\$ _____

B. Loans to foreign non-Borrower, non-Guarantor
Subsidiaries (7.3(iii))
\$ _____

Compliance _____ YES _____ NO

</TABLE>

JOINDER

THIS JOINDER is made this __ day of January, 1999 by and among SUNSOURCE INC. (the "Company"), a Delaware corporation with offices at 3000 One Logan Square, Philadelphia, Pennsylvania 19103, the subsidiaries of the Company identified on Schedule 1 attached to the Credit Agreement (as defined below)

(individually and collectively with the Company, the "Borrowers") and the subsidiaries of the Company identified on Schedule 2 attached to the Credit Agreement (individually and collectively, the "Guarantors"); FIRST UNION NATIONAL BANK, a national banking association and successor by merger to CoreStates Bank, N.A. with offices at 1339 Chestnut Street, Philadelphia, Pennsylvania 19107, for itself and as administrative agent for the Banks identified below ("Agent"); THE BANK OF NOVA SCOTIA, a Canadian chartered bank, with offices at 1 Liberty Plaza, New York, New York 10006 (the "Documentation Agent"), and the banks identified on Schedule 3 to the Credit Agreement (the Agent, the Documentation Agent and the banks identified on Schedule 3, each individually an "Existing Bank" and collectively the "Existing Banks") and PNC BANK, NATIONAL ASSOCIATION ("PNC"), a national banking association with offices at 1600 Market Street, Philadelphia, Pennsylvania 19103.

W I T N E S S E T H :
- - - - -

WHEREAS, the Agent, the Documentation Agent, the Borrowers, Guarantors and Existing Banks are party to that Second Amended and Restated Credit Agreement dated December 31, 1998 (as may be amended, the "Credit Agreement");

WHEREAS, PNC wishes to join in and become a Bank pursuant to Paragraph 2.1(d) of the Credit Agreement; and

WHEREAS, pursuant to Paragraph 2.1(d) of the Credit Agreement and this Joinder, the Commitment is being increased by the Additional Commitment for a total commitment of Ninety Million Dollars (\$90,000,000), and the Banks' respective Maximum Principal Amounts are being amended and restated as set forth on Exhibit B attached to this Joinder.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the undersigned hereby agree as follows:

1. PNC is hereby made a Bank under the Credit Agreement pursuant to the terms of Paragraph 2.1(d) thereof, and in furtherance thereof:

a.. PNC hereby expressly agrees that it shall be bound by all the terms and conditions of the Credit Agreement, and shall have the same rights and obligations as the Existing Banks thereunder.

b. Borrowers shall execute and deliver a Promissory Note in favor of PNC (the "PNC Note") in the form of Exhibit A attached hereto.

c.. Banks and Borrowers hereby acknowledge and agree that the Commitment under the Credit Agreement (which was Seventy-Five Million Dollars (\$75,000,000) on the Effective Date) is hereby increased by the amount of the Additional Commitment to a Commitment of Ninety Million Dollars (\$90,000,000), and all references in the Credit Agreement to the term "Commitment" shall hereafter include the Additional Commitment.

d. Schedule 3 to the Credit Agreement (Banks and their Maximum Principal Amounts) is hereby amended and restated in its entirety as set forth on Exhibit B attached hereto.

2. Representations and Warranties. Borrowers hereby represent and warrant to Banks as follows:

a. Representations. The representations and warranties set forth in the Credit Agreement are true and correct in all respects as of the date hereof; there is no Event of Default or Default under the Credit Agreement; and there has been no Material Adverse Change since the date of the Credit Agreement.

b. Power and Authority. Each Borrower has the

power and authority under the law of the jurisdiction of its incorporation and under its certificate of incorporation and bylaws to enter into and perform this Joinder, the PNC Note and all other agreements, documents and actions required hereunder to which it is a party (hereinafter collectively referred to as the "Joinder Documents"); and all actions (corporate or otherwise) necessary or appropriate for the execution and performance by each Borrower of the Joinder Documents have been taken and, upon their execution, the Joinder Documents will constitute the valid and binding obligations of each Borrower, enforceable in accordance with their respective terms.

- c. No Violations of Law or Agreements. The making and performance of the Joinder Documents by each Borrower will not violate any provisions of any law or regulation, foreign, federal, state or local, or the certificate of incorporation or bylaws of any Borrower, or result in any breach or violation of, or constitute a default or require the obtaining of any consent under, any agreement or instrument by which any Borrower or its property may be bound.

3. Miscellaneous.

- a. This Joinder and the Joinder Documents shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.
- b. All terms and provisions of this Joinder and the Joinder Documents shall be for the benefit of and be binding upon and enforceable by the respective successors and assigns of the parties hereto.
- c. This Joinder may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document and each such counterpart shall be deemed an original.
- d. The execution, delivery and performance of this Joinder and the Joinder Documents shall not operate as a waiver of any right, power or remedy of Banks under the Credit Agreement and the agreements and documents executed in connection therewith or constitute a waiver of any provision thereof.
- e. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Joinder under seal the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION

By: _____
Name:
Title:

SUNSOURCE INC.

By: _____
Name: Joseph M. Corvino

Title: Vice President - Finance

SUNSOURCE INVESTMENT COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSUB A INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

THE HILLMAN GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

HARDING GLASS, INC.

By: _____
Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INDUSTRIAL SERVICES
COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE CORPORATE GROUP, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

KAR PRODUCTS INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

SUNSOURCE INVENTORY MANAGEMENT
COMPANY, INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

[EXECUTIONS CONTINUED]

SUNSOURCE TECHNOLOGY SERVICES INC.

By: _____
Name: Joseph M. Corvino
Title: Vice President - Finance

FIRST UNION NATIONAL BANK, successor by merger to CoreStates Bank, N.A., individually and in its capacity as Agent hereunder

By: _____
Name:
Title:

THE BANK OF NOVA SCOTIA

By: _____
Name:
Title:

FIFTH THIRD BANK

By: _____
Name:
Title:

SUNTRUST BANK, ATLANTA

By: _____
Name:
Title:

By: _____
Name:
Title:

EXHIBIT A

ADVANCE/CREDIT REQUEST FORM

In accordance with Paragraph 2.7, 2.13 or 3.3 (as applicable) of the Second Amended and Restated Credit Agreement (as amended, the "Agreement") dated December 31, 1998 among First Union National Bank, for itself and as Agent, The Bank of Nova Scotia, for itself and as Documentation Agent, and the Banks set forth on Schedule 3 to the Agreement (collectively referred to herein as the "Banks"); SunSource, Inc. and its Subsidiaries as set forth on Schedule 1 to the Agreement (the "Borrowers"); and the Subsidiaries as set forth on Schedule 2 to the Agreement (the "Guarantors"), Borrowers hereby request an Advance and/or a Letter of Credit under the Commitment.

The undersigned hereby requests, represents and certifies that as of the date hereof and the date of the requested Advance and/or Letter(s) of Credit (receipt of such Advance and/or issuance of such Letter(s) of Credit, as applicable, being deemed an affirmation of paragraphs (a) through (i) below):

(a) The aggregate amount of the requested Advance is \$_____ (3) and/or the aggregate face amount of the requested Letter(s) of Credit is _____ (4);

(b) The interest rate options which the Borrowers elect to apply to the Advance are the Adjusted Libor Rate for a Portion of \$_____ with an Interest Period of ____ month(s); and the Base Rate for a Portion of \$_____;

(c) The Advance is to be used for purposes permitted by Paragraph 2.4 of the Agreement;

(d) The date on which the requested Advance is to be made and/or Letter(s) of Credit is (are) to be issued is _____.

(e) The Borrowers are in compliance and will be in compliance following receipt of the requested Advance or the issuance of the Letter of Credit, as applicable, with Paragraphs 6.13 through 6.15 and Section Seven of the Agreement;

(f) The representations and warranties set forth in Section Four of the Agreement are true and correct;

(g) No Default or Event of Default under the Agreement has occurred and is continuing or will be caused by the requested Advance and/or Letter of Credit; and

(3) Advances for Base Rate Loans and Adjusted Libor Rate Loans must be in multiples of \$100,000, but not less than the lesser of \$2,000,000 or the unborrowed balance of the Commitment.

(4) If a Letter of Credit is requested, a completed Letter of Credit Application shall accompany this Advance Request Form.

(h) There has been no Material Adverse Change since the date of the quarterly and audited annual financial statements most recently delivered to Banks pursuant to Paragraph 5.1(e), 6.2 or 6.3 of the Agreement (as applicable).

Capitalized terms used herein and not defined shall have the respective meanings set forth in the Agreement.

IN WITNESS WHEREOF, the undersigned, being the Chief Financial Officer or Controller of SunSource Inc., has executed this Advance/Credit Request Form this ____ day of _____, ____.

SUNSOURCE INC., for itself and on
behalf of the other Borrowers

By:

Name:
Title:

SUBSIDIARIES PRIOR TO JANUARY 1, 1999

- * SunSource Capital Trust
Organized in the State of Delaware
- * SunSub A Inc.
Incorporated in the State of Delaware
- * SunSub B Inc.
Incorporated in the State of Delaware
- * SDI Partners I, L.P.
Organized in the State of Delaware
- * SDI Operating Partners, L.P.;
Organized in the State of Delaware
- * A & H Holding Company, Inc.;
Incorporated in the State of Michigan
 - * SunSource Canada Investment Co.
Incorporated in the Province of Ontario
 - * J. N. Fauver (Canada) Limited;
Incorporated in the Province of Ontario
 - * A & H Bolt & Nut Company Limited;
Incorporated in the Province of Nova Scotia
 - * The Fastener Centre, Inc.;
Incorporated in the State of Michigan
 - * Hydra Power de Mexico;
Incorporated in Bravos Judicial District,
Juarez, Chihuahua, Mexico
 - * Simco de Mexico;
Incorporated in Ciudad de Mexico, Mexico

EXHIBIT 21.1 (continued)

SUBSIDIARIES - AFTER DECEMBER 31, 1998

- * SunSource Capital Trust
Organized in the State of Delaware
- * SunSource Investment Company, Inc.
Incorporated in the State of Delaware
- * SunSub A Inc.
Incorporated in the State of Delaware
 - * SunSource Corporate Group, Inc.
Incorporated in the State of Delaware
 - * The Hillman Group, Inc.
Incorporated in the State of Delaware
 - * Harding Glass, Inc.
Incorporated in the State of Delaware
 - * SunSource Industrial Services Company, Inc.
Incorporated in the State of Delaware
 - * SunSource Technology Services, Inc.
Incorporated in the State of Delaware
 - * SunSource Inventory Management Company, Inc.
Incorporated in the State of Delaware
 - * Kar Products, Inc.

Incorporated in the State of Delaware

- * A&H Holding Company, Inc.
Incorporated in the State of Michigan
- * SunSource Canada Investment Co.
Incorporated in the Province of Ontario
- * J.N. Fauver (Canada) Limited
Incorporated in the Province of Ontario
- * A&H Bolt & Nut Company Limited
Incorporated in the Province of Nova Scotia
- * Hydra Power de Mexico
Incorporated in Bravos Judicial District, Juarez
Chihuahua, Mexico
- * SIMCO de Mexico
Incorporated in Ciudad de Mexico, Mexico

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of SunSource Inc. on Forms S-8 (File No. 333-53121, 333-53123 and 333-63409) of our report dated March 26, 1999, on our audits of the consolidated financial statements and financial statement schedules of SunSource Inc. as of December 31, 1998 and 1997, and for the three years in the period ending December 31, 1998, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 26, 1999

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This schedule contains summary financial information extracted from the Balance Sheet as of December 31, 1998 and the related Statement of Income for the year to date ended December 31, 1998.

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<CIK> 0001029831

<NAME> SunSource Inc.

<MULTIPLIER> 1,000

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<FN>

<F1> Bonds represents all long-term debt for Senior Notes.

<F2> Represents Guaranteed Preferred Beneficial Interests in the corporation's Junior Subordinated Debentures

</FN>

</TABLE>