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, 1999

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 _____

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. _____

The aggregate market value of the Common Shares held by non-affiliates of the registrant on March 24, 2000 was $25,117,107. On March 24, 2000 there were 6,854,634 Common Shares outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 11, 2000 are incorporated by reference in Part III of this Form 10-K.

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 through indirect wholly-owned subsidiaries in four business segments which are: (1) Technology Services, operating as SunSource Technology Services Inc. ("STS"); (2) Hardware

Merchandising, operating as The Hillman Group, Inc. ("Hillman"); (3) Expediter, operating as Kar Products, Inc., and A. & H. Bolt & Nut Company Limited (collectively, "Kar" or "Kar Products"); (4) Integrated Supply, operating as SunSource Integrated Services de Mexico, S.A. DE C.V. 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.

In December, 1999, the Company's Board of Directors approved management's plan to dispose of the Company's Glass Merchandising segment, operating as Harding Glass, Inc.("Harding"). Accordingly, Harding has been accounted for as a discontinued operation and its results of operations have been segregated from results of the Company's continuing operations.

On March 2, 2000, the Company contributed its Kar Products operations to a newly formed partnership affiliated with Glencoe Capital L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership in exchange for a 51% controlling interest with the remaining 49% interest retained by SunSource. The Company received $105 million in cash proceeds from the transaction through repayment of assumed debt by the new partnership, G-C Sun Holdings L.P. ("G-C"). The Company will account for its investment in G-C in accordance with the equity method.

On October 28, 1999, the Company entered into a merger agreement to acquire Axxess Technologies, Inc.("Axxess"), a Tempe, Arizona, manufacturer and marketer of key duplication and identification systems through a merger transaction. Axxess had sales of $82 million in 1999. Its product lines include keys and related accessories, identification tags and letters, numbers and signs. The transaction is expected to close on or about March 31, 2000, subject to certain closing conditions.

Technology Services (STS). Technology Services, with sales of $243 million in 1999 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 previously were performed in-house.

Hardware Merchandising (Hillman). Hillman, with sales of $152 million in 1999, is a leading provider of small hardware items and merchandising services to retail 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.

Expediter (Kar Products). Kar Products, with sales of $125 million in 1999, provides personalized, small parts inventory management services to low volume customers. Kar Products allows its customers to reduce the expenses of purchasing, receiving and accounting for parts and materials while maintaining inventory levels critical to its customers' operations.

Integrated Supply. Integrated Supply, with sales of $36 million in 1999, provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies. On July 1, 1999 the Company sold the assets of Integrated Supply's OEM Fastener Business. Sales from the OEM Fastener Business aggregated $11 million and $22 million for the six and twelve months ended June 30, 1999, respectively. Integrated Supply enables its customers to reduce inventory investment and the associated expenses of purchasing, receiving, disbursing and accounting for parts and materials.

The Company's current organization including its principal subsidiaries and affiliates is as follows:

<TABLE>
<CAPTION>

	Principal Location	Year Acquired/ Organized
<S>		<C>
SunSource Corporate Group, Inc.	Philadelphia, PA	1975
Technology Services		
- SunSource Technology Services Inc.	Chicago, IL	1976-1991 (1)

Hardware Merchandising		
- The Hillman Group, Inc.	Cincinnati, OH	1982
Expediter		
- Kar Products, LLC	Chicago, IL	1977
- A. & H. Bolt & Nut Co. Ltd.	Windsor, Ontario	1989
Integrated Supply		
- SunSource Integrated Services de Mexico, S.A. DE C.V.	Mexico City, Mexico	1992
Glass Merchandising		
- Harding Glass, Inc.	Kansas City, MO	1980

(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 vulnerable 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.

SunSource, through its applications engineers and technical support personnel in Technology Services, provides customized solutions to complex problems encountered by its customers. The Company believes that its Technology 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's Hillman business focuses on the retail sector, delivering merchandising systems, point-of-sale displays, product support and sales installation services through its nationwide field service force.

The industrial distribution industry will be impacted by electronic commerce changing channels of distribution in the future. It is SunSource's opinion that distributors will capture the vast majority of industrial supply sales transacted through the internet as a result of their market and product knowledge and services, including fulfillment capabilities. A number of new business-to- business companies forming electronic marketplaces have emerged as intermediaries in the industrial channel. However, all are dependent on existing distributors for fulfillment of transactions negotiated through these exchanges. To survive and prosper in this evolving channel, SunSource believes that the critical requirements for success among existing distributors will be market knowledge and value-added services including superior support and fulfillment capabilities.

Risk Factors

Restructuring

In December 1996, the Company announced a three-year restructuring plan to integrate and consolidate the sales, distribution, finance and administrative operations of its six domestic Technology Services divisions (hydraulic and pneumatic distributors that were acquired by the Company between 1976 and 1991; the "December 1996 Restructuring Plan"). The Company expected the December 1996 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 experienced a reduction of over $75 million in 1999 revenues from the prior year level caused by its implementation problems with its integration plan resulting in a loss of $12.5 million in 1999 from earnings before interest, taxes, depreciation and amortization and non-recurring charges.

In June 1999, as a result of existing business conditions in Technology Services, the Company announced additional steps to further reduce STS' workforce by 100 employees, reduce inventories and implement corrective actions (the "June Restructuring 1999 Plan").

The restructuring activities have resulted in consolidation of the sales organizations, finance, information systems, distribution networks and administrative responsibilities for the Technology Services divisions.

The failure to successfully integrate the Technology Services divisions would have an adverse impact on the Company's ability to restore profitability in STS and fully achieve the net cost savings from the restructuring plans. There can be no assurance that the Company's restructuring plans will be successful or that profitability in STS will be restored to historical levels.

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 reliant 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.

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 currently a party to a merger agreement to acquire Axxess, a manufacturer and marketer of key duplication and identification systems. The Company is also pursuing discussions with a number of other 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.

Dependence on Information Systems

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.

New York Stock Exchange Listing

In December 1999, SunSource Inc. was notified that the New York Stock Exchange ("NYSE" or the "Exchange") was reviewing the continued listing of the Company's common stock on the Exchange in connection with the amendments adopted by the Exchange relating to continued listing criteria. The new standards require not less than $50 million in total market capitalization and not less than $50 million in stockholders' equity.

The Company developed business plans for the fiscal years 2000 and 2001 which were presented to and reviewed by the NYSE in January 2000. The NYSE accepted the Company's business plans which are expected to restore compliance with the Exchange's new continued listing standards within 18 months.

While the Company will undertake to maintain its NYSE listing, there can be no assurance that the Company will be successful in implementing the business plans submitted to the Exchange and achieve compliance with the required listing standards or that the NYSE will continue to list the Company's common stock on the Exchange.

Segment Information

Refer to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 21 of Notes to Consolidated Financial Statements for Segment financial data for the three years ended December 31, 1999.

Technology Services

SunSource Technology Services, Inc., with sales of approximately $243 million in 1999, 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, product upgrades, and assembly of subsystems.

STS 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 industry best practices, STS 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 industry best practices and, when they do not, offer detailed, cost-efficient steps to improve their performance to meet those standards. The Technology Group 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 toward 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. STS 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.

Technology Services has 23 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 STS 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. STS 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, STS 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 six domestic Technology Services divisions. The integration of the sales organization, finance, information systems and administrative functions of Technology Services was completed in 1999. Consolidation of the distribution network was completed in the first quarter of 2000.

With the completion of restructuring of the sales organization in 1999, the sales force is now focused on account management and expanded customer relationships in a defined geography. The outside sales representatives are also supported by technical product specialists to assist in the delivery and application of product.

Technology Services completed in the first quarter of 2000 the consolidation of 36 inventory stocking locations into six principal distribution centers which the Company believes will result in significantly lower operating costs and better product availability. Centralized purchasing and inventory management is expected to result in improved fill rates for customers while at the same time reducing STS' 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 35,000 items in four major product categories, as follows: hydraulics, pneumatics, electronics and filtration. 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.

STS has a broad supply base which includes most major manufacturers of fluid

power and related technical products in the United States. Technology Services' top five suppliers account for approximately 30% of its 1999 purchases. Because of the fragmented nature of the industry, manufacturers of this type of equipment historically have awarded their franchises on a limited geographical basis. One of Technology Services' larger suppliers is Sauer-Sunstrand, whose products are distributed in most of Technology Services' territories.

In 1999, Technology Services has lost certain vendor relationships in limited geographic regions which for the most part have been replaced with other vendor product lines. 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 25,000 customers, the top five of which accounted for approximately 10% of its 1999 sales. Approximately 50% of sales are to OEM customers who incorporate the equipment or systems purchased into their final products. The remaining 50% of sales are primarily to maintenance, repair and operation ("MRO") customers.

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

Sales and Marketing. STS markets its products nationwide, principally through a network of outside account managers supported by application engineers, customer service representatives and a telemarketing operation ("SunSource Direct"). 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.

The STS group employs approximately 230 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. STS is in the process of adding additional industry specialists to its sales organization.

To support the outside sales representatives, Technology Services employs approximately 170 customer service representatives who collectively function to take orders from customers on the telephone, answer questions and solve problems. STS also employs approximately 25 people in its SunSource Direct operation which is responsible for customers with sales potential not large enough to justify the cost of service by an outside sales representative. In addition, an electronic data interchange ("EDI") capability has been established for use with selected customers and vendors and the group is in the early stages of designing a presence on the Internet.

Competition. The great majority of Technology Services' competitors are relatively small companies with sales of less than $20 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 Sophus Berendsen.

The Hillman Group

The Company believes that The Hillman Group, Inc., with sales of $152 million in 1999, 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. 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. Periodically Hillman 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, the Hillman Group functions as a merchandising manager for hardware retailers. Hillman supports these services with high order fill rates and rapid delivery from its eight distribution centers across the United States. Orders are normally shipped within 48 hours with a 96% order fill rate.

Products and Suppliers. The Hillman Group buys its products from approximately 500 vendors, the largest of which accounted for 10% of Hillman's 1999 purchases and the top ten of which accounted for less than 50% of its 1999 total purchases. About half of its purchases are from overseas suppliers, with the balance from domestic manufacturers and master distributors. Hillman's product line includes both standard and specialty nuts, bolts, washers, screws and anchors. The line also includes brass, plastic, stainless steel, and other miscellaneous fasteners. The depth of the line, over 35,000 products, is believed to be the largest in today's industry. Non-fastener products feature a complete line of picture hanging items and accessories, keys, letters, numbers, signs, rope and chain accessories, and an extensive list of specialty items with fuses, electrical connectors and small bulbs heading the list.

To assure quality from its vendors, the Hillman Group 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 and historically has serviced individual dealers of the larger cooperatives, such as Tru-Serv, Ace and Do it Best. The Hillman Group 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.

The Hillman Group 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. In the later part of 1998 and 1999, Hillman began selling to the "Big Box" home centers such as Home Depot as well as capturing some "Farm and Fleet" business. New business is also being cultivated internationally in such places as Mexico, South and Central America, and the Caribbean.

Sales and Marketing. The Hillman Group has always been able to be more responsive to customers' needs than its competitors because they employ the largest direct national sales and service organization in the industry.

Hillman's sales force consists of over 220 people, managed by 23 field managers. Each sales representative is responsible for approximately 50 full service accounts that they call on every two weeks on average. The service organization consists of 120 full-time and 10 part-time people, managed by 15 field managers. The 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. Coupled with the efforts of the Marketing Department, the sales force not only sells products, but can sell merchandising and technological support capabilities as well. The Marketing Department provides support through the development of new products, sales collateral, promotional items, merchandising aids and marketing services such as advertising and trade show management. Its 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 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.

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.

Kar Products

Kar Products, Inc., with sales of $125 million in 1999, offers personalized, small parts inventory management service to the low volume customer (small and medium-size accounts). The Kar 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 the Kar 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 1999, Kar sold more than 40,000 products to over 50,000 customers in the United States and Canada.

Products and Suppliers. Kar packages and inventories over 40,000 items in nine major product categories. The largest category is fasteners, which accounted for approximately 30% of 1999 Kar sales. Parts are purchased from over 700 regular vendors, none of which account for greater than 10% of its 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 Kar's quality and service standards. A majority of the products sold by Kar 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," Kar emphasizes new product innovation and is an active participant in trade shows and trade publications. Kar works with its vendors to introduce more than 500 new products per year.

Markets and Customers. Customers of Kar 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 Kar 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 40% of total Kar sales. Kar also offers customized product literature which is targeted to selected niche markets.

The Kar sales force consists of approximately 700 sales representatives, each of whom sells the entire product line and serves an average of 70 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 nine strategically located distribution centers and a computerized material management system which assures fast, accurate and complete shipments.

Competition. Kar competes primarily with other national expediters that provide a similarly 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. Kar's business serves all segments of the highly fragmented MRO market and has less than 1% market share. The Company believes that Kar Products 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

The Integrated Supply segment, with sales of $36 million in 1999, 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 Mercedes Benz, Colgate and Dirona.

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 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.

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, 1999.

Employees

As of December 31, 1999, the Company's total operations employed approximately 4,010 employees, of which approximately 1,780 were sales personnel, approximately 1,430 were employed as warehouse and delivery personnel, and approximately 800 held administrative positions. The Company's total operations have collective bargaining agreements with five unions representing a total of approximately 78 employees. In the opinion of management, employee relations are good.

Backlog

The Company's sales backlog for continuing operations was $50.1 million as of December 31, 1999, and $60.0 million as of December 31, 1998.

Item 2 - Properties.

The Company currently has approximately 164 warehouse and stocking facilities located throughout the United States, Canada and Mexico. Most of these include sales offices. Approximately 21 of these facilities are owned and the remainder are leased. The Company's principal properties are owned or leased warehouse facilities, as follows:

Division	Location	Description
Hillman	Cincinnati, Ohio	250,000 sq.ft.(leased)
Harding	Denver, Colorado	184,000 sq.ft.(owned)
Technology Services	Addison, Illinois	153,000 sq.ft.(leased)
Kar	Itasca, Illinois	80,000 sq.ft.(leased)

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

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.

Executive Officers of the Company

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

<TABLE>
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Name	Age	Position
<S>	<C>	<C>
Donald T. Marshall	66	Chairman of the Board of Directors, SunSource Inc.

Maurice P. Andrien, Jr.	58	President and Chief Executive Officer, SunSource Inc.
John P. McDonnell	65	Retired as Chief Executive Officer, SunSource Industrial Services Company, Inc. on December 31, 1999
Joseph M. Corvino	45	Vice President - Finance; Chief Financial Officer; Treasurer and Secretary, SunSource Inc.
Max W. Hillman, Jr.	53	Chief Executive Officer, The Hillman Group, Inc.
Harold J. Cornelius	51	Chief Executive Officer, Harding Glass, Inc.

</TABLE>

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, SunSource L.P. (the "Partnership").

Donald T. Marshall has been the Chairman since April, 1999. Mr. Marshall served as Chairman and Chief Executive Officer from December 1988 to April 1999.

Maurice P. Andrien, Jr. has been President and Chief Executive Officer since April, 1999. Mr. Andrien served as President and Chief Operating Officer of Unican Security Systems, Ltd. from June 1998 to April 1999. Mr. Andrien served as Chief Executive Officer of Curtis Industries, Inc. from April 1992 to May 1998.

John P. McDonnell has been Chief Executive Officer of SunSource Industrial Services Company, Inc. from December 1996 to December, 1999. Mr. McDonnell served as President and Chief Operating Officer of the Company from December 1994 to April 1999. 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 The Hillman Group, Inc., 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 Glass, Inc., since March 1995. Mr. Cornelius served as Group Vice President from December 1988 to December 1996.

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:

1999	HIGH	LOW
First Quarter	$18.9375	$13.8750
Second Quarter	16.3125	12.6875
Third Quarter	11.0000	4.8750
Fourth Quarter	7.2500	3.5000
1998		
First Quarter	$29.5000	$23.3125
Second Quarter	29.3750	21.7500
Third Quarter	21.7500	15.0000
Fourth Quarter	21.5625	14.0000

As of March 24, 2000 there were approximately 492 holders of record of the Common Shares. The total number of Common Shares outstanding as of March 24, 2000 was 6,854,634.

NYSE Listing Requirements
In December 1999, SunSource Inc. was notified that the New York Stock Exchange ("NYSE" or the "Exchange") was reviewing the continued listing of the Company's common stock on the Exchange in connection with the amendments adopted by the NYSE relating to continued listing criteria. The new standards require not less than $50 million in total market capitalization and not less than $50 million in stockholders' equity. The Company developed business plans for the fiscal years 2000 and 2001, which were presented to and reviewed by the Exchange in January 2000. The NYSE accepted the Company's business plans which are expected to restore compliance with the Exchange's new continued listing standards within 18 months.

Dividends
On June 30, 1999, the Board of Directors of the Company suspended indefinitely the quarterly cash dividend of $0.10 per Common Share.

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 subsequently suspended the repurchase program on March 16, 1999. The Company has acquired and placed into treasury 479,100 common shares through December 31, 1999, at an average cost of $18.12 per common share.

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.

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, 1999. 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.

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

Income Statement Data for Years Ended December 31:	1999	1998	1997	1996	1995
Continuing Operations					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$555,652	$617,518	$606,449	$558,885	$537,374
Gross profit	227,123	253,182	244,637	225,489	218,503
Income (loss)	(11,114)	11,857	30,842	16,260	21,016
Gain on sale of division	--	--	--	--	20,644
Income (loss) from discontinued Harding segment	(26,022)	1,960	1,690	3,007	3,085
Extraordinary loss	(235)	--	(3,392)	--	(629)
Net income (loss)	$(37,371)	$ 13,817	$ 29,140	$ 19,267	$ 44,116

Basic and diluted net income (loss) per common share:					
Income (loss) from continuing operations	$ (1.65)	$ 1.72	N/A	N/A	N/A
Income (loss) from discontinued Harding segment	$ (3.86)	$ 0.28	N/A	N/A	N/A
Extraordinary loss	$ (0.03)	$ -	N/A	N/A	N/A
Net income (loss)	$ (5.54)	$ 2.00	N/A	N/A	N/A
Pro forma net income per common share	N/A	N/A	$ 1.88	N/A	N/A
Earnings per limited partnership interest:					
Income from continuing operations					
- Class A	N/A	N/A	N/A	$ 1.10	$ 1.10
- Class B	N/A	N/A	N/A	$ 0.18	$ 0.40
Income from discontinued Harding segment					
- Class A	N/A	N/A	N/A	$ --	$ --
- Class B	N/A	N/A	N/A	$ 0.14	$ 0.14
Extraordinary loss					
- Class A	N/A	N/A	N/A	$ --	$ --
- Class B	N/A	N/A	N/A	N/A	$ (0.03)
Net income					
- Class A	N/A	N/A	N/A	$ 1.10	$ 1.10
- Class B	N/A	N/A	N/A	$ 0.32	$ 1.45
Dividends declared per common share	$ 0.10	$ 0.40	$ 0.10	N/A	N/A
Cash distributions declared per limited partnership interest					
- Class A	N/A	N/A	N/A	$ 1.10	1.10
- Class B	N/A	N/A	N/A	$ 0.33	$ 0.67
Balance Sheet Data at December 31:					
Total assets	$323,017	$330,240	$297,541	$254,806	$246,075
Long-term debt and capitalized lease obligations	$122,973	$95,842	$93,728	$ 69,150	$ 63,934

</TABLE>

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" or "SunSource") 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 four business segments which are

SunSource Technology Services Company, Inc. ("Technology Services" or "STS"), The Hillman Group, Inc.("Hillman"), Kar Products, Inc. ("Kar Products" or "Kar") and Integrated Supply, operating as SunSource Integrated Services de Mexico, S.A. DE C.V.

Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. The Hillman Group provides small hardware and related items and merchandising services to retail outlets, primarily hardware stores, home centers and lumberyards. Kar Products provides personalized, small parts inventory management services to low volume customers. Integrated Supply provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies.

In December 1999, the Board of Directors approved a plan to dispose of the Company's Harding Glass, Inc. subsidiary ("Harding"). Harding has been accounted for as a discontinued operation and, accordingly, its results of operations were segregated from results of the Company's ongoing businesses including restatement of prior periods presented. In 1999, the Company recorded a loss of $2.2 million after-tax from Harding's operations and an estimated loss on its expected disposal of $23.8 million unadjusted for any potential future tax benefits.

Refinancing

On December 15, 1999, the Company refinanced its $90 million bank revolving credit and $60 million senior notes with $155 million in senior secured credit facilities (the "Refinancing").

The new senior debt arrangement has a five-year term which consists of a $25 million term loan and a $130 million revolving credit line. The availability of the revolving credit line is based on the Company's balances in receivables and inventories, evaluated on a monthly basis.

Related to the Refinancing, the Company incurred an extraordinary loss of $0.2 million (net of $0.1 million in deferred tax benefits) due to the write-off of capitalized financing costs as a result of the early extinguishment of the former credit facilities.

Corporate Reorganization

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.

Restructuring Charges and Asset Write-downs

In the second quarter of 1999, the Company recorded restructuring charges and asset write-downs aggregating $10.2 million. These non-recurring charges and write-downs were a result of the Company's plan to reposition Technology Services and Kar Products, write-off key machines at the Hillman division, and realign corporate overhead expenses (the "1999 Restructuring Plan"). These charges and write-downs were composed of $5.4 million related to Technology Services, $1.0 million related to Kar Products, $3.3 million related to Hillman, and $0.5 million related to Corporate Headquarters. The Company completed the 1999 Restructuring Plan during the fourth quarter of 1999.

The Technology Services charges and write-downs of $5.4 million includes termination benefits of $2.8 million, an inventory write-down of $2.1 million, other exit costs of $0.4 million and a write-down of unamortized leasehold improvements of $0.1 million. STS terminated 94 employees as a result of the 1999 Restructuring Plan.

The Kar Products charge of $1.0 million was comprised solely of termination benefits. Kar terminated 10 employees as a result of the 1999 Restructuring Plan.

The Hillman asset write-off of $3.3 million was primarily the result of Hillman's inability to recover key machines from retailers and represents the remaining net book value of key machine capitalized costs as of June 30, 1999.

The Corporate Headquarters component of the restructuring charge was comprised of other exit costs of $0.4 million and termination benefits of $0.1 million.

See Note 1 of "Notes to Consolidated Financial Statements" for the accounting recognition of the restructuring charges.

Acquisitions

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.

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 and the twelve-month period prior to acquisition. Hillman integrated the sales force and operations of the acquired businesses 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 served a customer base that included large home improvement retailers and independent hardware stores. Sales from the acquired operations were approximately $3.0 million in 1997 and the twelve-month period prior to acquisition.

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. Sales in 1999 from these acquired businesses aggregated approximately $18.8 million.

Net cash consideration paid for the businesses acquired by the Company in 1998, including transaction costs, was $10.8 million, plus the assumption of certain liabilities of $1.1 million.

On October 28, 1999, the Company entered into a merger agreement to acquire Axxess Technologies, Inc. ("Axxess") of Tempe, Arizona through a stock merger transaction. Axxess is a manufacturer of key duplication and identification systems. The transaction is being structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $110 million in cash and subordinated notes. The transaction is expected to close on or about March 31, 2000 subject to certain closing conditions.

Divestitures

On March 2, 2000 the Company contributed the interests in its Kar Products, Inc. and A. & H. Bolt & Nut Company Limited operations (collectively, the "Kar" business) to a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership, G-C Sun Holdings L.P. ("G-C"). The Company received $105 million in cash proceeds from the transaction though repayment of assumed debt by G-C. Affiliates of Glencoe will hold a 51% controlling interest with the remaining 49% interest held by SunSource. The Company will account for its investment in the partnership in accordance with the equity method and expects to record an after-tax gain on the transaction of approximately $51 million in the first quarter of 2000.

On January 10, 2000, the Company signed a letter of intent to sell its Harding Glass operation to a strategic purchaser. The transaction is expected to result in the sale of Harding's assets for cash plus the assumption of certain liabilities. SunSource recorded an expected loss on the sale of Harding in 1999 in the amount of $23.8 million or $3.53 per common share. Sales from Harding were $118.3 million for the year ended December 31, 1999. The Company expects to consummate the sale of Harding in the second quarter 2000.

<TABLE>
<CAPTION>
Results of Operations

Segment Sales and Profitability from Continuing Operations for the Three Years Ended December 31, 1999

(dollars in thousands)

	1999	1998	1997

		% Total		% Total	
Sales -- continuing operations		Sales		Sales	
<S>	<C>	<C>	<C>	<C>	<C>
Technology Services (STS)	$ 242,643	43.7%	$ 318,500	51.6%	$ 318,984 52.6%
Hardware Merchandising (Hillman) (1) (2)	151,884	27.3%	125,830	20.4%	103,971 17.1%
Expediter (Kar)	124,724	22.5%	124,536	20.2%	125,911 20.8%
Integrated Supply - remaining business	20,125	3.6%	16,825	2.7%	11,164 1.8%
Integrated Supply - sold business and terminated contracts (3)	16,276	2.9%	31,827	5.1%	46,419 7.7%
Consolidated net sales	$ 555,652	100.0%	$ 617,518	100.0%	$ 606,449 100.0%

		% SALES		% SALES	
Gross Profit -- continuing operations					
Technology Services (STS) (4)	$ 55,117	22.7%	$ 85,215	26.8%	$ 84,826 26.6%
Hardware Merchandising (Hillman) (2)	81,045	53.4%	66,485	52.8%	54,901 52.8%
Expediter (Kar)	86,204	69.1%	88,175	70.8%	90,171 71.6%
Integrated Supply - remaining business	4,403	21.9%	4,217	25.1%	2,260 20.2%
Integrated Supply - sold business and terminated contracts (3)	2,484	15.3%	9,090	28.6%	12,479 26.9%
Consolidated gross profit before inventory write-down related to restructuring	229,253	41.3%	253,182	41.0%	244,637 40.3%
Inventory write-down related to restructuring	(2,130)		-		-
Consolidated gross profit	$ 227,123	40.9%	$ 253,182	41.0%	$ 244,637 40.3%
EBITDA -- continuing operations (7)					
Technology Services (STS) (5)	$ (12,477)	(5.1%)	$ 15,138	4.8%	$ 16,072 5.0%
Hardware Merchandising (Hillman)	15,816	10.4%	13,477	10.7%	11,580 11.1%
Expediter (Kar)	18,965	15.2%	21,196	17.0%	21,583 17.1%
Integrated Supply - remaining business	954	4.7%	977	5.8%	257 2.3%
Integrated Supply - sold business and terminated contracts (3)	(2,104)	(12.9%)	1,528	4.8%	3,333 7.2%
Total operations before corporate expenses	21,154	3.8%	52,316	8.5%	52,825 8.7%
Corporate expenses, net (6)	(9,653)	(1.7%)	(7,165)	(1.2%)	(7,961) (1.3%)
Consolidated EBITDA before non-recurring items	11,501	2.1%	45,151	7.3%	44,864 7.4%
Gain on curtailment					

of pension plan	5,608	-			
Restructuring charges including asset and inventory write-downs	(10,248)	-			
Provision for litigation matters - divested operations	-	(1,600)			
Consolidated EBITDA	$ 6,861	1.2%	$ 43,551	7.1%	$ 44,864 7.4%

(1) Includes sales from businesses acquired in 1998 of $18,883 and $10,322 for the twelve months ended December 31, 1999 and 1998, respectively.

(2) Includes a reduction in sales and gross profit of $4,680 and $3,424 for the twelve months ended December 31, 1998 and 1997, respectively to conform to current accounting for customer rebates.

(3) Represents sales, gross profit and EBITDA from the OEM Fastener Business, which was sold on July 1, 1999 and terminated contracts from 1999, 1998 and 1997.

(4) Includes other nonrecurring charges related to warranty claims, customer credits and other inventory adjustments in the Technology Services divisions of $5,030 for the twelve months ended December 31, 1999. Excluding these charges, Technology Services gross profit was $60,147 or 24.8% for the twelve months ended December 31, 1999.

(5) Includes other nonrecurring charges related to the integration and consolidation of the Technology Services divisions of $8,956 for the twelve months ended December 31, 1999. Excluding these charges, Technology Services EBITDA was ($3,521) or (1.5%) for the twelve months ended December 31, 1999.

(6) Includes other income of $420, $428 and $394 for the twelve months ended December 31, 1999, 1998 and 1997, respectively.

(7) "EBITDA" (earnings before interest, taxes, depreciation and amortization) is defined as income (loss) from continuing operations before depreciation, amortization and results of the discontinued Harding segment. 1997 excludes $2,491 of management fees, $263 of expenses related to minority ownership and $3,053 of trasaction costs related to the Company's conversion from partnership to corporate form (the "Conversion").

Years Ended December 31, 1999 and 1998

Net sales from continuing operations decreased $61.8 million or 10.0% in 1999 to $555.7 million from $617.5 million in 1998. Sales variances by business segment are as follows:

	Sales Increase (Decrease)	
	Amount	%
	(In thousands)	
Technology Services	$(75,857)	(23.8)%
Hillman	26,054	20.7 %
Kar Products	188	0.2 %
Integrated Supply	(12,251)	(25.2)%
Total Company	$(61,866)	(10.0)%

Technology Services sales decreased $75.9 million or 23.8% in 1999 to $242.6 million from $318.5 million in 1998 as a result of the restructuring of the sales force as well as the effects of the global economy on original equipment manufacturers' end markets. Hillman's sales increased $26.1 million or 20.7% in 1999 to $151.9 million from $125.8 million in 1998 as a result of growth from new accounts and expansion of new and existing product lines. Kar sales increased slightly in 1999 to $124.7 million from $124.5 million in 1998. Integrated Supply sales decreased $12.3 million or 25.2% in 1999 from $48.7

million in 1998 as a result of the sale of the OEM Fastener Business on July 1, 1999 which contributed sales of $11.0 million in 1999 versus $23.0 million in the prior-year and terminated contracts which generated sales of $5.3 million in 1999 versus $8.8 million in 1998. Excluding sales from the sold OEM Fastener Business and terminated contracts, Integrated Supply sales increased 19.6% in the comparison period.

The Company's sales backlog on a consolidated basis was $50.1 million as of December 31, 1999, compared with $60.0 million at December 31, 1998, a decrease of 16.5%.

The Company's consolidated gross margin from continuing operations was 42.2% in 1999 (before the inventory write-down of $2.1 million related to the Restructuring Plan and non-recurring charges of $5.0 million related to integration of the Technology Services divisions) compared with 41.0% in 1998. Technology Services' gross margin before the aforementioned charges decreased 2.0% in 1999 as a result of the decrease in sales levels in relation to the fixed cost component of cost of goods sold for service and repair facilities and sales mix. Hillman's gross margin increased 0.6% in the comparison period as a result of substantial increases in sales of keys to major U.S. hardware chains and home centers carrying higher margins than hardware and related products. Kar's gross margin declined 1.7% in 1999 as a result of increased packaging cost absorption in the 1999 period, a change in sales mix and competitive pricing pressures. The Integrated Supply segment's gross margin decreased 8.5% in 1999 resulting mainly from the sale of the OEM Fastener Business and cancellation of certain contracts which carried higher margins than the retained Integrated Supply business.

The Company's selling, general and administrative expenses ("S,G&A") from continuing operations, before non-recurring charges of $4.0 million related to integration of STS, increased by $6.2 million to $214.5 million in 1999 from $208.3 million in 1998. Selling expenses on a consolidated basis remained constant with 1998 but decreased in most businesses as a result of cost savings associated with the 1999 Restructuring Plan and reduced sales levels offset by an increase at Hillman as a result of 1998 acquisition activity. Warehouse and delivery expenses

increased $4.3 million as a result of integration costs for the 1998 acquisitions at Hillman and facility reorganization costs at Technology Services offset slightly by decreases from cost savings associated with the 1999 Restructuring Plan. The increase in general and administrative expenses of $1.9 million is attributable to the integration of the newly acquired businesses at Hillman and increased facilities costs in the Technology Services division offset by cost savings associated with the 1999 Restructuring Plan.

S,G&A expenses from continuing operations as a percentage of sales excluding the previously mentioned non-recurring charges compared with 1998 are as follows:

	Twelve Months ended December 31,	
	1999	1998
Selling Expenses	20.5%	18.4%
Warehouse and Delivery Expenses	6.8%	5.5%
General and Administrative Expenses	11.3%	9.8%
Total S,G&A Expenses	38.6%	33.7%

Overall, as a percentage of sales, total S,G&A expenses increased due mainly to the decrease in sales levels in relation to the fixed cost component of S,G&A expenses.

EBITDA from continuing operations was $20.5 million for the year ended December 31, 1999 after corporate expenses and before the 1999 Restructuring Plan charges of $10.2 million, and non-recurring charges of $9.0 million related to the integration and consolidation of the Technology Services divisions, compared with $43.6 million for the prior-year. The 1998 period includes a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses.

The Company's consolidated operating profit margin (EBITDA from continuing operations, as a percentage of sales) after corporate expenses and before the aforementioned non-recurring charges declined to 3.7% in 1999 compared with 7.1% in the prior-year. Technology Services operating profit margin decreased to (1.5%) from 4.8% in 1998, primarily reflecting reduced 1999 sales and increased expenses related to the reorganization of sales and administrative functions. Hillman's operating profit margin excluding the 1999 Restructuring Plan charges decreased to 10.4% in 1999 from 10.7% in 1998 as a result of sales discounts and

allowances to attract new accounts and increased selling expenses for new field staff related primarily to 1998 acquisition activities. Kar's operating profit margin decreased to 15.2% from 17.0% as a result of the gross margin decline discussed above.

Interest expense, net increased $2.9 million in 1999 from $6.8 million in 1998 due primarily to increased borrowings on the Company's revolving credit facility as a result of cash requirements to fund the Company's acquisition activities and working capital requirements.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities at the rate of 11.6% per annum on their face amount of $105.4 million, or $12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the years ended December 31, 1999 and 1998, the Company paid $12.2 million in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust on the Trust Preferred Securities.

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. See Note 5 of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 1999, for income taxes and related disclosures.

Years Ended December 31, 1998 and 1997

Net sales from continuing operations increased $11.1 million or 1.8% in 1998 to $617.5 million from $606.4 million in 1997. Sales variances by segment are as follow:

	Sales Increase (Decrease)	
	Amount	%
	(In thousands)	
Technology Services	$ (484)	(0.2)%
Hillman	21,859	21.0 %
Kar Products	(1,375)	(1.1)%
Integrated Supply	(8,931)	(15.5)%
Total Company	$ 11,069	1.8 %

Technology Services sales decreased slightly in 1998 to $318.5 million from $319.0 million in 1997 as a result of the restructuring of the sales force as well as the effects of the Asian economic crisis on STS' original equipment manufacturing customers. Hillman's sales increased $21.9 million or 21.0% in 1998 to $125.8 million from $104.0 million in 1997 resulting from 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. Kar sales decreased $1.4 million or 1.1% in 1998 to $124.5 million from $125.9 million in 1997 as a result of competitive pricing pressures as well as continued deterioration in the Canadian dollar. Integrated Supply sales decreased $8.9 million or 15.5% in 1998 to $48.7 million from $57.6 million in 1997 as a result of a net decrease of $14.6 million resulting from contracts which were canceled in 1998 and 1997 and a decline in the OEM Fastener business which was sold in 1999.

The Company's consolidated gross margin from continuing operations was 41.0% in 1998 compared with 40.3% in 1997. Technology Services' gross margin increased 0.2% in 1998 as a result of tighter pricing controls. Hillman's gross margin remained constant with 1997. Kar's gross margin declined 0.8% in 1998 as a result of competitive pricing pressures and higher freight costs. Integrated Supply's gross margin increased 1.8% in 1998 as a result of sales mix.

The Company's S,G&A expenses increased by $8.8 million or 4.4% to $208.3 million in 1998 from $199.5 million in 1997. Selling expenses increased $4.1 million supporting increased 1998 sales levels and increased marketing efforts at Hillman. Warehouse and delivery expenses increased $1.9 million or 6.0% principally at Hillman to support increased sales levels. The increase in general and administrative expenses of $2.7 million or 4.6% 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 follow:

	Twelve Months	
	1998	1997
Selling Expenses	18.4%	18.0%
Warehouse and Delivery Expenses	5.5%	5.2%
General and Administrative Expenses	9.8%	9.7%
Total S,G&A Expenses	33.7%	32.9%

EBITDA from continuing operations after corporate expenses was $43.6 million for the twelve months ended December 31, 1998, compared with $44.9 million for the same prior-year period. The 1998 period includes a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses.

The Company's consolidated operating profit margin (EBITDA from continuing operations, as a percentage of sales) after corporate expenses decreased slightly to 7.1% in 1998 compared with 7.4% in the prior year. Technology Services' operating profit margin declined to 4.8% in 1998 from 5.0% in 1997, primarily reflecting increased expenses related to the reorganization of sales and administrative functions. Hillman's operating profit margin declined in 1998 to 10.7% from 11.1% in 1997 due to increased selling expenses for new field staff related primarily to acquisition activities. Integrated Supply's operating profit margin decreased to 5.1% in 1998 from 6.2% in 1997 due primarily to the previously mentioned canceled contracts.

Depreciation expense increased $0.9 million to $4.2 million in 1998 from $3.3 million in 1997 due primarily to the acquisition activity at Hillman and an overall increase in the depreciable fixed asset base due to investment in the Company's core businesses.

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 $0.7 million in 1998 to $0.2 million from an expense of $0.5 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 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.

Liquidity and Capital Resources

The Company's cash position of $5.2 million as of December 31, 1999, increased $2.5 million from the balance at December 31, 1998. Cash was provided during this period primarily from net borrowings under the bank revolver ($67.8 million), proceeds from issuance of a senior secured term loan ($25.0 million),

proceeds from sale of the OEM Fastener Business ($8.8 million))and proceeds from the sale of property and equipment($5.1 million). Cash was used during this period predominantly for early extinguishment of senior notes ($60.0 million), an increase in net assets held for sale of the discontinued Harding operation ($17.6 million), cash used in operations ($10.3 million), capital expenditures ($4.8 million), financing fees and other costs related to debt refinancing ($3.5 million), repayment of senior secured term loan ($3.5 million) and other disbursements, net ($4.5 million).

The Company's net interest coverage ratio from continuing operations for 1999 declined to 0.65X (earnings before interest, distributions on trust preferred securities and income taxes, excluding non-recurring items, over net interest expense and distributions on trust preferred securities), from 2.06X in 1998 as a result of reduced earnings and increased interest expense.

The Company's working capital position of $135.6 million at December 31, 1999, represents a decrease of $14.9 million from the December 31, 1998 level of $150.5 million. The Company's current ratio decreased to 2.56x at December 31, 1999 from 2.74x at December 31, 1998.

As of December 31, 1999, the Company had $14.1 million available under its senior secured credit facilities. The Company had $126.7 million of outstanding long-term debt at December 31, 1999, consisting of a $21.5 million senior secured term loan at 8.50% as of December 31, 1999, bank revolver borrowings totaling $102.8 million at an effective interest rate of 8.50%, and capitalized lease obligations of $2.4 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, 1999.

As of December 31, 1999, the Company's senior debt (including distributions payable) as a percentage of its consolidated capitalization (senior debt, trust preferred securities and stockholders' equity) was 56.6% compared with 41.5% at December 31, 1998. The Company's consolidated capitalization (including distributions payable) as of December 31, 1999, was $225.7 million compared to $232.8 million at December 31, 1998.

On December 15, 1999, the Company refinanced its $90 million bank revolver and $60 million senior notes with $155 in senior secured credit facilities. The new financing which has a five-year term provides SunSource with adequate funds for working capital and other corporate requirements.

On March 2, 2000, SunSource contributed the interests in the Company's Kar Products subsidiary including its Canadian operation, to a newly formed partnership affiliated with Glencoe as previously mentioned. The Company received $105 million in cash proceeds from the transaction and expects to record an after-tax gain of approximately $51 million which has restored the Company's stockholders' equity to a significant positive position of over $33 million from its deficit balance of $17 million at December 31, 1999. In addition, SunSource's remaining $25 million investment in Kar or 49% ownership interest allows the Company to participate in the capital appreciation of Kar in the future with Glencoe.

With the proceeds from the Kar transaction, the Company expects to complete the acquisition of Axxess. With the Axxess merger into the Company's Hillman Group, management expects integration cost savings of over $5 million annualized from the combined operations.

The Company expects to further strengthen its financial position upon consummation of the sale of the Harding Glass business, which was announced on January 10, 2000. Proceeds from this sale will be used to repay debt, thus allowing the outstanding borrowings to be supported almost entirely by the Company's investment in receivables and inventories in SunSource's remaining businesses. The Harding transaction is expected to close in the second quarter 2000. Senior debt as a percentage of consolidated capitalization is expected to be approximately 40% with the divestment of the Kar and Harding Glass Segments and the inclusion of the Axxess acquisition.

The Company spent $4.8 million for capital expenditures in 1999, primarily for warehouse improvements, machinery and equipment, computer hardware and software.

On June 30, 1999, the Board of Directors of the Company suspended indefinitely the quarterly cash dividend of $.10 per common share.

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 subsequently suspended the repurchase program on March 16, 1999. The Company has acquired and placed into treasury 479,100 common

shares through December 31, 1999, at an average cost of $18.17 per common share.

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.

The Company has deferred tax assets aggregating $16.1 million as of December 31, 1999, 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
All of the Company's operating segments successfully met the year 2000 compliance requirement for proprietary and purchased software, and machinery and equipment utilized in the daily business process. In addition, the Company's suppliers or customers did not experience any material year 2000 compliance-related problems of which the Company is aware.

All operating divisions will continue to monitor their non-critical processing software to ensure that all non-critical programs have been successfully executed in the year 2000.

The Company's established Year 2000 compliance budget of $1.7 million, funded from operating cash flows, was not exceeded. In addition, the Company expects only minimal additional expenses, if any, during 2000 related to the Year 2000 compliance issue.

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.

Forward Looking Statements

Certain disclosures related to NYSE listing, acquisitions and divestitures, the 1999 Restructuring Plan, Refinancing and capital expenditures 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. We have based these forward-looking statements on our current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those currently anticipated as a result of a number of factors, including the risks and uncertainties discussed under captions "Risk Factors" - Restructuring, Risks Associated with Acquisitions and the New York Stock Exchange Listing set forth in Item 1 of this Form 10-K. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue" or the negative of such terms or other similar expressions. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur.

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 SCHEDULE

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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents 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 schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States 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.

PricewaterhouseCoopers LLP

February 9, 2000

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

<TABLE>
<CAPTION>

ASSETS	December 31, 1999	December 31, 1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 5,186	$ 2,673
Accounts receivable, net of allowance for doubtful accounts of $2,272 and $2,184, respectively	65,141	77,239
Inventories	92,691	102,190
Deferred income taxes	10,218	9,043
Net assets held for sale	35,249	40,987
Income taxes receivable	8,561	--
Other current assets	5,226	4,701
Total current assets	222,272	236,833
Property and equipment, net	17,282	21,744
Goodwill and other intangibles (net of accumulated amortization of $19,798 and $18,827, respectively)	52,404	55,957
Deferred financing fees	3,493	485
Deferred income taxes	5,865	4,281
Cash surrender value of life insurance policies	14,190	10,262
Other assets	7,511	678
Total assets	$ 323,017	$ 330,240
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 44,358	$ 51,971
Notes payable	376	796
Current portion of capitalized lease obligations	923	276
Dividends / distributions payable	1,019	676
Deferred tax liability	929	929
Current portion of long term debt	3,750	--
Accrued expenses:		
Salaries and wages	5,343	6,698
Income and other taxes	3,299	3,830
Accrued liabilities on discontinued operation	2,703	--
Other accrued expenses	23,961	21,123
Total current liabilities	86,661	86,299
Long term debt	17,750	60,000
Bank revolving credit	102,791	35,000
Capitalized lease obligations	1,509	566
Deferred compensation	14,173	11,802
Other liabilities	2,148	308
Total liabilities	225,032	193,975
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	115,200	115,551
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, 7,228,556 issued and 6,749,456 outstanding at December 31, 1999, 7,217,263 issued and 6,756,163 outstanding at December 31, 1998	72	72
Additional paid-in capital	21,342	21,099
Retained earnings (accumulated deficit)	(25,297)	12,748
Unearned compensation	(283)	(229)
Accumulated other comprehensive income	(4,344)	(4,596)
Treasury stock, at cost, 479,100 shares at December 31, 1999; 461,100 shares at December 31, 1998	(8,705)	(8,380)
Total stockholders' equity (deficit)	(17,215)	20,714
Total liabilities and stockholders' equity (deficit)	$ 323,017	$ 330,240

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,
(dollars in thousands, except for share amounts)

<TABLE>
<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
Net sales	$ 555,652	$ 617,518	$ 606,449
Cost of sales	326,399	364,336	361,812
Cost of sales - Inventory write-down related to restructuring (Note 1)	2,130	--	--
Gross profit	227,123	253,182	244,637
Operating expenses:			
Selling, general and administrative expenses	218,437	208,281	199,544
Management fee to general partner	--	--	2,491
Depreciation	4,272	4,192	3,279
Amortization	1,847	1,670	1,370
Total operating expenses	224,556	214,143	206,684
Restructuring charges and asset write-off (Note 1)	8,118	--	--
Gain on curtailment of defined benefit pension plan (Note 16)	5,608	--	--
Provision for litigation matters - divested operations	--	1,600	--
Transaction and other related costs (Note 1)	--	--	3,053
Other income (expense)	685	250	(492)
Income from operations	742	37,689	34,408
Interest expense, net	9,724	6,838	7,193
Distributions on guaranteed preferred beneficial interests	12,232	12,232	3,058
Income (loss) from continuing operations before provision (benefit) for income taxes	(21,214)	18,619	24,157
Provision (benefit) for income taxes	(10,100)	6,762	(6,685)
Income (loss) from continuing operations	(11,114)	11,857	30,842
Discontinued operations (Note 1)			
Income (loss) from operations of discontinued Harding segment, less applicable income taxes of ($1,080), $1,562 and $5, respectively	(2,188)	1,960	1,690
Estimated loss on disposal of discontinued Harding segment	(23,834)	--	--
Income (loss) from discontinued operations	(26,022)	1,960	1,690
Income (loss) before extraordinary item	(37,136)	13,817	32,532
Extraordinary loss from early extinguishment			

of debt, less applicable income taxes of ($126) and ($951) in 1999 and 1997, respectively (Note 6)	(235)	--	(3,392)
Net income (loss)	$ (37,371)	$ 13,817	$ 29,140
Basic and diluted income (loss) per common share:			
Income (loss) from continuing operations	$ (1.65)	$ 1.72	NA
Income (loss) from operations of discontinued Harding segment, net of taxes	(0.33)	0.28	NA
Estimated loss on disposal of discontinued Harding segment	(3.53)	--	NA
Income (loss) before extraordinary item	(5.51)	2.00	NA
Extraordinary loss from early extinguishment of debt, net of taxes	(0.03)	--	NA
Net income (loss)	$ (5.54)	$ 2.00	NA
Pro forma net income per common share (Note 1)	NA	NA	$ 1.88
Weighted average number of outstanding common shares (Note 1)	6,747,142	6,907,318	6,418,936

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$(37,371)	$ 13,817	$ 29,140
Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities:			
Depreciation and amortization	6,119	5,862	4,649
Restructuring charges and asset write-down	10,248	--	--
Transaction costs	--	--	3,053
Extraordinary loss	235	--	3,392
Loss (income) from discontinued Harding segment	26,022	(1,960)	(1,690)
Increase in cash value of life insurance	(1,598)	(846)	(525)
Provision for deferred compensation	--	--	2,649
Provision (benefit) for deferred income taxes	(2,759)	996	(7,433)
Gain on sale of division	(365)	--	--
Gain on curtailment of defined benefit pension plan	(5,608)	--	--
Changes in current operating items:			
Decrease (increase) in accounts receivable	9,070	(2,199)	(4,240)
Decrease (increase) in inventories	1,401	(7,291)	(805)
Increase in income taxes receivable	(8,561)	--	--
Decrease (increase) in other current assets	(619)	(614)	303
Increase (decrease) in accounts payable	(5,775)	5,893	1,684
Increase (decrease) in income taxes payable	(546)	134	1,136
Decrease in accrued interest	--	--	(473)
Decrease in accrued restructuring charges and transaction costs	(3,597)	(1,099)	(4,522)
Increase in other accrued liabilities	1,459	4,899	197
Other items, net	1,913	(1,384)	(1,365)
Net cash provided by (used for) operating activities	(10,332)	16,208	25,150
Cash flows from investing activities:			
Proceeds from sale of property and equipment	5,131	284	713
Proceeds from sale of division	8,827	--	--
Increase in net assets held for sale	(17,581)	(10,465)	1,634
Payments for acquired businesses, net of cash	--	(10,839)	--
Capital expenditures	(4,755)	(6,228)	(4,560)
Investment in life insurance policies	(1,300)	(903)	(3,316)
Other, net	(851)	30	139

Net cash used for investing activities	(10,529)	(28,121)	(5,390)
Cash flows from financing activities:			
Proceeds from issuance of long term debt	25,000	--	60,000
Borrowings under bank credit agreements, net	67,791	2,000	22,000
Net proceeds from issuance of common stock	--	20,813	--
Purchase of treasury stock at cost	(325)	(8,380)	--
Cash distributions / dividends to investors	(1,350)	(4,848)	(13,901)
Cash distributions paid on Class A exchange	--	--	(14,429)
Repayment of long term debt	(63,500)	--	(63,934)
Prepayment penalties and related costs	--	--	(4,278)
Repayments under other credit facilities, net	(420)	(185)	(496)
Principal payments under capitalized lease obligations	(300)	(210)	(140)
Other, net	(3,522)	--	(573)
Net cash provided by (used for) financing activities	23,374	9,190	(15,751)
Net increase (decrease) in cash and cash equivalents	2,513	(2,723)	4,009
Cash and cash equivalents at beginning of period	2,673	5,396	1,387
Cash and cash equivalents at end of period	$ 5,186	$ 2,673	$ 5,396

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL AND STOCKHOLDER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 1997 AND CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1999
(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>
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			
Net loss			
Change in cumulative foreign translation adjustment, net of tax			
Comprehensive income			
Issuance of 11,293 shares of common stock to certain non-employee directors			
Dividends declared on common stock			
Repurchase of 18,000 shares of common stock			
Stock options granted at a discount			
Amortization of stock option discount			
Stockholders' Deficit - December 31, 1999			

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

	STOCKHOLDERS' EQUITY (DEFICIT)		
	Common Stock	Additional Paid-in Capital	Retained Earnings / (Accumulated Deficit)
<S>	<C>	<C>	<C>
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			
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)
Net income			3,090
Change in cumulative foreign translation adjustment, net of tax			
Adjustment to cash distributions declared to partners			772
Dividends declared on common stock			(642)
Stockholders' Deficit - December 31, 1997	64	--	1,735
Net income			13,817
Change in cumulative foreign translation adjustment, net of tax			
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	
Repurchase of 461,100 shares of common stock			
Stockholders' Equity - December 31, 1998	$ 72	$ 21,099	$ 12,748

Net loss			(37,371)
Change in cumulative foreign translation adjustment, net of tax			
Comprehensive income			
Issuance of 11,293 shares of common stock to certain non-employee directors		119	
Dividends declared on common stock			(674)
Repurchase of 18,000 shares of common stock			
Stock options granted at a discount		124	
Amortization of stock option discount			
Stockholders' Deficit - December 31, 1999	$ 72	$ 21,342	$(25,297)

</TABLE>

[RESTUBBED]
<TABLE>
<CAPTION>

	STOCKHOLDERS' EQUITY (DEFICIT)			
	STOCKHOLDERS' EQUITY (DEFICIT)			
	Unearned Compensation	Accumulated Other Comprehensive Income (d)	Treasury Stock	Total Partners' Capital / Stockholders' (Deficit) Equity
<S>	<C>	<C>	<C>	<C>
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		(1,676)		--
Retained earnings				--
Minority ownership (a)				1,082
Class A exchange (b)				(130,420)
Goodwill - Minority interest (c)				20,759
Stockholders' Deficit - September 30, 1997	--	(1,676)	--	(3,097)
Net income				3,090
Change in cumulative foreign translation adjustment, net of tax		(614)		(614)
Adjustment to cash distributions declared to partners				772
Dividends declared on common stock	--			(642)
Stockholders' Deficit - December 31, 1997	--	(2,290)	--	(491)
Net income				13,817
Change in cumulative foreign translation adjustment, net of tax		(2,306)		(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	(229)			25
Repurchase of 461,100 shares of common stock			(8,380)	(8,380)
Stockholders' Equity - December 31, 1998	$ (229)	$ (4,596)	$ (8,380)	$ 20,714
Net loss				(37,371)
Change in cumulative foreign translation adjustment, net of tax		252		252
Comprehensive income				(37,119)
Issuance of 11,293 shares of common stock to certain non-employee directors				119
Dividends declared on common stock				(674)
Repurchase of 18,000 shares of common stock			(325)	(325)
Stock options granted at a discount	(124)			--

Amortization of stock option discount	70			70
Stockholders' Deficit - December 31, 1999	$ (283)	$ (4,344)	$ (8,705)	$(17,215)

</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

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" or "SunSource") and its direct and indirect wholly-owned subsidiaries including SunSource Capital Trust (the "Trust"). For 1998 and prior periods, the accompanying financial statements include the consolidated accounts of 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 significant inter-company balances and transactions have been eliminated.

Effective with 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 operates in four segments: (1) Technology Services, operating as SunSource Technology Services Company, Inc. ("STS"); (2) Hardware Merchandising, operating as The Hillman Group, Inc. ("Hillman") (3) Expediter, operating as Kar Products, Inc. and A & H Bolt & Nut Company Limited (collectively, "Kar" or "Kar Products"); and (4) Integrated Supply. In December 1999, the Company's Board of Directors approved management's plan to dispose of the Company's Glass Merchandising segment, operating as Harding Glass, Inc. ("Harding"). Accordingly, Harding has been accounted for as a discontinued operation and its results of operations were segregated from results of the Company's continuing operations including restatement of the prior periods presented.

STS offers a full range of technology-based products and services to small, medium and large manufacturers. Hillman provides small hardware-related items and merchandising services to retail outlets, primarily hardware stores, home centers and lumberyards. Kar Products provides personalized, small parts inventory management services to low volume customers. Integrated Supply provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies.

Harding sells retail and wholesale automotive and flat glass and provides auto glass installation and small contract glazing services to individual consumers,

insurance companies, auto body shops, and other customers through a large network of retail glass shops.

STS, Hillman, Kar and Integrated Supply accounted for 44%, 27%, 23% and 6%, respectively, of the Company's consolidated 1999 net sales. On a consolidated basis, the Company has over 110,000 customers, the largest of which accounted for less than 9% of net sales. The Company's foreign sales in Canada and Mexico

1. Basis of Presentation, continued:

accounted for less than 10% of its consolidated 1999 net sales. The average single sale 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.

Discontinued Operations:

In December 1999, the Company's Board of Directors approved management's plan to dispose of the Company's Harding business. Accordingly, Harding has been accounted for as a discontinued operation and its results of operations were segregated from results of the Company's ongoing businesses including restatement of the prior periods presented. In January 2000, the Company announced that it had signed a letter of intent to sell Harding.

The estimated loss recorded during the year ended December 31, 1999 on the sale of Harding was $23.8 million.

Following is summary financial information for the Company's discontinued Glass Merchandising segment:

<TABLE>
<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
Net Sales	$ 118,282	$94,952	$88,258
Income (loss) from discontinued operations:			
Before income taxes	$(3,268)	$ 3,522	$ 1,695
Income tax provision (benefit)	(1,080)	1,562	5
Net	(2,188)	1,960	1,690
Estimated loss on disposal	(23,834)	--	--
Total income (loss) from discontinued operations	$(26,022)	$ 1,960	$ 1,690

</TABLE>

As of December 31, 1999, net assets held for sale of the discontinued Harding operation were $35,249 consisting of receivables, inventories, prepaid assets, property and equipment and intangible assets, less an allowance for the estimated loss on disposal and current liabilities.

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.

1. Basis of Presentation, continued:

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. Of these costs, $3,053 was charged to operations in 1997. Cash payments for transaction costs in 1998 and 1997 were $238 and $2,698, respectively.

1996 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 approximately 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, 1999:

<TABLE>
<CAPTION>

	Termination Benefits	Other Exit Costs	Total
<S>	<C>	<C>	<C>
Current - other accrued expenses:			
Balance at December 31, 1998:	$ 799	$ 499	$ 1,298
Reduction for payments/adjustments	(949)	(599)	(1,548)
Reclassified from long-term	150	100	250
Balance at December 31, 1999:	$ -0-	$ -0-	$ -0-
Long-term - other liabilities:			
Balance at December 31, 1998:	$ 150	$ 100	$ 250
Long-term - reclassified to current	(150)	(100)	(250)
Balance at December 31, 1999:	$ -0-	$ -0-	$ -0-

</TABLE>

Termination payments to-date represent severance payments and other support costs for 176 employees. Other exit costs include legal and consulting costs to execute termination activities and facility shut-down costs.

1999 Restructuring Charges and Asset Write-downs

On June 29, 1999, the Board of Directors of SunSource Inc. approved the Company=s restructuring plan to reposition Technology Services and Kar Products, write-down key machines at the Hillman division, and realign corporate overhead expenses. As a result of this plan, the Company recorded a restructuring charge of $4,818, a key machine write-down of $3,300 and an inventory write-down related to restructuring of $2,130. Included in these charges and write-downs is $5,392 related to Technology Services, $1,020 related to Kar Products, $3,300 related to Hillman, and $536 related to Corporate Headquarters.

1. Basis of Presentation, continued:

1999 Restructuring Charges and Asset Write-downs, continued

The Technology Services charge of $5,392 includes termination benefits of $2,744, an inventory write-down of $2,130, other exit costs of $415 and a write-down of unamortized leasehold improvements of $103. The termination benefits of $2,744 cover approximately 94 employees. The other exit costs and write-down of unamortized leasehold improvements are related to lease buyouts and losses on the sale of owned facilities as a result of Technology Services' facilities consolidation. The inventory write-down of $2,130 is the result of a reduction in vendor lines resulting principally from the facility consolidation process.

The Kar Products charge of $1,020 is comprised solely of termination benefits for about 10 employees.

The Hillman charge of $3,300 is primarily the result of Hillman=s inability to recover key machines from retailers. The $3,300 charge represents the total net book value of key machines that had been capitalized as of June 30, 1999.

The Corporate Headquarters component of the restructuring charge aggregates $536 comprised of other exit costs of $434 and termination benefits of $102 for two employees. The other exit costs include lease termination costs of $101 and unamortized leasehold improvements of $333 on certain assets.

1. Basis of Presentation, continued:

The following table summarizes the restructuring costs and asset write-downs charged, the balance sheet classification, and payments or adjustments made during 1999.

<TABLE>
<CAPTION>

	Asset Write-Downs	Termination Benefits	Other Exit Costs	Total
<S>	<C>	<C>	<C>	<C>
Balance Sheet Classification				
Opening Balance June 29, 1999:				
Inventory Write-down	$ 2,130	--	--	$ 2,130
Unamortized Key Machines	3,300	--	--	3,300
Unamortized leasehold improvements	436	--	--	436
Current - other accrued expense	--	$ 3,096	$ 435	3,531
Long-term - other liabilities	--	770	81	851
Totals	$ 5,866	$ 3,866	$ 516	$10,248
Payments/charges during year-ended December 31, 1999:				
Inventory write-down	$ (2,130)	--	--	$(2,130)
Unamortized Key Machines	$ (3,300)	--	--	$(3,300)
Unamortized leasehold improvements	(436)	--	--	$ (436)
Current-other accrued expense payments	--	(1,650)	(405)	(2,055)
Current - other accrued expense (reclassified from long-term - other liabilities	--	276	81	357
Long-Term - other liabilities (reclassified to current - other accrued expense)	--	(276)	(81)	(357)
Totals	$ (5,866)	$(1,650)	$(405)	$(7,921)

Ending Balance Dec. 31, 1999:				
Inventory Write-down	$ --	--	--	--
Unamortized key machines	--	--	--	--
Unamortized leasehold improvements	--	--		--
Current - other accrued expense	--	1,722	111	1,833
Long-term - other liabilities	--	494	--	$ 494
Totals	$ --	$ 2,216	$ 111	$ 2,327

</TABLE>

The Board's approval of the restructuring plan provided the Company's management with the authority to involuntarily terminate employees. The Company established the levels of benefits that the terminated employees received and informed the employees of their termination benefits prior to the close of business on June 30, 1999. Termination payments to date represent severance payments for approximately 106 employees. Three employees have termination agreements that provide severance payments for a period that is more than 12 months beyond December 31, 1999. The $494 balance in long-term other liabilities represents the remaining payments for these employees.

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 including goodwill for financial impairment, and will continue to evaluate them, based on the estimated undiscounted future cash flows, as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. See Note 1, "Restructuring Charges" for information on the write-down of assets related to Hillman's inability to recover key machines from retailers in 1999.

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

2. Summary of Significant Accounting Policies, continued:

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.

Revenue Recognition:

Revenue from sales of products is recorded upon the passing of title which usually occurs upon the shipment of goods.

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.

Exchange adjustments resulting from foreign currency transactions are recognized in net income and were immaterial for the three years ended December 31, 1999.

Use of Estimates in the Preparation of Financial Statements:

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

3. Acquisitions:

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. Net cash consideration paid for the acquired businesses, including transaction costs, was $10,839, including goodwill of $7,009, and the assumption of certain liabilities of $1,132.

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 amounts represent the pro forma financial results for the year ended December 31, 1998 had these acquisitions been consummated on January 1, 1998:

Net sales	$618,498
Income before extraordinary items	13,849
Net income	13,849
Basic and diluted earnings per share	$2.00

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 1997 were $2,491. The 1997 management fee was pro-rated through the Conversion and paid in full on September 30, 1997.

From January 1, 1997 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 and $811 in 1998 and 1997, respectively. Amounts payable to this law firm were $109 and $10 at December 31, 1998 and 1997, 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. Payments for these services were $361 in 1998.

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. Payments for these services were $361 in 1998.

5. Income Taxes:

The total income tax provision (benefit) was allocated for the three years ended December 31, of 1999 as follows:

	1999	1998	1997
Continuing operations	$(10,100)	$ 6,762	$(6,685)
Discontinued operations	(1,080)	1,562	5
Extraordinary item--early extinguishment of debt	126		951
Total tax provision (benefit)	$(11,054)	$ 8,324	$(5,729)

The components of the Company's provision (benefit) for income taxes from continuing operations are as follows for the three years ended December 31, 1999, as follows:

	1999	1998	1997
Current:			
Federal & State	$(7,318)	$ 3,600	$ 1,222
Foreign	413	1,505	1,005
Total current	(6,905)	5,105	2,227

Deferred:			
Federal & State	(3,404)	1,822	$ 225
Foreign	209	(165)	428
Total deferred	(3,195)	1,657	653
Deferred tax benefit upon conversion	--	--	(9,565)
Provision (benefit) for income taxes	$(10,100)	$ 6,762	$(6,685)

As of December 31, 1999, the Company had approximately $23,000 of capital loss carryforwards available to reduce future capital gains in the U.S. The capital loss carryforwards are primarily a result of losses on the divestiture of Harding Glass, Inc. and losses on the sale of certain assets of the SIMCO OEM business. The capital loss carryforwards expire in 2004. A valuation allowance has been provided for the full value of the deferred tax asset related to these carryforwards as of December 31, 1998.

The Company has net operating loss ("NOL") carryforward, for tax purposes, totaling $8,900 as of December 31, 1999, that is available to offset future taxable income. This carryforward expires in 2014. The Company has provided a valuation allowance totaling $2,700 to reduce this loss carryforward.

Upon the Conversion, the Company recorded additional deferred tax assets of $9,565 not previously available under partnership form.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

5. Income Taxes, continued:

The table below reflects the significant components of the Company's net deferred tax assets at December 31, 1999 and 1998:

<TABLE>
<CAPTION>

	1999			1998		
Deferred tax assets:	Current	Non-Current	Total	Current	Non-Current	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Inventory	$ 5,441	$ --	$ 5,441	$ 4,106	$ --	$ 4,106
Accruals and reserves	3,643	5,674	9,317	4,425	4,575	9,000
Capital loss carryforwards	6,857	--	6,857	--	--	--
Net operating loss carryforward	3,108	--	3,108	--	--	--
Depreciation and amortization	--	1,402	1,402	--	1,362	1,362
Other	(451)	--	(451)	512	--	512
Total gross deferred assets	18,598	7,076	25,674	9,043	5,937	14,980
Less: valuation allowance - related to capital loss carryforwards	(6,857)	--	(6,857)	--	--	--
Less: valuation allowance - general	(1,523)	(1,211)	(2,734)	--	(1,656)	(1,656)
Net deferred assets	$10,218	$ 5,865	$16,083	$ 9,043	$ 4,281	

$13,324					
	=======	=======	=======	=======	=======

</TABLE>

Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Below is a reconciliation of statutory federal income tax rates to the effective tax rates for the twelve months ended December 31, 1999 and December 31, 1998 and the three months ended December 31, 1997:

	12 Months Ended 12/31/99	12 Months Ended 12/31/98	3 Months Ended 12/31/97
Statutory federal income tax rate	(35.0%)	35.0%	35.0%
Foreign income tax rates in excess of U.S. federal income tax rates	0.4%	2.2%	9.1%
State and local income taxes, net of U.S. federal income tax benefit	(8.3%)	3.4%	4.2%
Non-deductible expenses	(4.7%)	5.1%	5.2%
Tax benefits associated with the conversion, net	--	(9.4%)	--
Recognition of deferred tax benefits relating to cumulative temporary differences	--	--	(10.5%)
Effective income tax rate	(47.6%)	36.3%	43.0%

6. Extraordinary Losses:

In 1999, in connection with the early extinguishment of debt, the Company wrote off capitalized financing costs of $361 and recorded an extraordinary loss of $235 (net of deferred tax benefits of $126). (See Note 9.)

In 1997 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 Senior Notes.

7. Property and Equipment:

Property and equipment consist of the following at December 31, 1999 and 1998:

	Useful Life (Years)	Estimated December 31, 1999	Estimated December 31, 1998
Land	N/A	$ 853	$ 1,797
Buildings and leasehold improvements	10-30	7,406	10,875
Machinery and equipment	3-10	21,857	23,845
Furniture and fixtures	3-5	10,038	9,967
		40,154	46,484
Less accumulated depreciation		22,872	24,740
		$17,282	$21,744

8. Notes Payable:

Notes payable consisted of casualty insurance financing of $376 at December 31, 1999 and $796 at December 31, 1998. The interest rate on the outstanding notes payable borrowings at December 31, 1999 and 1998 was 6.18% and 5.72%, respectively.

9. Revolving Credit Line:

On December 15, 1999, the Company refinanced its $60,000 senior notes and $90,000 bank revolving credit with $155,000 in senior secured credit facilities (the "Refinancing") consisting of $130,000 in revolving bank credit (the "Revolver") and a $25,000 term loan (the "Term Loan", see Note 10). The new credit agreement has a five-year term (the "Credit Agreement") whose Revolver availability is based on the Company's receivables and inventory balances (the "Borrowing Base") evaluated on a monthly basis. The Company and its domestic and foreign corporate subsidiaries are borrowers and guarantors ("Credit Parties") under the Credit Agreement. Each credit party assigned, pledged and granted a security interest in and to all its assets as collateral. The Credit Agreement provides borrowings at interest rates based on the London Interbank Offered Rates ("LIBOR") plus a margin of between 2.50% and 3.00% (the "LIBOR Margin") in accordance with certain leverage ratios as stated in the Credit Agreement, or prime. Letters of Credit commitment fees are based on the average daily face amount of each outstanding Letter of Credit multiplied by one and one half percent (1.50%) per annum.

As of December 31, 1999, the Company's Borrowing Base was $117,049 consisting of receivables and inventory balances totaling $122,254 less letter of credit commitments outstanding of $5,205. The Revolver balance was $102,791 as reflected on the Company's consolidated balance sheet at December 31, 1999. As of December 31, 1999, the Company had $14,089 available under the revolver. Amounts outstanding under the Credit Agreement are due upon its termination on December 14, 2004.

The Credit Agreement, among other provisions, contains financial covenants requiring the maintenance of specific coverage ratios, levels of undrawn availability and restricts the incurrence of additional debt and the sale of assets. If the Company sells any assets other than inventory, it must repay the advances under the Credit Agreement in an amount equal to the net proceeds of such sale. Such repayments shall be applied first to the outstanding principal installments of the Term Loan (see Note 10) and second, to the remaining advances in such order as the lenders may determine.

9. Revolving Credit Line, continued

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, 1999. 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, 1999. This facility, which is renewable annually, provides bank borrowings at an interest rate of prime plus 1/4 of 1%.

On September 30, 1997, the Operating Partnership entered into a five-year bank credit agreement which was amended and restated as of December 31, 1998, in connection with the Reorganization (the "Former Credit Agreement"). The Company and its newly formed domestic corporate subsidiaries were co-borrowers under the Former Credit Agreement. The Former Credit Agreement provided borrowings on a revolving credit basis at interest rates based on LIBOR plus a margin of between 1.00% and 1.50% (the "Former LIBOR Margin") in accordance with certain leverage ratios as stated in the Former Credit Agreement, or prime. Letters of credit commitment fees were based on the Former LIBOR Margin when issued.

As of December 31, 1999, the LIBOR rate was 5.82%, the LIBOR Margin was 3.00% and the prime rate was 8.50%. The Company's weighted-average interest rate for borrowings under its revolving credit facilities was 7.11%, 7.05% and 7.79% for the years ended December 31, 1999, 1998 and 1997, respectively.

10. Long-Term Debt:

On December 15, 1999, the Company as part of the Credit Agreement entered into a five-year $25,000 Term Loan. Upon closing of the Credit Agreement, the Company made a principal payment of $3,500 on the Term Loan. The Term Loan is collateralized in accordance with the provisions of the Credit Agreement (See Note 9). The Term Loan provides borrowings at interest rates based on LIBOR plus the LIBOR Margin in accordance with certain leverage ratios as stated in the Credit Agreement, or prime.

As of December 31, 1999, the Company's weighted-average interest rate for the Term Loan was 8.50%. Interest is required to be paid monthly on the daily outstanding principal of the Term Loan. Principal payments of $1,250 are required to be paid quarterly commencing on April 1, 2000, until the Term Loan is repaid in full.

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

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 were co-obligors under the Amended Noteholder Agreement. Interest was required to be paid quarterly on March 30, June 30, September

10. Long-Term Debt, continued:

30 and December 30 on the outstanding principal of the senior notes. Optional prepayments, in multiples of $100, could be made at anytime, as a whole or in part, with accrued interest thereon plus a penalty, if any, as defined in the Amended Noteholder Agreement.

As of December 31, 1999, the estimated fair value of the Company's Term Loan is approximately $18,000 as determined in accordance with SFAS 107. The Company discounted the future cash flows of its Term Loan 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, 1999:

	Capital Leases	Operating Leases
2000	$1,172	$10,383
2001	1,024	7,692
2002	501	4,765
2003	106	4,031
2004	30	3,353
Later years	--	9,849
Total minimum lease payments	$2,833	$40,073
Less amounts representing interest	(401)	
Present value of Net Minimum Lease payments (including $923 currently payable)	$2,432	

Total rental expenses for all operating leases from continuing operations amounted to $12,604 in 1999, $11,101 in 1998, and $11,881 in 1997.

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 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 other deferred compensation plans ceased

12. Deferred Compensation Plans, continued:

as of December 31, 1997. The Equity Compensation Plan replaces the former cash basis deferred compensation plan 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 1999 and 1998. The amount charged to income in 1997 was $3,152. 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, 1999, distributions from the deferred compensation plans aggregated $252 in 1999, $26 in 1998, and $2,876 in 1997. The Company's deferred compensation liabilities amounted to $14,728 as of December 31, 1999 and $11,802 as of December 31, 1998.

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 $14,190 at December 31, 1999. 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 participants.

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

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

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, 1999 was $51,141, based on the closing price on the New York Stock Exchange of $12.125 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 shares through open market transactions and private block trades dependent upon market conditions. The Company subsequently suspended the repurchase program on March 16, 1999. The Company has acquired and placed into treasury 479,100 common shares through December 31, 1999, at an average cost of $18.17 per common share.

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 11,293 and 1,988 Common Shares for the years ended December 31, 1999 and 1998, respectively. Under the terms of the plan, non-employee directors are 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 is dependent

14. Stockholders' Equity (Deficit), continued:

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. The Company recognized an expense of $119 and $39 with respect to the issuance of common shares to non-employee directors in 1999 and 1998, respectively.

Stock Options

On April 28, 1998, the Company adopted the 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 (the "Applicable Percentage") is calculated annually and cumulatively at the rate of 5% of shares outstanding per year. Prior to April 27, 1999, the maximum number of shares available under the Plan was 25% of the total outstanding shares or 2,000,000 million Common Shares. On April 27, 1999, the shareholders of the Company approved a proposal to amend the 1998 Equity Compensation Plan to increase the aggregate number of shares that may be issued or transferred under the Plan to 2,150,000 shares. However, no more than the Applicable Percentage of the number of shares issued and outstanding on the effective date of the Plan and at any time thereafter may be issued or transferred under the Plan; provided however, that up to 150,000 shares may be issued under the Plan without reference to the Applicable Percentage in connection with the hiring of a new chief executive officer of the Company.

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.

14. Stockholders' Equity (Deficit), continued:

Stock Options, continued

A summary of the Company's stock option plan for the twelve months ended December 31, 1999 is presented below:

<TABLE>
<CAPTION>

	Number of Options	Weighted-Average Exercise Price Per Share	Number Of Shares Exercisable	Weighted-Average Exercise Price Per Share
<S>	<C>	<C>	<C>	<C>
Outstanding at January 1, 1998	--	--	--	$ --
Granted	211,495	$17.62	--	17.62
Exercised	--	--	--	--
Expired/Canceled	--	--	--	--
Outstanding at December 31, 1998	211,495	$17.62	--	$17.62
Granted	562,000	$15.49	204,399	$16.20
Exercised	--	-	--	-
Expired/Canceled	4,000	$17.86	--	-
Outstanding at December 31, 1999	769,495	$16.06	204,399	$16.20

</TABLE>

As of December 31, 1999, the 769,495 options outstanding under the Plan have exercise prices between $12.75 and $18.88 and a weighted-average remaining contractual life of 9.12 years.

During 1999 and 1998, the Company issued certain options at and below the fair market price of the common stock on the grant date. For those options issued with an exercise price equal to the fair market value, the weighted-average exercise price was $15.79 and $18.82 and the average fair market value was $16.00 and $18.84 in 1999 and 1998, respectively. For options issued with an exercise price below fair market value for the stock on their grant date, the weighted average exercise price was $12.75 and $15.99 and the average fair market value was $15.00 and $18.81 in 1999 and 1998, respectively.

Compensation expense of approximately $378 is being recognized over vesting periods for certain options which were granted at below fair market value in 1999 and 1998 of which $70 was recognized in 1999 and $25 was recognized in 1998. If compensation cost had been based on the fair value of the options at the grant dates, consistent with the method required under SFAS 123, "Accounting for Stock-Based Compensation", the Company's net income and net income per Common Share would have been:

		1999	1998
Net Income (Loss)	As reported	$(37,371)	$ 13,817
	Pro forma	$(38,013)	$ 13,769
Basic and diluted net income per common share	As reported	$ (5.54)	$ 2.00
	Pro forma	$ (5.63)	$ 1.99

The estimated weighted-average grant-date fair value of the options granted during the year ended December 31, 1999 was $15.71 and the weighted-average remaining contractual life of options outstanding at December 31, 1999 was 9.12 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants in 1999 and 1998: expected volatility of 23.1% for 1999 and 28.7% for 1998;

14. Stockholders' Equity (Deficit), continued:

Stock Options, continued

risk free interest rates of 5.3% to 5.6% and expected lives of 5 and 9.5 years, based on differing vesting schedules.

On April 27, 1999, a grant of 150,000 non-qualified stock options was made to attract and retain a new Chief Executive Officer, (the "CEO Grant"). On January 26, 2000, the Compensation Committee of the Board of Directors amended the New CEO Grant by reducing the number of shares from 150,000 to 50,000 and issued a grant of 100,000 shares of restricted stock. One-third of the restricted shares will vest six months from the date of grant. Vesting of the remaining two-thirds of the restricted shares will be based on achievement of certain performance goals. In the event that all or some of the performance goals are not achieved within a three-year period from the date of grant, the then remaining shares will vest on the third anniversary from their date of grant.

Earnings Per Share

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 769,495 options through December 31, 1999 to purchase the Company's Common Shares having a potentially dilutive effect on earnings per share. Due to market conditions, the shares granted under the Plan did not have a material dilutive effect on earnings per share for the twelve months ended December 31, 1999 and 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, 1999 was 6,749,456. The weighted average number of Common Shares outstanding for the twelve months ended December 31, 1999 was 6,747,142, including shares issued to non-employee directors, net of the 479,100 shares repurchased and held in treasury.

Common Stock Dividend

On June 30, 1999, the Board of Directors of the Company suspended indefinitely the quarterly cash dividend of $0.10 per Common Share.

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. 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 these cash distributions amounted to $6,136 or $0.2775 per B interest.

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:

<TABLE>
<CAPTION>

	Pension Benefits		Benefits	
Benefit Obligation:	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Benefit obligation - beginning of year	$26,761	$23,961	$ 951	$ 524
Service cost	614	1,000	--	--
Interest cost	1,483	1,752	65	66
Plan participant contributions	191	--	--	--
Amendments	--	--	--	421
Curtailment Gain	(5,329)	--	--	--
Actuarial (gain) loss	(2,481)	1,777	(46)	19
Benefits paid	(1,512)	(1,729)	(90)	(79)
Benefit obligation - end of year	$19,727	$26,761	$ 880	$ 951
Fair Value of Plan Assets:				
Fair value of plan assets - beginning of year	$31,475	$28,597	$ --	$ --
Actual return on plan assets	3,690	4,432	--	--
Expenses	(178)	(24)	--	--
Employer contributions	--	--	90	79
Plan participant contributions	191	199	--	--
Benefits paid	(1,512)	(1,729)	(90)	(79)
Fair value of plan assets - end of year	$33,666	$31,475	$ --	$ --
Funded Status of Plans:				
Funded status of the plans	$13,939	$ 4,714	$ (880)	$ (951)
Unrecognized actuarial (gain) loss	(6,545)	(3,466)	(27)	19
Unrecognized prior service cost	--	(279)	357	389
Unrecognized net transition asset	(946)	(1,180)	454	489
Accrued benefit cost recognized in the balance sheet	$ 6,448	$ (211)	$ (96)	$ (54)

</TABLE>

16. Retirement Benefits, continued:

Net periodic pension costs include the following components:

Net Periodic Pension Cost (Benefit):	1999	1998	1997
Service cost	$ 614	$ 1,000	$ 920
Interest cost	1,484	1,752	1,702
Expected return on plan assets	(2,985)	(2,727)	(3,160)
Amortization of net asset	(234)	(234)	(234)
Amortization of prior service cost	--	(24)	(24)
Recognized net actuarial loss	70	52	769
Net periodic pension cost (benefit)	$(1,051)	$ (181)	$ (27)

Net post-retirement costs include the following components:

Net Periodic Post-retirement Cost:			
Service cost	$ --	$ --	$ 32
Interest Cost	65	66	--
Amortization of Transition obligation	35	35	--
Amortization of prior service cost	32	32	--
Net post-retirement cost	$ 132	$ 133	$ 32

Assumptions:	1999	1998	1997
Discount rate	8.00%	7.00%	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%	8.50%	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, 1999 projected benefit obligation	$ 74	$ (66)
1999 service and interest cost	$ 6	$ (5)

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.

In December 1999, the Board of Directors of the Company approved a proposal to freeze the benefit accruals under the Technology Services defined benefit retirement plan. As a result, the Company recorded a curtailment gain of $5,608 in accordance with Statement of Financial Accounting Standards No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. The related deferred assets of $5,608 associated with this curtailment is included in other assets on December 31, 1999.

16. Retirement Benefits, continued:

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

	1999	1998	1997
Defined contribution plans	$ 2,154	$3,052	$1,154
Defined benefit plans	(6,818)	(181)	(27)
Total	$(4,664)	$2,871	$1,127

17. Commitments and Contingencies:

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, 1999, the Company had outstanding letters of credit in the aggregate amount of $2,155 related to these activities.

As of December 31, 1999, the Company has guaranteed lease obligations of approximately $520, 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.

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, 1999, 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:

<TABLE>
<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
Cash paid during the period for:			
Interest	$ 9,729	$ 7,725	$ 7,352
Income taxes	$ 1,693	$ 8,190	$ 1,433
Non-cash investing activities:			
Acquisitions (see Note 3):			
Fair value of assets acquired, including goodwill	$ --	$ 11,971	$ --

Less liabilities assumed	--	1,132	--
Cash paid for acquired businesses	$ --	$ 10,839	$ --
Non-cash financing activities:			
Accrued and unpaid distributions on trust preferred securities, common shares and partnership interests	$ 1,019	$ 676	$ 2,995
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

</TABLE>

19. Quarterly Data (unaudited):

<TABLE>
<CAPTION>

1999	Fourth	Third	Second	First
<S>	<C>	<C>	<C>	<C>
Net sales	$124,314	$138,238	$148,250	$144,850
Gross profit	49,162	56,444	59,960	61,557
Income (loss) from continuing operations	(2,397)	(21)	(9,868)	1,172
Income (loss) from discontinued operations	(26,015)	97	163	(267)
Extraordinary loss	(235)	--	--	--
Net income (loss)	(28,647)	76	(9,705)	905
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.36)	$ --	$ (1.46)	$ 0.17
Income(loss) from discontinued operations	$ (3.85)	$0.01	$ 0.02	$ (0.04)
Extraordinary loss	$ (0.03)	$ --	$ --	$ --
Net income (loss)	$ (4.24)	$0.01	$ (1.44)	$ 0.13

1998	Fourth	Third	Second	First
Net sales (1)	$143,980	$157,852	$165,006	$150,680
Gross profit (1)	62,408	65,444	65,601	59,729
Income (loss) from continuing operations	2,759	3,556	3,830	1,712
Income (loss) from discontinued operations	272	994	785	(91)
Net income (loss)	3,031	4,550	3,330	1,621
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.40	$ 0.50	$ 0.53	$ 0.26
Income(loss) from discontinued operations	$ 0.04	$ 0.14	$ 0.11	$ (0.01)
Net income (loss)	$ 0.44	$ 0.64	$ 0.46	$ 0.25

</TABLE>

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

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.

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 four 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, Depreciation and Amortization ("EBITDA") which is defined as income from operations before depreciation and 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:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1999	1998	1997
<S>	<C>	<C>	<C>
Net Sales			
Technology Services (STS)	$ 242,643	$ 318,500	$ 318,984
Hardware Merchandising (Hillman)	151,884	125,830	103,971
Expediter (Kar)	124,724	124,536	125,911
Integrated Supply	36,401	48,652	57,583
Consolidated net sales	$ 555,652	$ 617,518	$ 606,449
Gross Profit			
Technology Services (STS)	$ 52,987	$ 85,215	$ 84,826
Hardware Merchandising (Hillman)	81,045	66,485	54,901
Expediter (Kar)	86,204	88,175	90,171
Integrated Supply	6,887	13,307	14,739
Segment gross profit	$ 227,123	$ 253,182	$ 244,637
EBITDA			
Technology Services (STS)	$ (12,477)	$ 15,138	$ 16,072
Hardware Merchandising (Hillman)	15,816	13,477	11,580
Expediter (Kar)	18,965	21,196	21,583
Integrated Supply	(1,150)	2,505	3,590
Segment profit	$ 21,154	$ 52,316	$ 52,825
Tangible Assets			
Technology Services (STS)	$ 79,675	$ 83,752	$ 88,259
Hardware Merchandising (Hillman)	56,963	59,487	40,579
Expediter (Kar)	44,536	42,479	41,991
Integrated Supply	9,792	17,051	15,476
Segment tangible assets	$ 190,966	$ 202,769	$ 186,305

Capital Expenditures			
Technology Services (STS)	$ 1,026	$ 2,051	$ 2,034
Hardware Merchandising (Hillman)	2,271	2,072	1,497
Expediter (Kar)	1,023	1,693	622
Integrated Supply	252	216	277
Segment capital expenditures	$ 4,572	$ 6,032	$ 4,430

</TABLE>

21. Segment Information, continued:

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
Depreciation			
Technology Services (STS)	$ 1,578	$ 1,596	$ 1,421
Hardware Merchandising (Hillman)	1,408	1,347	747
Expediter (Kar)	1,060	981	886
Integrated Supply	124	165	124
Segment depreciation	$ 4,170	$ 4,089	$ 3,178
Geographic Segment Data:			
Net Sales			
United States	$ 508,835	$ 567,325	$ 552,617
Canada	32,415	32,968	34,022
Mexico	14,402	17,225	19,810
Consolidated net sales	$ 555,652	$ 617,518	$ 606,449
Reconciliation of Segment Profit to Income (loss) from continuing operations Before Income Taxes and Extraordinary Loss:			
Segment profit - EBITDA from continuing Operations	$ 21,154	$ 52,316	$ 52,825
Depreciation	(4,272)	(4,192)	(3,279)
Amortization	(1,847)	(1,670)	(1,370)
Corporate expenses	(9,653)	(7,165)	(7,961)
Income before non-recurring charges	5,382	39,289	40,215
Non-recurring charges:			
Gain on Curtailment of Defined Benefit Plan	5,608	--	--
Restructuring Charges and Asset Write-off	(10,248)	--	--
Provision for litigation matters - divested operations	--	(1,600)	--
Transaction and other costs	--	--	(3,053)
Management fee	--	--	(2,491)
Minority ownership expense	--	--	(263)
Income from operations	742	37,689	34,408
Interest expense, net	(9,724)	(6,838)	(7,193)
Distribution on guaranteed preferred beneficial interests	(12,232)	(12,232)	(3,058)
Income(loss)from continuing operations Before Income Taxes and Extraordinary Loss	$ (21,214)	$ 18,619	$ 24,157

	Year Ended December 31,		
	1998	1997	1996
Reconciliation of Segment Tangible Assets to Total Assets:			
Segment tangible assets	$ 190,966	$ 202,769	$ 186,305
Goodwill	51,642	54,997	50,791
Other intangible assets	762	960	16
Deferred income taxes	12,975	13,324	14,326
Cash value of life insurance	14,190	10,262	8,407

Assets held for sale	35,249	40,987	28,562
Other corporate assets	17,233	6,941	9,134
Total assets	$ 323,017	$ 330,240	$ 297,541

</TABLE>

21. Segment Information continued:

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Reconciliation of Segment Capital Expenditures to Total Capital Expenditures:			
Segment capital expenditures	$ 4,572	$ 6,032	$ 4,430
Corporate capital expenditures	183	196	130
Total capital expenditures	$ 4,755	$ 6,228	$ 4,560
Reconciliation of Segment Depreciation to Total Depreciation:			
Segment depreciation	$ 4,170	$ 4,089	$ 3,178
Corporate depreciation	102	103	101
Total depreciation	$ 4,272	$ 4,192	$ 3,279

</TABLE>

22. Sale Leaseback Transaction:

The Company sold certain real property of its Kar segment for $5,025 on September 30, 1999 which were leased back from the same purchaser under two separate lease agreements over periods of five and seven years, respectively. The related leases are being accounted for as operating leases, and the resulting gains aggregating $2,132 are being amortized over the respective lives of the leases. As of December 31, 1999, the Company has outstanding $2,027 of deferred gains relating to the sale leaseback transaction of which $372 is included in other accrued expenses and $1,655 is included in other liabilities. Both leases require the Company to pay customary operating and repair expenses and to observe certain operating restrictions.

23. Subsequent Events:

On January 10, 2000, the Company signed a letter of intent to sell its Harding Glass operation to a strategic purchaser. The transaction is expected to result in the sale of Harding's assets for cash plus the assumption of certain liabilities. SunSource recorded an expected loss on the sale of Harding in 1999 in the amount of $23,834 or $3.53 per common share. Sales from Harding were $118,282 for the year ended December 31, 1999. The Company expects to consummate the sale of Harding in the second quarter of 2000.

On March 2, 2000 the Company completed an agreement with a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). The Company contributed the interests in its Kar Products, Inc. and A & H Bolt & Nut Company Limited operations (collectively, the "Kar" business) and Glencoe contributed cash equity to the new partnership, G-C Sun Holdings L.P. ("G-C"). The Company received $105,000 in cash proceeds from the transaction though repayment of assumed debt by G-C. Affiliates of Glencoe will hold a 51% controlling interest with the remaining 49% interest held by SunSource. The Company will account for its investment in the partnership in accordance with the equity method and expects to record an after-tax gain on the transaction of approximately $51,000 in the first quarter of 2000.

(dollars in thousands)

	Deducted From Assets in Balance Sheet		
	Allowance for Doubtful Accounts	Allowance for Obsolete Inventories	Accumulated Amortization of Goodwill and Tangibles
Balance, December 31, 1996	1,810	3,228	15,787
Additions charged to cost and expenses	1,482	1,581	1,370
Deductions	1,456(A)	1,138(A)	--
Balance, December 31, 1997	1,836	3,671	17,157
Additions charged to cost and expenses	1,634	1,359	1,670
Addition due to deferred recognition of tax benefit from Conversion	--	--	--
Deductions	1,286(A)	1,584(A)	--
Balance, December 31, 1998	2,184	3,446	18,827
Additions charged to cost and expenses	1,494	4,982	1,847
Addition due to the carryforward of capital losses	--	--	--
Deductions due to:			
Sale of division	209	429	876
Others	1,197(A)	1,150(A)	--
Balance, December 31, 1999	$2,272	$6,849	$19,798

Notes:
(A) Includes write-off of accounts receivable (net of bad debt recoveries) and inventories.

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

Not applicable.

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 May 11, 2000 (the "2000 Annual Proxy Statement") is incorporated by reference herein.

Item 11 - Executive Compensation

Information under the heading "Executive Compensation" in the 2000 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 2000 Annual Proxy Statement is incorporated by reference herein.

Item 13 - Certain Relationships and Related Transactions.

Information under the heading "Certain Transactions" in the 2000 Annual Proxy Statement is incorporated by reference herein.

PART IV

Item 14 - Exhibits, Financial Statement Schedules, and Reports on Form 10-K.

(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 Contribution Agreement by and among SunSource Inc., SunSource Industrial Services Company, Inc., KAR Products Inc., A & H Holding Company, Inc., SunSource Canada Investment Company, A. & H. Bolt & Nut Company Limited and GC-Sun Holdings, L.P. dated as of February 10, 2000 (9) (Exhibit 2.1)

2.2 Amendment No. 1 to Contribution Agreement by and among SunSource Inc., SunSource Industrial Services Company, Inc., Kar Products LLC (as successor by merger to Kar Products, Inc.), A&H Holding Company, Inc., SunSource Canada Investment

Company, A. & H. Bolt & Nut Company Limited and GC-Sun Holdings, L.P. dated as of March 2, 2000. (9) (Exhibit 2.2)

**2.3 Asset Purchase Agreement by and among Lawson Products, Inc., ACS/SIMCO, Inc. and SunSource Inc. and certain subsidiaries dated as of July 1, 1999.

**2.4 Transitional Services and Supply Agreement dated as of July 1, 1999.

2.5 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)

Instruments Defining the Rights of Security Holder 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 1998 Equity Compensation Plan-Amendment to Nonqualified Stock Option Grant dated as of January 26, 2000.

** 10.2 1998 Equity Compensation Plan - Restricted Stock Grant dated as of January 26, 2000.

** 10.3 Note and Pledge Agreement between Maurice P. Andrien, Jr., and SunSource Inc. dated as of February , 2000.

** 10.4 Revolving Credit, Term Loan, Guaranty and Security Agreement between PNC, National Association (as lender and agent) and SunSource Inc. and subsidiaries dated as of December 15, 1999.

** 10.5 Employment Agreement between SunSource Inc. and Donald T. Marshall dated as of April 28, 1999.

** 10.6 Employment Agreement between SunSource Inc. and SunSource Corporate Group, Inc. and Maurice P. Andrien, Jr.

10.7 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 (8) (Exhibit 10.1)

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

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

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

Directors (3) Exhibit 10.2

10.11 *Sun Distributors Incentive Compensation Plan. (6) (Exhibit 10.5)

10.12 *Sun Distributors, Inc. Long-Term Performance Award Plan. (As Amended June 1985) (6) (Exhibit 10.6)

10.13 *SDI Operating Partners, L.P. Deferred Compensation Plan for Division Presidents (As amended September 13, 1993). (7) (Exhibit 10.7)

10.14 *SDI Operating Partners, L.P. Long-Term Performance Share Plan dated January 1, 1994. (7) (Exhibit 10.8)

10.15 *Deferred Compensation Plan for Key Employees of SDI Operating Partners, L.P. (2) (Exhibit 10.4)

Subsidiaries of the Registrant

**21.1 Subsidiaries

Consent of 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, 1999.

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(1) Filed as an exhibit to Quarterly Report on Form 10-Q 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.

(4) Filed as an exhibit to Registration Statement No. 333-19077 on Form S-4.

(5) Filed as an exhibit to Registration Statement No. 333-44733 on Form S-2.

(6) Filed on March 31, 1993, as an exhibit to Annual Report on Form 10K for the year ended December 31, 1992.

(7) Filed on March 31, 1994, as an exhibit to Annual Report on Form 10K for the year ended December 31, 1993.

(8) Filed on March 30, 1999 as an exhibit to Annual Report on Form 10K for the year ended December 31, 1998.

(9) Filed on March 17, 2000 as an exhibit to Current Report on Form 8-K

* 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.

A Current Report on Form 8-K was filed on March 17, 2000 reporting a disposition under Item 2 of form 8-K (See exhibit 2.1 and 2.2 hereto)

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 28, 2000

By:/s/ Maurice P. Andrien, Jr.
Maurice P. Andrien, Jr.
Title: 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 Maurice P. Andrien, Jr., 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/ Maurice P. Andrien, Jr. Maurice P. Andrien, Jr.	Principal Executive Officer and Director	March 28, 2000
/s/ Joseph M. Corvino Joseph M. Corvino	Principal Financial Officer	March 28, 2000
/s/ Edward L. Tofani Edward L. Tofani	Principal Accounting Officer	March 28, 2000
/s/ O. Gordon Brewer, Jr. O. Gordon Brewer, Jr.	Director	March 28, 2000

/s/ Norman V. Edmonson	Director	March 28, 2000

Norman V. Edmonson

/s/ Arnold S. Hoffman Arnold S. Hoffman	Director	March 28, 2000
/s/ Robert E. Keith, Jr. Robert E. Keith, Jr.	Director	March 28, 2000
/s/ Donald T. Marshall Donald T. Marshall	Director	March 28, 2000
/s/ John P. McDonnell John P. McDonnell	Director	March 28, 2000
/s/ Donald A. Scott Donald A. Scott	Director	March 28, 2000
/s/ Geoffrey C. Shepard Geoffrey C. Shepard	Director	March 28, 2000
/s/ Francis G. Ziegler Francis G. Ziegler	Director	March 28, 2000

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ASSET PURCHASE AGREEMENT

by and among

LAWSON PRODUCTS, INC.

ACS/SIMCO, INC.

SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.

SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC.

and

SUNSOURCE INC.

July 1, 1999

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EXHIBITS

DISCLOSURE SCHEDULES

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is made as of July 1, 1999 (this "Agreement"), by and among LAWSON PRODUCTS, INC., a Delaware corporation ("Lawson"), ACS/SIMCO INC., an Illinois corporation and indirect subsidiary of Lawson ("Purchaser" and, together with Lawson, "Purchasers"), SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC., a Delaware corporation ("Seller"), SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC., a Delaware corporation ("SISC"), and SUNSOURCE INC., a Delaware corporation ("SunSource") (SISC and SunSource are collectively referred to herein as "Parent").

W I T N E S S E T H

WHEREAS, Seller is engaged in, among other things, the businesses of selling and distributing industrial products including, but not limited to, the business of selling and distributing industrial fasteners for production and, on an ancillary basis, for maintenance and repair operations purposes, and providing inventory management and integrated supply services to original equipment manufacturer ("OEM") customers (the "Business");

WHEREAS, Seller is a wholly-owned subsidiary of SISC, which is a wholly-owned indirect subsidiary of SunSource; and

WHEREAS, on the terms and subject to the conditions of this Agreement, Purchaser desires to acquire from Seller, and Seller desires to sell to

Purchaser, substantially all of the assets and personal property of Seller related to the Business, both tangible and intangible, as described herein on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties agree as follows:

ARTICLE 1.

PURCHASE AND SALE OF ASSETS

1.1 Purchased Assets. On the terms and subject to the conditions of this Agreement, at the Closing (as defined in Section 8.1), Purchaser shall purchase from Seller, and Seller shall sell, convey, assign, transfer and deliver to Purchaser, all of Seller's right, title and interest in and to all properties, assets, rights and interests of every kind and nature, whether real or personal, tangible or intangible, and wherever located and by whomever possessed, owned by Seller as of the Closing or arising therefrom or in connection therewith, related to or used in, or otherwise associated with, the Business, including, without limitation, all of the following assets (but excluding all Excluded Assets as defined in Section 1.2 below):

(1) all accounts and notes receivable (whether current or noncurrent) as of the Closing Date (collectively referred to herein as the "Receivables"), a list, description and aging of which as of May 31, 1999, is set forth on the "Receivables Schedule" attached hereto as Schedule 1.1(a);

(2) all prepayments, prepaid expenses, deferred charges, advance payments and security deposits as of the Closing Date;

(3) all inventories and related supplies;

(4) all interests in leased real estate (including, without limitation, land, buildings and improvements), whether any such buildings or improvements are owned in fee, leased or otherwise, including but not limited to, the leases of the real estate and all buildings located thereon, which are described in the "Leases Schedule" attached hereto as Schedule 1.1(d);

(5) all interests in plant, machinery and equipment, fixtures, fittings, furniture, automobiles, trucks, tractors, trailers and other vehicles, tools, spare parts and supplies and other tangible personal property, whether owned, leased or otherwise (including, without limitation, items which have been fully depreciated or expensed), including, without limitation, such items as are set forth in the "Equipment Schedule" attached hereto as Schedule 1.1(e);

(6) all insurance reserves and deposits (including, without limitation, reserves and deposits relating to workmen's compensation) included in the Latest Balance Sheet (defined below);

(7) all intangible assets and intellectual property (including, without limitation, registered and unregistered trademarks, service marks and trade names, trade dress and other names, marks and slogans, including the name "SIMCO" and all variations and permutations thereof except as otherwise specifically provided in Section 1.2 hereof), all publishing and distribution rights, and all associated goodwill; all statutory, common law and registered copyrights; all inventions, shop rights, know-how, trade secrets and confidential information; and all registration applications for any of the foregoing; together with all rights to use all of the foregoing forever and all other rights in, to, and under the foregoing in all countries (collectively, the "Proprietary Rights");

(8) all discoveries, improvements, processes, formulae (secret or otherwise), data, confidential information, engineering, technical and shop drawings, specifications and ideas, whether patentable or not, all licenses and other similar agreements, and all drawings, records, books or other indicia, however evidenced, of the foregoing;

(9) all rights existing under contracts, leases, licenses, permits, supply and distribution arrangements, sales and purchase agreements and orders, employment and consulting agreements, consignment arrangements, warranties, consents, orders, registrations, privileges, franchises, memberships, certificates, approvals or other similar rights and all other agreements, arrangements and understandings, including, without limitation, all rights existing under the contracts listed on the Contracts Schedule and the Customer Contracts Schedule (as defined in Section 3.12 hereto);

(10) the right to receive all mail and other communications addressed to Seller (including, without limitation, mail and communications from customers, suppliers, agents and others and accounts receivable payments);

(11) all lists and records pertaining to customers, suppliers, personnel and agents and all other books, ledgers, files, documents, correspondence, plats, architectural plans, drawings and specifications, computer programs and business records of every kind and nature;

(12) all business and marketing plans and proposals and pricing and cost information;

(13) all computer software and systems, including licenses related thereto, proprietary or otherwise, and related source codes, data and documentation;

(14) all creative materials (including, without limitation, photographs, films, art work, color separations and the like), advertising and promotional materials and all other printed or written materials;

(15) all claims, refunds, causes of action, choses in action, rights of recovery and rights of set-off of every kind and nature;

(16) all goodwill as a going concern and all other intangible property;

(17) all interest in and to telephone numbers, property addresses, e-mail addresses and all listings pertaining to Seller in all telephone books and other directories and other communications media, except those to be retained by The Hillman Group, Inc. as set forth in the "Hillman Retained Property Schedule" attached hereto as Schedule 1.1(q) ;

(18) certain assets used by Seller to conduct the "Hillman Industrial" division business of Seller as set forth in the "Hillman Equipment Schedule" attached hereto as Schedule 1.1(r); and

(19) all other property not referred to above which is represented on Seller's Latest Balance Sheet (as defined in Section 3.4) or acquired by Seller thereafter (except for such property which has been sold or otherwise disposed of in the ordinary course of business).

For purposes of this Agreement, the term "Purchased Assets" means all properties, assets and rights which Seller shall convey to Purchaser or shall be obligated to convey to Purchaser under this Agreement.

1.2 Excluded Assets. Notwithstanding the foregoing, the following assets (the "Excluded Assets") are expressly excluded from the purchase and sale contemplated hereby and, as such, are not included in the Purchased Assets:

(1) the minute books, capital stock records, certificate of incorporation, by-laws and corporate seal of Seller, together with annual and other corporate reports filed with the State of Delaware and other states in which Seller is qualified to do business and other documents and correspondence that relate to Seller's corporate organization and maintenance thereof;

(2) the assets of Seller relating to the maintenance and repair operations ("MRO") with respect to Seller's four integrated supply accounts (the "MRO Accounts"), each of which is specifically identified on the "MRO Schedule" attached hereto as Schedule 1.2(b);

(3) all rights of Seller and Parent with respect to the claims, refunds, causes of action, choses in action, rights of recovery, rights of set-off and all other rights and assets of every kind and nature related to the Excluded Liabilities;

(4) the name "SIMCO de Mexico" in the country of Mexico and the names "Hillman", "The Hillman Group" and "SunSource Inventory Management Company";

(5) all of Seller's tax records and all receivables and rights to payment or refund to Seller or its affiliates relating to federal, state, foreign or local income taxes and other taxes;

(6) all monies to be received by Seller from Purchaser and all other rights of Seller and Parent under this Agreement; and

(7) all cash, cash equivalents and marketable securities.

1.3 Assumption of Liabilities. Subject to the conditions specified in this Agreement, on the Closing Date, Purchaser shall assume and agree to pay, defend, discharge and perform as and when due only the following liabilities and

obligations of Seller, but only to the extent that Seller's rights and benefits under such agreements, leases, contracts and commitments have been validly assigned to Purchaser pursuant to this Agreement and are in full force and effect in accordance with their respective terms (the "Assumed Liabilities"):

(1) liabilities and obligations under the agreements, leases, contracts and commitments listed on the Leases Schedule, the Contracts Schedule and the Customer Contracts Schedule for any activity following the Closing Date (excluding any liability or obligation for any breach thereof occurring prior to the Closing Date);

(2) those certain liabilities and obligations reflected in the Latest Balance Sheet and listed on the "Assumed Liabilities Schedule" attached hereto as Schedule 1.3 and liabilities and obligations of the same types that have arisen in the ordinary course of business since the date of the Latest Balance Sheet (other than any liability or obligation for a breach of contract, breach of warranty, tort, infringement, claim or lawsuit).

1.4 Excluded Liabilities. Notwithstanding anything to the contrary contained in this Agreement, Purchaser shall not assume or be liable for any liabilities or obligations of Seller other than the Assumed Liabilities, and all such other liabilities or obligations shall be the responsibility of Seller (the "Excluded Liabilities").

ARTICLE 2.

CONSIDERATION FOR THE PURCHASED ASSETS

1.5 Purchase Price. In addition to the assumption of the Assumed Liabilities, the aggregate purchase price for the Purchased Assets shall be an amount equal to Ten Million and no/100 Dollars ($10,000,000) (the "Purchase Price"), as adjusted pursuant to Section 2.3 hereof, which shall be payable to Seller on the Closing Date by wire transfer of immediately available funds to such account or accounts as shall have been designated in writing by Seller not less than three (3) days prior to the Closing Date.

The sum of Five Hundred Thousand and no/100 Dollars ($500,000) shall be held back from the Purchase Price paid to Seller at Closing and deposited into an escrow account to be established pursuant to that certain escrow agreement in the form of Exhibit A attached hereto (the "Escrow Agreement"), with such changes as LaSalle National Bank, as the escrow agent (the "Escrow Agent"), may request, to secure payment of (a) the Purchase Price Adjustment (defined below), if any, (b) uncollectible Receivables pursuant to Section 2.6 hereof, (c) the Warranty Deficiency, if any, under Section 2.7, and (d) any amounts due and owing to Purchaser under the Transition Agreement (as hereinafter defined). Such sum shall be held in escrow until the later of the date on which the Purchase Price Adjustment is fully and finally determined as provided below and one hundred eighty (180) days after the Closing Date. The escrow deposit shall be disbursed in accordance with Sections 2.3, 2.6 and 2.7 and shall be subject to offset pursuant to Sections 2.6 and 2.7.

1.6 Purchase Price Allocation. The Purchase Price shall be allocated among the Purchased Assets as set forth in Exhibit B attached hereto. The parties agree that the allocation set forth in Exhibit B shall be used by them and respected for all purposes, including income tax purposes if in conformance with the rules and regulations of the Internal Revenue Code of 1986, as amended (the "Code"), and that the parties shall follow such allocation for all reporting purposes, including, without limitation, Internal Revenue Service ("IRS") Form 8594.

1.7 Purchase Price Adjustment. The Purchase Price set forth in this Agreement is based upon the assumption that the "Tangible Net Worth" of the Business as of the Closing Date will equal or exceed Six Million Six Hundred Thousand and no/100 Dollars ($6,600,000). For purposes of this Agreement, "Tangible Net Worth" shall be defined as the total of accounts receivable, net of adequate reserves for doubtful accounts, plus inventory at the lower of cost or market, net of reserves for obsolete and slow-moving accounts of not less than $422,000 and reflecting a reduction of $44,000 from the Latest Balance Sheet for "scrapped" inventory, plus property and equipment at cost, net of accumulated depreciation, plus any other tangible Purchased Assets at their historical cost net of any applicable reserves, minus all Assumed Liabilities in accordance with Section 1.3(b). For purposes of this definition, all amounts included in this calculation shall be determined in accordance with generally accepted accounting principles, consistently applied and consistent with the Latest Balance Sheet, as adjusted. Following the Closing, the Purchase Price will be adjusted based on the closing Tangible Net Worth of the Business as determined in accordance with Sections 2.3 and 2.4 (the "Closing Tangible Net

Worth"). If the Closing Tangible Net Worth is less than Six Million Six Hundred Thousand Dollars ($6,600,000), the Purchase Price shall be decreased by the amount of such deficiency. If the Closing Tangible Net Worth is greater than Six Million Six Hundred Thousand Dollars ($6,600,000), the Purchase Price shall be increased by the amount of such excess. Such deficiency and such excess are herein referred to as the "Purchase Price Adjustment."

Upon the final determination of the Closing Tangible Net Worth, Purchaser and Seller shall, if necessary, recompute the Purchase Price based upon the Closing Tangible Net Worth as finally determined. If the Purchase Price Adjustment shall decrease the Purchase Price (a "Purchase Price Reduction"), Seller and Parent shall be jointly and severally liable to pay the Purchase Price Reduction to Purchaser. Such obligation shall be satisfied first from any remaining balance of the escrow deposit. Following such final determination of the Closing Tangible Net Worth, Seller and Purchaser shall cause a joint written instruction to be delivered pursuant to the terms of the Escrow Agreement instructing the Escrow Agent to pay to Purchaser the Purchase Price Reduction. To the extent that the then remaining balance of the escrow deposit may be insufficient to pay the Purchase Price Reduction, the Seller and Parent shall be jointly and severally responsible to pay such amount to Purchaser within three (3) business days after the final determination of the Closing Tangible Net Worth. If the Purchase Price Adjustment shall increase the Purchase Price (a "Purchase Price Increase"), Purchasers shall be jointly and severally liable to pay the Purchase Price Increase to Seller within three (3) business days after the final determination of the Closing Tangible Net Worth. In addition, upon the later of (a) one hundred eighty (180) days from the Closing Date and (b) three (3) days after the final determination of the Purchase Price Adjustment, Seller and Purchaser shall cause a joint written instruction to be delivered pursuant to the terms of the Escrow Agreement instructing the Escrow Agent to pay to Seller the then remaining balance of the escrow deposit, if any, net of any amount to be paid to Purchaser with respect to uncollectible Receivables under Section 2.6, the Warranty Deficiency under Section 2.7 and any amounts due and owing to Purchaser under the Transition Agreement (as hereinafter defined).

1.8 Procedures for Final Determination of Closing Tangible Net Worth. Within forty-five days after the Closing Date, Seller shall prepare and deliver to Purchaser an unaudited balance sheet for the Business as of the opening of business on the Closing Date as determined in accordance with Section 2.3 (the "Closing Balance Sheet"). Within the later of 30 days after Purchaser's receipt of the Closing Balance Sheet or 75 days after the Closing Date, Seller's and Purchaser's respective independent certified public accountants (the "Auditors") shall each prepare a statement setting forth the Closing Tangible Net Worth for the Business and deliver it to the Seller and Purchaser. The Seller shall make available to the Purchaser, Auditors and other representatives the workpapers used in preparing the Closing Balance Sheet and such other documents as the Purchaser and Auditors may reasonably request. The Auditors shall consult with each other during their preparation of the statement of Closing Tangible Net Worth and shall mutually agree on the audit procedures ("Agreed Upon Procedures") to be applied to the Closing Balance Sheet in preparation of the statement of Closing Tangible Net Worth. If the Auditors agree on the final Closing Tangible Net Worth, they shall deliver their mutually approved determination thereof to Seller and Purchaser. If the Auditors cannot agree on the final Closing Tangible Net Worth, then each Auditor shall deliver to the Seller and Purchaser its own determination of Closing Tangible Net Worth. Within thirty (30) days after the receipt of the statement of Closing Tangible Net Worth, Seller and Purchaser shall deliver to each other a detailed written statement describing its objections, if any, to the Closing Tangible Net Worth. If Seller or Purchaser does not raise any objections within such thirty (30) day period, the Closing Tangible Net Worth shall become final and binding upon all parties. If Seller or Purchaser does raise any objections, Seller and Purchaser shall use reasonable efforts to resolve any such disputes. If a final resolution is not obtained within thirty (30) days after Seller or Purchaser shall have submitted its objections to each other, any remaining disputes shall be resolved by an accounting firm mutually agreeable to Seller and Purchaser. If Seller and Purchaser are unable to mutually agree on such an accounting firm within five (5) days after the expiration of said thirty (30) day period, a "big-five" accounting firm shall be selected by lot after elimination of one firm designated as objectionable by each of Seller and Purchaser. The determination of the accounting firm so selected shall be set forth in writing and shall be conclusive and binding upon the parties, and the fees and expenses of such accounting firm shall be paid one-half by Seller and one-half by Purchaser.

1.9 Closing Tangible Net Worth Definition. For purposes hereof, the Closing Tangible Net Worth shall be determined as of the opening of business on the Closing Date and shall be equal to the Tangible Net Worth at such time. The Net Worth reports shall be prepared, and the Closing Tangible Net Worth shall be determined, in accordance with GAAP applied consistently with the Latest Balance Sheet.

1.10 Uncollectible Accounts Receivable. If, within ninety (90) days after the Closing Date, Purchaser is unable to collect any of the Receivables or the AFI Industries, Inc. vendor receivable sold to Purchaser hereunder, Purchaser shall so notify Seller (the "AR Notice") and reconvey and assign to Seller such uncollectible Receivables, and Seller and Parent shall be jointly and severally liable to reimburse Purchaser therefor at the value of such uncollectible Receivables shown on Seller's books and records used for the purpose of determining Closing Tangible Net Worth, net of (a) any reserve for doubtful accounts on the Closing Balance Sheet (including any reserve specifically identifiable to Labconco Corporation) and (b) any payments received by Purchaser during such 90-day period with respect to accounts receivable previously written off by Seller prior to the Closing Date (the "Receivables Deficiency"). Such reimbursement obligation shall be satisfied first from any remaining balance of the escrow deposit pursuant to Section 2.1. No later than five (5) days after delivery of the AR Notice, Seller and Purchaser shall cause a joint written instruction to be delivered pursuant to the terms of the Escrow Agreement instructing the Escrow Agent to pay to Purchaser the Receivables Deficiency. To the extent that the then remaining balance of the escrow deposit is insufficient to pay the Receivables Deficiency, Seller and Parent shall be jointly and severally liable to pay such amount to Purchaser within five (5) business days after receipt of the AR Notice under this Section 2.6. In determining which Receivables shall be uncollectible, Purchaser shall credit any payments received from a particular customer against the oldest Receivable outstanding from such customer, and Purchaser shall exclude any Receivables the value of which was excluded from the determination of the Closing Tangible Net Worth. In addition, Purchaser shall use commercially reasonable efforts to collect the Receivables during such 90-day period and shall not take or omit to take any actions with respect to the obligors thereunder that would permit such obligors to pay any portion of their respective Receivables after expiration of such 90-day period.

1.11 Warranty Claims. If, within ninety (90) days after the Closing Date, Purchaser is unable to sell or return to Seller's vendors any of the inventory on-hand as of the Closing Date specifically held on behalf of any of the claimants listed on the "Warranty Claims Schedule" attached hereto as Schedule 2.7 (the "Warranty Claim Inventory"), Purchaser shall give Seller notice thereof (the "Warranty Notice") and assign, convey and transfer to Seller any such Warranty Claim Inventory. Seller and Parent shall be jointly and severally liable to repurchase any Warranty Claim Inventory then remaining for an amount equal to the value of such Warranty Claim Inventory shown on Seller's books and records used for the purpose of determining Closing Tangible Net Worth, net of any specific Warranty Reserve that is part of the Closing Tangible Net Worth (the "Warranty Deficiency") within five (5) business days after delivery of the Warranty Notice. If Purchaser incurs any costs associated with returning Warranty Claim Inventory to Seller's vendors, including, but not limited to, re-stocking fees and other related costs, then Seller shall reimburse Purchaser promptly when presented with Purchaser's invoices therefor. The repurchase obligation of Seller and Parent provided in this Section 2.7 shall be satisfied first from any remaining balance of the escrow deposit pursuant to Section 2.1. Within five (5) days after delivery of the Warranty Notice, Seller and Purchaser shall cause a joint written instruction to be delivered to the Escrow Agent pursuant to the terms of the Escrow Agreement to pay to Purchaser the Warranty Deficiency. To the extent the remaining balance of the escrow deposit is insufficient to pay the Warranty Deficiency, Seller and Parent shall be jointly and severally liable to pay such amount to Purchaser within five (5) business days after receipt of the Warranty Notice.

ARTICLE 3.

REPRESENTATIONS AND WARRANTIES OF SELLER AND PARENT

As an inducement to Purchaser to enter into this Agreement, Seller and Parent, jointly and severally, hereby represent and warrant to Purchasers as of the date hereof and as of the Closing Date that:

1.12 Organization and Power. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and Seller is qualified to do business as a foreign corporation and is in good standing and pays taxes in the jurisdictions specified on the "Qualifications Schedule" attached hereto as Schedule 3.1, which are all jurisdictions in which the ownership of Seller's properties or the conduct of Seller's business requires Seller to be so qualified. Seller has all requisite power and authority and all material licenses, permits and other authorizations necessary to own and operate its properties and to carry on its businesses as now conducted as they

relate to the Business. The copies of the certificate of incorporation and by-laws of Seller which have been previously furnished to Purchaser reflect all amendments made thereto at any time prior to the date of this Agreement and are correct and complete in all material respects. On the date hereof (a) SunSource indirectly owns, and on the Closing Date shall indirectly own, all of the issued and outstanding capital stock of SISC, and (b) SISC owns, and on the Closing Date shall own, all of the issued and outstanding capital stock of Seller.

1.13 Subsidiaries. Seller owns no stock, partnership interest, joint venture interest or other security or interest in any corporation, organization or entity.

1.14 Authorization; No Breach. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby and the transactions contemplated hereby and thereby have been duly and validly authorized by Seller, Parent and SISC. No other corporate act or proceeding on the part of Seller or Parent or their respective Boards of Directors is necessary to authorize the execution, delivery or performance of this Agreement, any other agreement contemplated hereby or the consummation of the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Seller and Parent, and this Agreement constitutes and the other agreements contemplated hereby upon execution and delivery by Seller and Parent shall each constitute, a valid and binding obligation of Seller and Parent, enforceable in accordance with their respective terms. Except for the consents from the parties to the contracts identified on Schedule 3.16 (other than the "Material Consents" which are conditions to Closing under Section 6.1(d)), the execution, delivery and performance of this Agreement and the other agreements contemplated hereby by Seller and Parent and the consummation of the transactions contemplated hereby and thereby do not and shall not (a) conflict with or result in any breach of any of the provisions of, (b) constitute a default under, result in a violation of, or cause the acceleration of any obligation under, (c) result in the creation of any lien, security interest, charge or encumbrance upon any of the Purchased Assets under, or (d) require any authorization, consent, approval, exemption or other action by or notice to any court or other governmental body under the provisions of Seller's or Parent's certificate of incorporation or by-laws or any indenture, mortgage, lease, loan agreement or other agreement or instrument to which Parent or Seller is bound or affected or any law, statute, rule, regulation, judgement, order or decree to which Parent or Seller is subject or by which any of the Purchased Assets is bound.

1.15 Financial Statements. Seller has furnished Purchaser with copies of (a) its unaudited balance sheets of the Business as of December 31, 1998 and as of March 31, 1999 (the "Latest Balance Sheet") and the related unaudited income statements for the twelve month period ended December 31, 1998 and the 3-month period ended March 31, 1999 (collectively with the Latest Balance Sheet, the "Seller Statements") and (b) the audited balance sheet of Parent as of December 31, 1998 and the related audited financial statements for the fiscal years then ended. Each of the Seller Statements has been based upon the information contained in Seller's books and records (which are accurate and complete in all material respects) and accurately and completely present the financial condition and results of operations of the Business as of the times and for the periods referred to therein, and such financial statements contain proper accruals and adequate reserves and have been prepared in accordance with generally accepted accounting principles, consistently applied throughout the periods indicated, except for normal year-end adjustments, the absence of footnotes and as otherwise noted therein.

1.16 Absence of Undisclosed Liabilities. Except as disclosed in the "Outstanding Liabilities" Schedule attached hereto as Schedule 3.5, as of the Closing, Seller shall have no liabilities or obligations with respect to the Business whether accrued, absolute, contingent, unliquidated or otherwise, whether or not known to Seller, whether due or to become due, arising out of or related to transactions entered into at or prior to the Closing, or out of any action or inaction by Seller, Parent, SISC or any employee, agent, licensee or contractor of any of them at or prior to the Closing, or out of any state of facts existing at or prior to the Closing, regardless of when any such liability or obligation is asserted, including, without limitation, taxes with respect to or based upon transactions or events occurring on or before the Closing, except (a) liabilities and obligations under agreements, contracts, leases or commitments described on the Leases Schedule (as defined in Section 3.8(b) hereof) and the Contracts Schedule (as defined in Section 3.12 hereof) or under agreements, leases, contracts and commitments which are not required pursuant to this Agreement to be disclosed thereon (but not liabilities for breaches thereof), (b) liabilities and obligations reflected on the Latest Balance Sheet, (c) liabilities and obligations which have arisen after the date of the Latest Balance Sheet in the ordinary course of business (none of which is a liability for breach of contract, breach of warranty, tort, infringement, claim or lawsuit), and (d) liabilities and obligations otherwise expressly disclosed in this Agreement or the "Assumed Liabilities Schedule" attached hereto as Schedule 1.3.

1.17 No Material Adverse Changes. Since the date of the Latest Balance Sheet through the date hereof, there has been no material adverse change in the financial condition, operating results, assets, operations, employee relations or customer relations of the Business.

1.18 Absence of Certain Developments. Since the date of the Latest Balance Sheet, Seller has not:

(1) borrowed or agreed to borrow any amount or incurred or become subject to any material liabilities, except current liabilities incurred in the ordinary course of business and liabilities under contracts entered into in the ordinary course of business;

(2) discharged or satisfied, or agreed to discharge or satisfy, any material lien or encumbrance or paid any material liability, other than current liabilities paid in the ordinary course of business;

(3) mortgaged, pledged or subjected to any lien, charge or any other encumbrance, any portion of the Purchased Assets, except liens for current property taxes not yet due and payable;

(4) sold, assigned or transferred, or agreed to do so, any of the Purchased Assets, except in the ordinary course of business or canceled without fair consideration any material debts or claims owing to or held by it;

(5) sold, assigned, transferred, abandoned or permitted to lapse any patents, trademarks, trade names, copyrights, trade secrets or other intangible assets, or disclosed any material proprietary confidential information to any person;

(6) made or granted, or agreed to make or grant, any bonus or any wage or salary increase to any employee or group of employees or made or granted any increase in any employee benefit plan or arrangement (except in accordance with past custom and practice), or amended or terminated, or agreed to terminate or amend, any existing employee benefit plan or arrangement or adopted any new employee benefit plan or arrangement;

(7) made, or agreed to make, any capital expenditures or capital commitments therefor that aggregate in excess of $10,000 without Purchaser's prior written approval;

(8) made, or agreed to make, any loans or advances to, or guarantees for the benefit of, any persons;

(9) suffered any extraordinary losses or waived any rights of material value with respect to the Purchased Assets or the Assumed Liabilities, whether or not in the ordinary course of business or consistent with past practice;

(10) entered into, or agreed to enter into, any other transaction other than in the ordinary course of business;

(11) made, or agreed to make, any charitable contributions or pledges other than in accordance with past practices and in excess of $5,000 in the aggregate;

(12) suffered any damage, destruction or casualty loss to the Purchased Assets, whether or not covered by insurance;

(13) made any purchase commitment of services or goods in excess of the then current market price therefor or upon terms and conditions more onerous than those usual and customary in the industry, or made any change in its selling, pricing, advertising or personnel practice inconsistent with its prior practice and prudent business practices prevailing in the industry; or

(14) made, or agreed to make, any declaration or payment to its stockholder of any non-cash dividend or other non-cash distribution in respect to its stock.

1.19 Title and Condition of Properties.

(1) Seller owns no real estate.

(2) The leases described on the "Leases Schedule" attached hereto as Schedule 1.1(d) (individually, a "Lease" and, collectively, the "Leases") are in full force and effect, and Seller (as indicated on such schedule) holds a valid and existing leasehold interest under each of the Leases for the term set

forth on the Leases Schedule. The Leases constitute all of the leases under which Seller holds a leasehold interest in real estate. Seller has delivered to Purchaser complete and accurate copies of each of the Leases, and none of the Leases has been modified in any respect, except to the extent that such modifications are disclosed by the copies delivered to Purchaser. Seller is not in default under any of the Leases, and no other party to the Leases has the right to terminate, accelerate performance under or otherwise modify any of the Leases, including upon the giving of notice or the passage of time. To the best of Seller's knowledge, no third party to any Lease is in default under such Lease. At the Closing, Seller shall assign and legally transfer to Purchaser its leasehold interest in the Leases, subject to obtaining the consent of the lessor under each of the Leases if required by the terms of the applicable Lease or governing law, free and clear of all liens, security interests, charges and other encumbrances.

(3) The real estate demised by the Leases constitutes all of the real estate used or occupied by Seller, and no other real estate is necessary for the conduct of the Business in the manner conducted by Seller.

(4) Seller owns good and marketable title, free and clear of all liens, charges, security interests, encumbrances, encroachments and claims of others, to all of the personal property and assets shown on the Latest Balance Sheet or acquired thereafter in the ordinary course of business (or otherwise with Purchaser's approval) or located on any of its premises, except for liens of current taxes not yet due and payable (which shall be pro-rated) and liens disclosed on the Latest Balance Sheet. At the Closing, Seller shall sell, assign, transfer and convey to Purchaser by customary bill of sale good and marketable title to all of the personal property included within the Purchased Assets, free and clear of all liens, security interests, charges, encumbrances and claims of others, other than liens for current taxes not yet due and payable.

(5) Seller's buildings, machinery, equipment and other tangible assets used in the operation of the Business (including, without limitation, the equipment listed in Schedule 1.1(e)) are in good operating condition and repair, have been maintained in accordance with normal industry standards and are usable in the ordinary course of business. Seller owns or leases under valid leases all buildings, machinery, equipment and other tangible assets necessary for the conduct of the Business in the manner conducted by Seller.

(6) Seller is not aware of any violation of any applicable zoning, building, fire or other ordinance or other law, regulation or requirement relating to the operation of any of its leased or occupied properties, including, without limitation, any applicable environmental protection or occupational health and safety laws and regulations ("OSHA") except for any non-OSHA violations that, in the aggregate, would not have a material adverse effect on the Business. Within the three (3) years prior to the date of this Agreement, neither Seller nor Parent has received any written notice of any such violation (except with respect to any non-OSHA violation that no longer exists) or any condemnation proceeding with respect to any properties used or leased by Seller.

1.20 Accounts Receivable. All accounts receivable of Seller reflected on the Latest Balance Sheet, and to be reflected on its books of the Closing Date, are and shall be valid receivables, and are and shall be subject to no valid counterclaims or setoffs in excess of any reserves therefor.

1.21 Inventories and Specifications.

(1) Seller's inventories reflected on the Latest Balance Sheet and as of the Closing Date, net of any applicable reserve for slow-moving, obsolete or damaged goods established consistent with past practices, consisted and shall consist of a quality and quantity usable and saleable in the ordinary course of business, net of such reserve, and otherwise were not and will not be slow-moving, obsolete or damaged. All of such inventory was and will be valued using the first-in, first-out method of valuation, and consisted and will consist of items which are of merchantable quality, in good, salable and usable condition, net of such reserve, and were and will be salable in the ordinary course of business, net of such reserve. All such inventory was and will be located on the Seller's owned or leased premises, except such thereof as is in the process of being delivered to or, pursuant to a consignment agreement or customized inventory management system agreement, is located at a customer's facility.

(2) Seller's inventories reflected on the Latest Balance Sheet and as of the Closing Date met or exceeded and meets or exceeds Industrial Fastener Industry ("IFI") standards or specifications and/or any specifications designated by a customer drawing, blueprint or purchase order for which it was purchased.

1.22 Tax Matters.

(1) Each of Parent and Seller has duly filed all federal, foreign, state and local tax information and tax returns of any and every nature and description with respect to the Business (the "Returns") and required to be filed by it (all such returns being accurate and complete in all respects) and has duly paid or made provision for the payment of all taxes and other governmental charges (including without limitation any interest, penalty or additions to tax thereto) which have been incurred or are shown to be due on said Returns or are claimed in writing to be due from or imposed on Seller or Parent or their respective properties, assets, income, franchises, leases, licenses, sales or use with respect to the Business by any federal, state, local or foreign taxing authorities (collectively, the "Taxes") on or prior to the date hereof, other than Taxes which are being contested in good faith and by appropriate proceedings and as to which each of Parent and Seller has set aside on its books adequate reserves or which may be attributable to the transactions contemplated hereby. The amounts recorded as reserves for Taxes on a gross or net basis on the Latest Balance Sheet are sufficient in the aggregate for payment by Seller of all unpaid Taxes (including any interest or penalties thereon) for the period ended as of the date of the Latest Balance Sheet or for any year or period prior thereto. Neither the IRS nor any state, local or foreign taxing authority has ever examined any income tax return of Parent or Seller with respect to the Business, whether singly or as a member of an affiliated group, except as otherwise specifically disclosed on the "Tax Matters Schedule" attached hereto as Schedule 3.11, which sets forth the date or dates since December 31, 1991, through which any foreign, state, local or other taxing

authority has examined or is in the process of examining any foreign, state, local or other returns with respect to the Business of Parent or Seller. Except as set forth on the "Tax Matters Schedule", neither the IRS nor any foreign, state, local or other taxing authority is in the process of examining any federal, foreign, state, local or other tax return of Parent or Seller. There are no disputes pending, or claims asserted, for Taxes upon Parent or Seller. Neither Parent nor Seller has been required to give any currently effective waivers extending the statutory period of limitation applicable to any foreign, federal, state or local return or for any period or agreed to an extension of time with respect to a Tax assessment or deficiency. Neither Parent nor Seller has in effect any power of attorney or authorization to anyone to represent it with respect to any Taxes. No claim has ever been made by an authority in a jurisdiction where Parent or Seller does not file Returns that Parent or Seller is or may be subject to taxation by that jurisdiction. Neither Parent nor Seller has filed any consolidated federal income tax return with an "affiliated group" (within the meaning of Section 1504 of the Code), where Seller was not the common parent of the group. Neither Parent nor Seller is or has been, a party to any tax allocation agreement or arrangement pursuant to which it has any contingent or outstanding liability to anyone. Neither Parent nor Seller has any liability for Taxes as a transferee of, or successor to, any other person. Neither Parent nor Seller has filed a consent under Section 341(f) of the Code. Parent and Seller have provided to Purchaser or its representatives complete and correct copies of its federal, state and local income tax returns filed on or prior to the date hereof and all examination reports, if any, relating to the audit of such returns by the IRS or other tax authority for each taxable year beginning on or after January 1, 1993. Except as disclosed in Schedule 3.11, there exists no proposed assessment against Parent or Seller or notice, whether formal or informal, of any deficiency or claim for additional Tax (including, without limitation, interest, additions to tax or penalties).

(2) All monies required to be withheld from employees, independent contractors, stockholders, or creditors of Seller for Taxes, including, but not limited to, income taxes, back-up withholding taxes, social security and unemployment insurance taxes or collected from customers or others as Taxes, including, but not limited to, sales, use or other taxes, have been withheld as appropriate and collected and paid, when due, to the appropriate governmental authority, or if such payment is not yet due, an adequate reserve has been established for such Taxes.

(3) Seller has not made any payments, is not obligated to make any payments, nor is Seller a party to any agreement that could obligate it to make any payments that will not be deductible under Code Section 280G. Seller has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Seller has not acquired any United States real property interest, as defined in Code Section 897(c), from a foreign person without complying with the withholding requirements contained in Code Section 1445.

1.23 Contracts and Commitments.

(1) Except as set forth in Section 3.18 or in the "Contracts Schedule" attached hereto as Schedule 3.12(a) or in the "Customer Contracts Schedule" attached hereto as Schedule 3.12(d), and except for any contract entered into in the ordinary course of the Business as to which Seller's remaining obligation is less than $10,000 as of the date hereof (provided that all of such contracts do not exceed $50,000 in the aggregate), Seller is not a party to or bound by any:

(1) bonus, pension, profit sharing, retirement or deferred compensation plan or stock purchase, stock option, hospitalization insurance or similar plan or practice, whether formal or informal, or severance agreements or arrangements or contracts requiring Seller to pay post-retirement medical benefits;

(2) contract with any labor union or contract for the employment of any officer, individual employee or other person on a full-time, part-time or consulting basis;

(3) agreement or indenture relating to the borrowing of money or to mortgaging, pledging or otherwise placing a lien on any of the Purchased Assets;

(4) guarantee of any obligation for borrowed money or otherwise, other than endorsements made for collection in the ordinary course of business;

(5) agreement or commitment with respect to the lending or investing of funds to or in other persons or entities;

(6) license or royalty agreement;

(7) lease or agreement under which it is lessee of or holds or operates any personal property owned by any other party;

(8) lease or agreement under which it is lessor of or permits any third party to hold or operate any property, real or personal, owned or controlled by it;

(9) contract or group of related contracts with the same party for the purchase or sale of products or services other than the Customer Contracts (as defined in Section 3.12(d) hereof);

(10) other contract with any party continuing over a period of more than six months from the date or dates thereof, not terminable by it on thirty (30) days' or less notice without penalties;

(11) contract which prohibits it from freely engaging in business or in any way restrains its business activities anywhere in the world;

(12) contract relating to the distribution of its products;

(13) contract with any officer, director, partner, shareholder or other insider; or

(14) other agreements whether or not entered into in the ordinary course of business.

(2) Except as specifically disclosed in the Contracts Schedule, (i) to Seller's knowledge, no contract or commitment has been breached in any respect or canceled by the other party, (ii) since the date of the Latest Balance Sheet, no supplier has notified Seller that it shall stop or decrease in any material respect the rate of business done with Seller, (iii) Seller has in all material respects performed all the obligations required to be performed by it to the date of this Agreement and is not in receipt of any claim of default under any material lease, contract, commitment or other agreement to which it is a party; and (iv) no event has occurred which with the passage of time or the giving of notice or both would result in a material breach or default under any lease, contract, instrument or other agreement to which Seller is a party.

(3) Purchaser has been supplied with a true and correct copy of all written contracts which are referred to on the Contract Schedule, together with all amendments, waivers or other changes thereto.

(4) Seller has no knowledge of any (i) pending or threatened termination, cancellation, limitation, modification or change in any of Seller's business relationship with any customer or group of customers related to the Business or (ii) changes or pending changes in any law, rule, regulation, technology, or business relationship or other circumstance that is reasonably likely to result in the loss of any customers related to the Business after the date hereof. Each contract, agreement or lease with customers of Seller relating to the Business ("Customer Contracts") is in one of the forms attached to the

"Customer Contract Schedule" attached hereto as Schedule 3.12(d), except for completion of blanks and has not been modified with respect to the limitations on liability or service charge increase provisions, whether in writing, orally, by course of dealings or otherwise, and Seller is not providing or obligated to provide goods or services to others except pursuant to a written contract in

such form in each case. Except as indicated on the Customer Contract Schedule, (A) to the Seller's knowledge, each of the Customer Contracts is valid, enforceable and in full force and effect in accordance with the terms thereof, (B) to the Seller's knowledge, there is no existing material default or event or condition which, with notice or lapse of time or both, would constitute an event of material default under any Customer Contract, (C) no Customer Contract has been amended, modified, supplemented or otherwise altered orally, in writing or by course of conduct, (D) except as set forth on Schedule 3.12(d), no Customer Contract requires the consent of the Customer or any other party to affect a valid assignment thereof to Purchaser without causing a default or giving rise to a right of termination thereunder, and (E) each Customer Contract complies with all applicable laws, rules and regulations.

1.24 Proprietary Rights. Seller owns and possesses all right, title and interest in and to the Proprietary Rights, including, but not limited to, those proprietary rights necessary to conduct the Business in the manner conducted by Seller. Seller has not received any notices of infringement, misappropriation, invalidity or conflict from any third party with respect to such Proprietary Rights. Seller has not infringed, misappropriated or otherwise conflicted with any Proprietary Rights of any third parties and, to the best of Seller's knowledge, Seller's Proprietary Rights have not been infringed by any third parties.

1.25 Litigation; Proceedings. There are no actions, suits, proceedings, orders or investigations pending or, to the best of Seller's knowledge, threatened against or affecting Seller at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, except for any such item that would not have a material adverse effect on the Business. No officer, director, employee or agent of Seller has been or is authorized to make or receive, and Seller knows of no such person making or receiving, any bribe, kickback or other illegal payment at any time. Within the three (3) years preceding the date hereof, Seller has received no opinion or legal advice in writing to the effect that Seller is exposed from a legal standpoint to any liability or disadvantage which may be material to the Business as previously or presently conducted.

1.26 Brokerage. Except as set forth on the "Brokers Schedule" attached hereto as Schedule 3.15, there are no claims for brokerage commissions, finders fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Seller.

1.27 Governmental Consent, etc. No permit, consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority is required in connection with the execution, delivery or performance of this Agreement by Seller, or the consummation by Seller of any of the transactions contemplated hereby and thereby, except as disclosed on the "Consents Schedule" attached hereto as Schedule 3.16 on which the "Material Consents" for purposes of Section 6.1(d) have been designated.

1.28 Employees and Agents. Seller has not received written notice that any key employee or agent, or group of Seller's employees or agents, has any plans to terminate employment with Seller. Seller has complied in all material respects with all applicable laws relating to the employment of labor and independent contractors, including provisions thereof relating to wages, hours, equal opportunity, immigration, collective bargaining, disabilities, family leave and the payment of social security and other taxes. Seller has no existing relationships with any union or employee representative or any labor relations problems, and there has been no union organization efforts by any employee of Seller. Seller has no reason to believe that (if Purchaser elects to hire them) the services of any of the present employees of Seller will not be available for continued conduct of the Business after the Closing on substantially the same terms as now conducted.

1.29 Employee Benefit Plans.

(1) The "Employee Benefits Schedule" attached hereto as Schedule 3.18 contains a list of all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) and any other arrangement, program or plan providing medical, life, disability, severance, deferred compensation, education, dependent care, or other retirement or welfare benefits, maintained by Seller and/or any ERISA affiliate (within the meaning of Code Section 414) in which any employee of the Business, or any beneficiary thereof, participates or to which Seller is or was obligated to

contribute (the "benefit plans"). Seller has provided true and correct copies of the benefit plans to Purchaser.

(2) All benefit plans have been administered in all material respects in compliance with all applicable requirements of ERISA and the Code, and Seller has not incurred, and as of the Closing Date will not incur, any liability with respect to any benefit plan which creates a lien upon, or can be collected from, the Assets being purchased under this Agreement, nor which may impose, directly or indirectly, any obligation or liability on Purchaser, as a successor employer or otherwise, including without limitation any liabilities with respect to the health care continuation requirements of Code Section 4980B. It is expressly understood and agreed that Purchaser is not assuming any of the benefit plans and that Seller shall retain all liabilities with respect to the benefit plans.

(3) Except as set forth in Schedule 3.18, all accrued contributions and other payments to be made by Seller or any ERISA Affiliate to any Benefit Plan through the date of the Latest Balance Sheet have been made or reserves adequate therefor have been set aside and reflected on the Latest Balance Sheet.

1.30 Insurance. The "Insurance Schedule" attached hereto as Schedule 3.19 lists and briefly describes each insurance policy maintained by Seller with respect to the Purchased Assets and the Business. Seller has delivered to Purchaser complete and correct copies of all such policies together with all riders and amendments thereto. All of such insurance policies are in full force and effect, and Seller is not and has never been in material default with respect to its obligations under any of such insurance policies. During the three-year period ending on the date hereof, Seller has never been refused any insurance coverage for which it has applied or had any insurance policy canceled.

1.31 Affiliated Transactions. No officer, director, stockholder or affiliate of Seller or any person related by blood or marriage to any such person or any entity in which any such person owns any beneficial interest is a party to any agreement, contract, commitment or transaction with Seller or has any interest in any property used by Seller.

1.32 Compliance with Laws; Permits; Certain Operations.

(1) Seller and its officers, directors, agents and employees have complied in all material respects with all applicable laws and regulations of foreign, federal, state and local governments and all agencies thereof which apply to the Business or the Purchased Assets or to which Seller may otherwise be subject, and Seller has not received notice of any violation of any such law or regulation, except (i) any such violations that have been corrected, (ii) any such violations that, in the aggregate, would not have a material adverse effect on the Business and (iii) any such violations as are set forth on the "Compliance Schedule" attached hereto as Schedule 3.21(a), which schedule includes all OSHA violations. In particular, but without limiting the generality of the foregoing, Seller has not violated or received a notice or charge asserting any violation of the Immigration Reform and Control Act of 1986, the Occupational Safety and Health Act of 1970, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act of 1976, the Toxic Substances Control Act of 1976, the Americans With Disabilities Act, or any other state or federal act (including rules and regulations thereunder) regulating or otherwise affecting the employment of aliens, employee health and safety, the environment, zoning, building, fire or other ordinances or any other aspect of the Business, except for (A) any such violations that have been corrected, and (B) any such violations that, in the aggregate, would not have a material adverse effect on the Business.

(2) Except for any such items the absence of which would not, in the aggregate, have a material adverse effect on the Business, Seller holds all of the permits, licenses, certificates and other authorizations of foreign, federal, state and local governmental agencies required for the conduct of the Business all of which are set forth in the "Permits Schedule" attached hereto as Schedule 3.21(b). Seller has not received any notice (and Seller has no reason to believe) that revocation is being considered with respect to any of such licenses, permits, certificates or authorizations, or that Seller is in material violation of any such license, permit, certificate or authorization.

1.33 Environmental Matters.

(1) As used in this Section 3.22, the following terms shall have the following meanings:

(1) "Hazardous Materials" means any dangerous, toxic, hazardous or radioactive pollutant, contaminant, chemical, waste, material or substance as defined in or governed by any federal, state or local law,

statute, code, ordinance, regulation, rule or other requirement relating to such substance or otherwise relating to the environment or human health or safety, including without limitation any waste, material, substance, pollutant or contaminant that might cause any injury to human health or safety or to the environment or might subject Seller to any imposition of costs or liability under any Environmental Law.

(2) "Environmental Laws" means all applicable federal, state, local and foreign laws, rules, regulations, codes, ordinances, orders, decrees, directives, permits, licenses and judgments relating to pollution, contamination or protection of the environment (including, without limitation, all applicable federal, state, local and foreign laws, rules, regulations, codes, ordinances, orders, decrees, directives, permits, licenses and judgments relating to Hazardous Materials in effect as of the date of this Agreement).

(3) "Release" shall mean the spilling, leaking, disposing, discharging, emitting, depositing, ejecting, leaching, escaping or any other release or threatened release, however defined, whether intentional or unintentional, of any Hazardous Material.

(2) Seller's operation of the Business at or from all real estate owned, leased or operated by Seller and its operation of the Purchased Assets comply in all material respects with all applicable Environmental Laws. All real estate owned or leased by Seller, whether occupied by Seller or third parties or vacant, comply in all material respects with all applicable Environmental Laws.

(3) Seller has obtained and maintained in full force and effect all environmental permits, licenses, certificates of compliance, approvals and other authorizations necessary to own or operate the Purchased Assets (collectively, the "Environmental Permits") all of which are disclosed in the "Environmental Matters Schedule" attached hereto as Schedule 3.22. Seller has filed all reports and notifications required to be filed under and pursuant to all applicable Environmental Laws with respect to the operation of the Business and the operation of the Purchased Assets, the Real Estate, and all leased premises and any other property owned, operated, or leased by Seller at any time.

(4) Except as set forth in the "Environmental Matters Schedule": (i) no Hazardous Materials have been generated, stored, treated, contained, handled, located, used, manufactured, processed, buried, incinerated, deposited, or released by Seller on, under or about any part of any real property owned, leased or operated by Seller in violation of any Environmental Law, and (ii) no real property owned, leased or operated by Seller or any of the other Purchased Assets contain any asbestos, urea, formaldehyde, radon, polychlorinated biphenyls ("PCBs") or pesticides at levels or amounts, or in a condition, that violate any Environmental Law.

(5) Except as set forth in the "Environmental Matters Schedule", Seller has received no notice alleging in any manner that Seller is, or might be potentially, responsible for any Release of Hazardous Materials, or any costs arising under or in violation of Environmental Laws with respect to the Purchased Assets, the leased premises, or the operation of the Business.

(6) None of the real estate leased or operated by Seller is or has been listed on the United States Environmental Protection Agency National Priorities List of Hazardous Waste Sites, or any other list, schedule, law, inventory or record of hazardous or solid waste sites maintained by any federal, state or local agency.

(7) No condition exists at any property which Seller operates or leases, and to the best of Seller's knowledge, any property which Seller formerly owned, operated, or leased or where any wastes generated at any time by Seller may have been stored, treated, or disposed, which constitutes or which, with the passage of time, could reasonably be expected to constitute a violation of or give rise to liability under any Environmental law.

(8) Seller has disclosed and delivered to Purchaser all environmental reports and investigations which Seller has obtained or ordered with respect to the Purchased Assets, the leased premises or the Business.

(9) No lien has been attached or filed against Seller with respect to the Purchased Assets or any leased premises in favor of any governmental or private entity for (i) any liability or imposition of costs under or in violation of any applicable Environmental Law; or (ii) any Release of Hazardous Materials.

1.34 Product and Warranty Claims. Except as disclosed in the "Claims Schedule" attached hereto as Schedule 3.23, Seller has no knowledge of and has

not received during the past five (5) years any claim or notice (a) with respect to any occurrences arising out of the use or operation of products engineered, designed, manufactured, sold, installed, monitored or serviced by or on behalf of Seller, which has resulted in any injury or death to person or damage to property, or (b) any claim or notice that such products do not conform to any agreement, representation or warranty made by Seller (or implied by law) with respect to such products that is unresolved as of the date hereof that, in the case of (a) or (b) involved complaints which were filed against Seller or which were submitted to an insurance carrier for coverage. Subject to the terms of the policies of insurance described on the Insurance Schedule, Seller is covered against all damages, liability and expenses for any claims based upon products engineered, designed, manufactured, sold, installed, monitored or serviced by or on behalf of Seller (including, but not limited to, costs of investigation and attorneys' fees and expenses) under policies of insurance described on the Insurance Schedule.

1.35 Disclosure. Neither this Agreement nor any of the schedules, attachments or exhibits hereto contain any untrue statement of a fact or omit a fact necessary to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading.

1.36 Year 2000. Except with respect to the Hillman Industrial division, all of Seller's main frame computer hardware and related material software programs used in the operation of the Business, whether owned or licensed, are able to recognize and to perform properly any date-sensitive functions involving certain dates prior to and any dates after December 31, 1999 (the "Year 2000 Problem"), and Seller has made a related appropriate inquiry of each of its suppliers and vendors. Seller and Parent believe that the Year 2000 Problem will not have an adverse effect on Seller's Business.

1.37 Closing Date. All of the representations and warranties of Seller in this Article 3 and elsewhere in this Agreement and all information delivered in any schedule, attachment or exhibit hereto or in any certificate delivered to Purchaser are true and correct in all respects on the date of this Agreement and shall be true and correct in all material respects on the Closing Date, except for any representations and warranties made as of a specific date and for any modifications or updates specifically contemplated or permitted by this Agreement.

ARTICLE 4.

REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Purchasers hereby jointly and severally represent and warrant to Seller as of the date hereof and as of the Closing Date that:

1.38 Corporate Organization and Power. Purchaser is a corporation duly organized and validly existing under the laws of the State of Illinois with full corporate power and authority to enter into this Agreement and the other agreements contemplated hereby and to perform its obligations hereunder and thereunder. On the date hereof, Lawson indirectly owns, and on the Closing Date, Lawson shall indirectly own, all of the issued and outstanding capital stock of Purchaser.

1.39 Authorization. The execution, delivery and performance by Purchasers of this Agreement and the other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite corporate action, and no other corporate proceedings on the part of Purchasers are necessary to authorize the execution, delivery or performance of this Agreement or the other agreements contemplated hereby. This Agreement constitutes and, upon execution and delivery by Purchasers, the other agreements contemplated hereby to which each Purchaser is a party shall each constitute the valid and binding obligation of Purchasers, respectively, enforceable against Purchasers in accordance with their respective terms.

1.40 No Violation. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby by Purchaser and Lawson and the consummation of the transactions contemplated hereby and thereby do not and shall not (a) conflict with or result in any breach of any of the provisions of, (b) constitute a default under, result in a violation of, or cause the acceleration of any obligation under, or (c) require any authorization, consent, approval, exemption or other action by or notice to any court or other governmental body under the provisions of Purchaser's or Lawson's certificate of incorporation or by-laws or any indenture, mortgage, lease, loan agreement or other agreement or instrument to which Purchaser or Lawson is bound or affected or any law, statute, rule, regulation, judgement, order or decree to which Purchaser or Lawson is subject.

1.41 Litigation. There are no actions, suits, proceedings, orders or investigations pending or, to the best of Purchaser's knowledge, threatened

against or affecting Purchaser, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would materially adversely affect Purchaser's performance under this Agreement or the consummation of the transactions contemplated hereby.

1.42 Financial Statements; SEC Reports. Lawson has filed all required forms, reports and documents required to be filed by it with the Securities and Exchange Commission ("SEC") since December 31, 1998, including its Annual Report on Form 10-K for the year ended December 31, 1998 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (collectively, the "SEC Reports"). The financial statements of Lawson included in the SEC Reports were prepared in accordance with GAAP, consistently applied during the applicable periods (except in the case of unaudited interim statements, to the extent such statements do not include footnotes or may be condensed or summary statements), and fairly present in all material respects the consolidated financial condition of Lawson and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments and footnotes).

1.43 Closing Date. All of the representations and warranties of Purchasers contained in this Article 4 and elsewhere in this Agreement and all information delivered in any schedule, attachment or exhibit hereto or in any certificate delivered to Seller are true and correct as of the date of this Agreement and shall be true and correct in all material respects as of the Closing Date.

ARTICLE 5.

CERTAIN COVENANTS

1.44 Affirmative Covenants. Prior to the Closing, Seller shall and Parent shall cause Seller to:

(1) conduct the Business only in the usual and ordinary course of business in accordance with past custom and practice (including placing purchase orders only for reasonable quantities and at reasonable prices and accepting customer orders only for reasonable quantities on reasonable terms);

(2) keep in full force and effect its corporate existence and all material rights, franchises and intellectual property relating to or pertaining to the Business;

(3) use commercially reasonable efforts to retain its employees and sales agents and preserve its present business relationships, and continue to compensate its employees and sales and other agents in accordance with past custom and practice, but such efforts shall not require the payment of any compensation in excess of Seller's and/or Parent's current customary compensation to such employees and past custom and practice;

(4) maintain the Purchased Assets in good and customary repair, order and condition in accordance with past practice and maintain insurance reasonably comparable to that in effect on the date of this Agreement; replace in accordance with past practice its inoperable, worn out and obsolete assets with assets of comparable quality; in the event of any casualty, loss or damage to any of the material Purchased Assets prior to Closing, either repair or replace such assets with assets of comparable quality or, if Purchaser agrees, transfer to Purchaser at Closing the proceeds of any insurance recovery with respect thereto;

(5) maintain its books, accounts and records in accordance with past custom and practice as used in the preparation of the financial statements described in Section 3.4 hereof and file with the appropriate taxing authorities any and all returns required to be filed by it for the periods covered thereby;

(6) permit Purchaser and its employees, agents, accounting and legal representatives and potential lenders and their representatives to have access to its books, records, invoices, contracts, leases, key personnel, independent accountants, property, facilities, equipment and other things reasonably related to the Business or the Purchased Assets;

(7) use commercially reasonable efforts to obtain all consents and approvals necessary or desirable to consummate the transactions contemplated hereby, including, but not limited to, with respect to each Lease, a consent to the assignment of such Lease to Purchaser (which efforts shall not require the

payment of any amount or the undertaking of any obligation not referred to in the particular document or agreement for which consent is being obtained), and to cause the other conditions to Purchaser's obligation to close to be satisfied; and

(8) from time to time prior to the Closing, supplement or amend any of the Schedules referred to herein with respect to any matter that, if existing or occurring at or prior to the date of this Agreement, would have been required to be set forth or described in any of the Schedules or that is necessary to correct any information in any of the Schedules that has been rendered inaccurate by an event occurring after the date hereof.

1.45 Negative Covenants. Prior to the Closing, without the prior written consent of Purchaser, Seller shall not:

(1) take any action that would require disclosure under Section 5.1(h) of this Agreement;

(2) directly or indirectly (including through any agent, broker, finder or other third party), offer to sell, merge, consolidate or otherwise dispose of, negotiate for the sale, merger, consolidation or other disposition of, initiate or continue discussions concerning the sale, merger, consolidation or other disposition of, Seller as a whole, or the sale or other disposition of any of its shares of capital stock or any of the Purchased Assets (other than inventory in the ordinary course of business);

(3) take or omit to take any action, or permit its affiliates to take or omit to take any action, which would reasonably be anticipated to have a material and adverse effect upon the Business or the Purchased Assets;

(4) declare or pay any non-cash dividend or other non-cash distribution with respect to the capital stock of Seller; or

(5) except as provided in Section 11.3 hereof, disclose to any third party, except its representatives in connection with the transactions contemplated by this Agreement on a need-to-know basis, any information regarding the Purchaser, its business operations, its customers or suppliers and the existence of this Agreement or the transactions contemplated hereunder.

1.46 Guaranty. Lawson shall cause Purchaser to comply with all of its obligations in this Agreement and in any other document contemplated by this Agreement. Lawson hereby guarantees the performance by Purchaser of all Purchaser's obligations in this Agreement and in any other document contemplated by this Agreement in a manner consistent with the terms of this Agreement.

ARTICLE 6.

CONDITIONS TO PURCHASER'S OBLIGATION TO CLOSE

1.47 Conditions to Purchaser's Obligation. The obligation of Purchaser to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions on or before the Closing Date:

(1) the representations and warranties set forth in Article 3 hereof shall be true and correct in all material respects at and as of the Closing as though then made and as though the Closing Date was substituted for the date of this Agreement, except for any representations and warranties made as of a certain date and for any changes contemplated or permitted by this Agreement;

(2) Seller and Parent shall have performed in all material respects all of the covenants and agreements required to be performed by them under this Agreement prior to the Closing;

(3) there shall have been no adverse change in the operations, financial condition, operating results or assets of the Business since the date of the Latest Balance Sheet other than any effect resulting from general national economic conditions or any occurrence or condition affecting the entire industry in which the Business is conducted that does not have a material adverse effect on the Business;

(4) all consents by third parties that are identified as "Material Consents" on Schedule 3.16 shall have been obtained on terms and conditions satisfactory to Purchaser in its sole discretion;

(5) no action or proceeding before any court or government body shall be pending or threatened which, in the reasonable judgment of Purchaser,

made in good faith and upon the advice of counsel, makes it inadvisable to consummate the transactions contemplated hereby by reason of the probability that the action or proceeding shall result in a judgment, decree or order which would prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement, cause such transactions to be rescinded or affect the value or use of the Purchased Assets or Business;

(6) Purchaser shall have received from Seller's and Parent's counsel, Morgan, Lewis & Bockius LLP, an opinion with respect to the matters set forth in Exhibit C attached hereto (the "Seller's Opinion"), addressed to Purchaser and dated the Closing Date, in form and substance satisfactory to Purchaser;

(7) not less than five (5) business days prior to the Closing Date, Seller shall have provided Purchaser, at Seller's expense, with UCC search reports ("UCC Searches") of Seller disclosing no liens or encumbrances against the Purchased Assets other than (i) statutory liens not yet delinquent, (ii) such imperfections or irregularities of title or liens that do not (A) materially detract from or interfere with the proposed use by Purchaser of the Purchased Assets subject thereto or affected thereby, (B) otherwise impair the present business operations at such properties, (C) detract from the value of such properties and assets, (iii) the rights of customers of Seller with respect to inventory under orders or contracts entered into by Seller in the ordinary course of business, (iv) mechanics', carriers', workers', repairmen's, warehousemen's, or other similar liens arising in the ordinary course of business in respect of obligations not overdue or which are being contested in good faith, and (v) deposits or pledges that are statutory obligations to secure workmen's compensation, unemployment insurance, old age benefits or other social security obligations;

(8) all proceedings to be taken by Seller and Parent in connection with the consummation of the Closing and the other transactions contemplated hereby and all certificates, opinions, instruments and other documents specified for delivery hereunder or reasonably requested by Purchaser shall be reasonably satisfactory in form and substance to Purchaser and its counsel;

(9) Richard J. Schwind shall have entered into an employment agreement with Purchaser in substantially the form attached hereto as Exhibit D (the "Employment Agreement);

(10) Seller and Purchaser shall have entered into a Transitional Services and Supply Agreement in the form attached hereto as Exhibit E (the "Transition Agreement"); and

(11) Purchaser shall have reviewed and approved any and all supplements or amendments to the schedules made by Seller or Parent pursuant to Section 5.1(h).

Any conditions specified in this Section 6.1 may be waived by Purchaser; provided that no such waiver shall be effective unless it is set forth in a writing executed by Purchaser, except as otherwise provided in Section 10.3.

ARTICLE 7.

CONDITIONS TO SELLER'S OBLIGATION TO CLOSE

1.48 Conditions to Seller's Obligation to Close. The obligation of Seller to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions on or before the Closing Date:

(1) the representations and warranties set forth in Article 4 hereof shall be true and correct in all material respects at and as of the Closing as though then made and as though the Closing Date was substituted for the date of this Agreement throughout such representations and warranties;

(2) Purchaser shall have performed in all material respects all the covenants and agreements required to be performed by it under this Agreement prior to the Closing;

(3) Seller shall have received from Purchaser's counsel, Vedder, Price, Kaufman & Kammholz, an opinion with respect to the matters set forth in Exhibit F attached hereto (the "Purchaser's Opinion"), addressed to Seller and dated the Closing Date, in form and substance reasonably satisfactory to Seller;

(4) all proceedings to be taken by Purchaser in connection with the consummation of the Closing and the other transactions contemplated hereby and all certificates, opinions, instruments and other documents required to effect the transactions contemplated hereby reasonably requested by Seller shall be reasonably satisfactory in form and substance to Seller and its counsel.

Any condition specified in this Section 7.1 may be waived by Seller; provided that no such waiver shall be effective against Seller unless it is set forth in a writing executed by Seller, except as otherwise provided in Section 10.3.

ARTICLE 8.

CLOSING TRANSACTIONS

1.49 The Closing. Subject to the conditions contained in this Agreement, the closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Vedder, Price, Kaufman & Kammholz in Chicago, Illinois at 10:00 a.m. local time on or before June 30, 1999, or at such other place or on such other date as may be mutually agreeable to the parties. The date and time of the Closing are referred to herein as the "Closing Date."

1.50 Action to Be Taken at the Closing. The sale, conveyance, assignment and delivery of the Purchased Assets and the payment of the Purchase Price pursuant to the terms of this Agreement shall take place at the Closing and, simultaneously, the other transactions contemplated by this Agreement shall take place by the delivery of all of the closing documents set forth in Section 8.3.

1.51 Closing Documents.

(1) Seller shall deliver to Purchaser at the Closing the following documents, duly executed by Seller where necessary to make them effective:

(1) an officer's certificate in the form set forth in Exhibit G attached hereto, stating that the preconditions specified in Section 6.1 (a) through (d), inclusive, have been satisfied;

(2) copies of all necessary third party and governmental consents, approvals, releases and filings required in order to effect the transactions contemplated by this Agreement;

(3) such bills of sale, instruments of sale, transfer, assignment, conveyance and delivery (including all vehicle titles), as are required in order to transfer to Purchaser good and marketable title to the Purchased Assets, free and clear of all liens, charges, security interests and other encumbrances, except for Permitted Encumbrances;

(4) such assignments of Leases as Purchaser may reasonably request;

(5) certified copies of the resolutions duly adopted by the Board of Directors and stockholders of Seller and the Board of Directors of Parent authorizing and any other consents required pursuant to the Certificate of Incorporation or the By-laws of Seller to authorize, the execution, delivery and performance of this Agreement and each of the other agreements contemplated hereby, and the consummation of all other transactions contemplated by this Agreement;

(6) all of Seller's contracts and commitments, files, books, records and other data relating to the Business and the Purchased Assets;

(7) copies of good standing certificates in all jurisdictions where the Seller is qualified to do business;

(8) the Seller's Opinion;

(9) the Transition Agreement;

(10) a certificate of the Secretary of the Seller certifying as to the correctness and completeness of the Certificate of Incorporation and Bylaws of the Seller and all amendments thereto; and

(11) such other documents or instruments as Purchaser or the Title Insurer may request to effect the transactions contemplated hereby.

All of the foregoing documents in this Section 8.3(a) shall be reasonably satisfactory in form and substance to Purchaser and shall be dated the Closing Date.

(2) Purchaser shall deliver to Seller at the Closing the following items, duly executed by Purchaser where necessary to make them effective:

(1) the amount of the Purchase Price payable at Closing, as provided in Section 2.1;

(2) an assumption agreement providing for the assumption by Purchaser of the Assumed Liabilities;

(3) an officer's certificate in the form set forth as Exhibit H attached hereto, stating that the preconditions specified in Section 7.1 (a) and (b) hereof have been satisfied;

(4) the Purchaser's Opinion;

(5) copies of all necessary third party and governmental consents, approvals, releases and filings required in order for Purchaser to effect the transactions contemplated by this Agreement

(6) such other documents or instruments as Seller reasonably may request to effect the transactions contemplated hereby;

(7) certified copies of the resolutions duly adopted by the Board of Directors of Purchaser and Lawson authorizing the execution, delivery and performance of this Agreement and each of the other agreements contemplated hereby and the consummation of all other transactions contemplated by this Agreement;

(8) copies of good standing certificates in all jurisdictions where the Purchaser is qualified to do business;

(9) the Transition Agreement; and

(10) a certificate of the Secretary of Purchaser, certifying as to the correctness and completeness of the Certificate of Incorporation and Bylaws of the Purchaser and all amendments thereto.

All of the foregoing documents in this Section 8.3(b) shall be reasonably satisfactory in form and substance to Seller and shall be dated as of the Closing Date.

(3) The Employment Agreement shall have been executed and delivered by the parties thereto.

(4) Purchaser, Seller and the Escrow Agent shall execute and deliver to one another at the Closing the Escrow Agreement.

1.52 Possession. Simultaneously with the Closing, Seller shall take such steps as may be requisite to put Purchaser in actual possession and operating control of the Business and the Purchased Assets.

1.53 Nonassignable Contracts. To the extent that the assignment hereunder by Seller to Purchaser of the Contracts is not permitted or is not permitted without the consent of any other party to the Contract, this Agreement shall not be deemed to constitute an assignment of any such Contract if such consent is not given or if such assignment otherwise would constitute a breach of, or cause a loss of contractual benefits under, any such Contract, and Purchaser shall assume no obligations or liabilities thereunder. Seller shall advise Purchaser promptly in writing with respect to any Contract which it knows or has reason to know that it will not receive any required consent. Without in any way limiting Seller's obligation to use commercially reasonable efforts to obtain all consents necessary for the sale, transfer, assignment and delivery of the Contracts and the Purchased Assets to Purchaser hereunder, if any such consent is not obtained or if such assignment is not permitted irrespective of consent and, at Purchaser's election, the Closing hereunder is consummated, Seller shall cooperate with Purchaser in any reasonable arrangement designed by Purchaser to provide Purchaser with the rights and benefits, subject to the obligations, under the Contract, including enforcement for the benefit of Purchaser of any and all rights of Seller against any other person arising out of breach or cancellation by such other person and, if requested by Purchaser, Seller shall act as an agent on behalf of Purchaser or as Purchaser shall otherwise reasonably require; provided, however, that Seller shall not be required to pay any amount or undertake any obligation not referred to in the particular document or agreement for which consent is being obtained.

ARTICLE 9.

INDEMNIFICATION

1.54 Indemnification by Seller.

(1) Seller and Parent, jointly and severally, agree to and shall

indemnify in full Purchasers and defend and hold Purchasers harmless against any loss, liability, deficiency, damage, expense or cost (including reasonable legal fees and expenses) (collectively, "Losses"), that the Purchasers may suffer, sustain or become subject to as a result of (i) any misrepresentation in any of the representations or breach of any of the warranties of Seller or Parent contained in this Agreement or in any exhibits, schedules or certificates or other agreements or documents specifically identified in this Agreement for delivery pursuant to the terms of this Agreement or otherwise mutually agreed upon and executed by the parties (collectively, the "Related Documents"), (ii) any breach of, or failure to perform, any agreement or covenant of Seller or Parent contained in this Agreement or any of the Related Documents, (iii) except as otherwise reserved for on the Latest Balance Sheet, any claim of liability for breach of warranty or contract arising out of the operation of the Business prior to the Closing Date, or (iv) any claim of liability for injury or damage to person or property caused or alleged to have been caused by the use or operation of products sold, installed, monitored or serviced by or on behalf of Seller prior to the Closing Date, or (v) any claim of non-compliance with Environmental Laws by Seller or Parent or any of the properties owned or leased by Seller or Parent or for damages as a result thereof, or (vi) any claim for refund or reimbursement of any payment made to Seller, Parent or Purchaser by any customer of Seller's Business based on preference or priority as asserted by any receiver or trustee in bankruptcy or bankruptcy court (collectively, "Purchaser Losses").

(2) Seller shall also indemnify Purchasers and hold Purchasers harmless against and in respect of any Purchaser Losses resulting or arising from the rights of any creditors of Seller pursuant to any bulk sales laws which may apply under the laws of the States of Kansas and Ohio, except to the extent that such rights may result from the failure of Purchaser to perform its obligations hereunder.

(3) Any Losses shall be determined after taking into account any recoveries that an Indemnified Party (defined below) actually receives from insurance policies or other third parties or other resources specifically identified or referenced in this Agreement; it being the intention of the parties to avoid double recovery. The determination of Losses shall also exclude the effect of any multiplier that may be alleged to have been used by Purchaser in its determination of the Purchase Price. Any Losses shall include punitive damages, if available, and shall exclude consequential damages except those paid or payable by the Indemnified Party to a third party.

1.55 Indemnification by Purchaser. Purchasers, jointly and severally, agree to indemnify in full Seller and Parent (collectively, the "Seller Indemnified Parties") and hold them harmless against any Losses which any of the Seller Indemnified Parties may suffer, sustain or become subject to as a result of (i) any misrepresentation in any of the representations or breaches of any of the warranties of any of the Purchasers contained in this Agreement or in any of the Related Documents, (ii) any breach of, or failure to perform, any agreement or covenant of any of the Purchasers contained in this Agreement or any of the Related Documents, (iii) any claim for liability for injury or damage to person or property caused or alleged to have been caused by the use or operation of products sold, installed, monitored or served by or on behalf of Purchaser on or after the Closing Date and (iv) any claim of non-compliance with Environmental Laws by Purchaser or Lawson on any of the properties owned or leased by Purchaser or Lawson or for damages as a result thereof (collectively, "Seller Losses").

1.56 Method of Asserting Claims. As used herein, an "Indemnified Party" shall refer to a "Purchaser Indemnified Party" or "Seller Indemnified Party," as applicable; the "Notifying Party" shall refer to the party hereto whose Indemnified Parties are entitled to indemnification hereunder, and the "Indemnifying Party" shall refer to the party hereto obligated to indemnify such Notifying Party's Indemnified Parties.

(1) In the event that any of the Indemnified Parties is made a defendant in or party to any action or proceeding, judicial or administrative, instituted by any third party for the liability or the costs or expenses of which are Seller Losses or Purchaser Losses, as the case may be (any such third party action or proceeding being referred to as a "Claim"), the Notifying Party shall give the Indemnifying Party prompt notice thereof. The failure to give

such notice shall not affect any Indemnified Party's ability to seek reimbursement unless such failure has materially and adversely affected the Indemnifying Party's ability to defend successfully a Claim. The Indemnifying Party shall be entitled to contest and defend such Claim; provided, that the Indemnifying Party (i) has a reasonable basis for concluding that such defense may be successful and (ii) diligently contests and defends such Claim. Notice of the intention so to contest and defend shall be given by the Indemnifying Party to the Notifying Party within twenty (20) business days after the Notifying

Party's notice of such Claim (but, in all events, at least five (5) business days prior to the date that an answer to such Claim is due to be filed). Such contest and defense shall be conducted by reputable attorneys employed by the Indemnifying Party. The Notifying Party shall be entitled at any time, at its own cost and expense (which expense shall not constitute a Loss unless the Notifying Party reasonably determines that the Indemnifying Party is not adequately representing or, because of a conflict of interest, may not adequately represent, any interests of the Indemnified Parties), to participate in such contest and defense and to be represented by attorneys of its or their own choosing. If the Notifying Party elects to participate in such defense, the Notifying Party shall cooperate with the Indemnifying Party in the conduct of such defense. Neither the Notifying Party nor the Indemnifying Party may concede, settle or compromise any Claim without the consent of the other party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, in the event the Indemnifying Party fails or is not entitled to contest and defend a claim, the Notifying Party shall be entitled to contest, defend and settle such Claim.

(2) In the event any Indemnified Party should have a claim against any Indemnifying Party that does not involve a Claim, the Notifying Party shall deliver a notice of such claim with reasonable promptness to the Indemnifying Party. If the Indemnifying Party notifies the Notifying Party that it does not dispute the claim described in such notice or fails to notify the Notifying Party within forty-five (45) days after delivery of such notice by the Notifying Party whether the Indemnifying Party disputes the claim described in such notice, the Loss in the amount specified in the Notifying Party's notice shall be conclusively deemed a liability of the Indemnifying Party and the Indemnifying Party shall pay the amount of such Loss to the Indemnified Party on demand in accordance with the terms hereof. If the Indemnifying Party gives notice to the Notifying Party that it disputes the claim, the Notifying Party may pursue whatever legal remedies may be available to enforce its rights under this Article 9.

1.57 Limitations. The rights to indemnification in this Article 9 shall be subject to the following limitations:

(1) Any claim for indemnification under this Article 9 shall be made by giving notice under Section 9.3 to the party or parties against whom indemnification is sought. Any such notice must be given on or before May 1, 2001, except for any claims for indemnification arising out of a misrepresentation or breach of the representations and warranties in Sections 3.11 or 3.22 which may be given at any time up to and including the third anniversary of the Closing Date. Any claim for indemnification given after such dates will have no effect.

(2) Except for claims for non-payment of the Purchase Price Adjustment (if due to Purchaser) and for payments or damages related to any of the Excluded Liabilities, Seller and Parent shall not be required to indemnify Purchasers under Section 9.1 until the Purchaser Losses, individually or in the aggregate, as to which Purchasers would otherwise be entitled to indemnification exceed $75,000 (the "Deductible"), at which point Seller and Parent shall be jointly and severally liable to reimburse Purchasers for all Purchaser Losses that may arise in excess of the Deductible. Neither the Deductible nor any part of this Section 9 shall apply to any Purchaser Losses arising out of Seller's or Parent's breach of Section 2.3, 2.6 or 2.7 to the extent Purchaser has already received payment therefor.

(3) The aggregate amount of the Purchaser Losses for which Seller and Parent, in the aggregate, shall be liable with respect to this Agreement and the Related Document shall not exceed the Purchase Price.

(4) Except for any injunctive relief to which a party may be entitled, the indemnification remedy provided in this Article 9 shall constitute the sole remedy of any party hereto with respect to this Agreement and the Related Documents.

(5) Seller and Parent agree that, in addition to any other rights or remedies available to Purchaser, Purchaser may make a claim against the Escrow Account pursuant to the Escrow Agreement to satisfy, among other obligations of Seller and Parent, (i) any of the obligations of Seller and Parent under Section 9.1 of this Agreement and (ii) any amount due from Seller in connection with the final determination of the Closing Tangible Net Worth, the Receivables Deficiency or the Warranty Deficiency.

1.58 Pre-Closing Remedies. Prior to the Closing, the parties hereto may pursue whatever legal remedies may be available under applicable law for any breach of this Agreement by another party hereto, except that Purchasers acknowledge that Seller and Parent shall not have any liability hereunder for any breach of a representation or warranty that shall have occurred after the execution of this Agreement (other than as a result of Seller's or Parent's willful acts or omissions) and shall not have been avoidable through

commercially reasonable efforts of Seller or Parent.

ARTICLE 10.

TERMINATION

1.59 Termination. This Agreement may be terminated at any time prior to the Closing:

(1) by mutual written consent of Purchaser and Seller;

(2) by either Purchaser or Seller if there has been a misrepresentation or breach of warranty or breach of covenant on the part of the other party in the representations and warranties or covenants set forth in this Agreement and any such misrepresentation or breach, if capable of cure, is not cured within fifteen (15) days after written notice thereof to such other party, or if events have occurred which have made it impossible to satisfy a condition precedent to the terminating party's obligations to consummate the transactions contemplated hereby (other than as a result of any willful act or omission by the terminating party);

(3) by either Purchaser or Seller if the transactions contemplated hereby have not been consummated by July 15, 1999; provided, however, that neither Purchaser nor Seller shall be entitled to terminate this Agreement pursuant to this subsection (c) if such party's or, in the case of Seller, Parent's, willful breach or obstruction of the consummation of this Agreement, respectively, has prevented the consummation of the transactions contemplated hereby; or

(4) by Purchaser in its sole discretion if Seller shall have supplemented or amended any Schedule after the date hereof in accordance with Section 5.1(h) and the changes made by such supplement or amendment, together with any previous supplement or amendment of any Schedules, could reasonably be expected to have an adverse effect on the Business.

1.60 Effect of Termination. In the event of termination of this Agreement as provided above, this Agreement shall forthwith become void, and there shall be no liability on the part of Seller, Parent or Purchaser, except for willful breaches of this Agreement prior to the time of such termination and except for the provisions of Section 11.7.

1.61 Effect of Closing. Seller and Purchaser shall be deemed to have waived their respective rights to terminate this Agreement upon the completion of the Closing. No such waiver shall constitute a waiver of any other rights arising from the non-fulfillment of any condition precedent set forth in Article 6 or 7 unless such waiver is made in writing.

ARTICLE 11.

ADDITIONAL AGREEMENTS

1.62 Survival. Subject to the limitations of Article 10, the representations, warranties, covenants and agreements set forth in this Agreement or in any writing specifically required to be delivered to Purchaser or Seller in connection with this Agreement shall survive the Closing Date and the consummation of the transactions contemplated hereby and shall not be affected by any examination made for or on behalf of Purchaser or Seller, the knowledge of any of Purchaser's, Parent's or Seller's officers, directors, stockholders, employees or agents, or the acceptance by Purchaser or Seller of any certificate or opinion.

1.63 Mutual Assistance. Subsequent to the Closing, Seller on the one hand and Purchaser on the other, at their own cost, shall assist each other (including making records available) in the preparation of their respective tax returns and the filing and execution of tax elections, if required, as well as any audits or litigation that may ensue as a result of the filing thereof, to the extent that such assistance is reasonably requested.

1.64 Press Release and Announcements. No press release related to this Agreement or the transactions contemplated hereby or other announcements to the employees, customers or suppliers of Seller shall be issued without the joint approval of Purchaser and Seller, which shall not be unreasonably withheld, delayed or conditioned. No other public announcement related to this Agreement or the transactions contemplated hereby shall be made by any party, except as required by law, in which event the parties shall consult as to the form and substance of any such announcement required by law.

1.65 Expenses. Each party shall pay all of its expenses in connection with the negotiation of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated by this Agreement. Seller and Purchaser shall each pay one-half of the cost of recording any documents necessary to place record title to the Purchased Assets in the condition warranted by or required of Seller by this Agreement.

1.66 Further Transfers. After the Closing, Seller and Parent shall, and shall cause their respective affiliates to, execute and deliver such further instruments of conveyance and transfer and take such additional action as Purchaser may reasonably request to effect, consummate, confirm or evidence the transfer to Purchaser of the Purchased Assets. Seller shall execute such documents as may be necessary to assist Purchaser (or its designees) in preserving or perfecting its rights in the Purchased Assets.

1.67 Transition Assistance. Except for those actions permitted by Section 11.8(a) and (b) hereof, from the date hereof and until five (5) years after the Closing, neither Seller nor Parent shall in any manner take any action which is designed, intended or might be reasonably anticipated to have the effect of discouraging customers, suppliers, lessors, employees, sales agents and other business associates from maintaining the same business relationships with Purchaser after the date of this Agreement as were maintained with Seller prior to the date of this Agreement.

1.68 Confidentiality. During the term of this Agreement and whether or not the transactions contemplated hereby are consummated, Purchasers shall maintain the confidentiality of all information and materials received by it which are reasonably designated by Seller as confidential except for the approved Press Release referenced in Section 11.3 and any information required to be disclosed pursuant to applicable laws. If the transactions contemplated by this Agreement are not consummated, Purchasers shall maintain the confidentiality of all information and materials received by it which are reasonably designated by Seller as confidential, and Purchasers shall return to Seller or destroy any materials (and copies thereof) obtained from Seller in connection with the transactions contemplated hereby. During the term of this Agreement and whether or not the transactions contemplated hereby are consummated, Seller and Parent shall maintain the confidentiality of all information and materials regarding Seller, the Business, this Agreement and the transactions contemplated hereby and all information and materials regarding Purchaser and its affiliates, which are reasonably designated as confidential by Purchaser. If the transactions contemplated by this Agreement are consummated, Seller and Parent each shall maintain the confidentiality of all proprietary and other non-public information regarding the Business and the Purchased Assets and shall turn over to Purchaser all such materials in their possession.

1.69 Non-Compete; Non-Solicitation.

(1) It is understood among the parties that Seller and Seller Parties (defined below) no longer desire to engage in the Business. In consideration for the acquisition of the Purchased Assets and Assumed Liabilities by Purchaser and as an additional inducement to Purchaser to enter into and to perform its obligations under this Agreement, Seller and Parent, on behalf of themselves and the officers and directors of Seller so long as they are employed by or under the control of Seller or Parent or their subsidiaries or affiliates (except officers of Seller employed by Purchaser after the Closing), and their direct and indirect subsidiaries and other entities controlled by or under common control with Parent (collectively, the "Seller Parties"), agree that, for a period of five (5) years after the Closing Date (the "Non-Competition Period"), the Seller Parties shall not in the United States, Canada or in any other foreign country in which Seller currently does or has done business or has customers whose purchases are comprised of products similar to any portion of the Purchased Assets, either for itself or any other person or entity, own, manage, control, participate in, permit its name to be used by, consult with, render services for or otherwise assist, in any manner, any entity that owns, invests in, manages, controls or engages in any manufacturing, sales or distribution business, whether directly or through "in-plant" inventory management or integrated supply services, that is substantially the same as or similar to the Business on the date of this Agreement, including, but not limited to, sales to OEM customers of production fasteners used to manufacture or assemble OEM customer products through in-plant inventory management or integrated supply services. This Section 11.8, however, shall not restrict the following: (i) any Seller Parties may manufacture, sell, distribute and provide to any MRO customer of Seller or Parent MRO products or products which are similar to the Purchased Assets ("OEM Products"); provided that sales of OEM production fastener products to such MRO customers shall be permitted only if such sales are ancillary to sales of MRO products to such MRO customers and are not sold by Seller's employees or agents dispensing or

delivering such ancillary OEM production fastener products within the MRO customer's facility; (ii) Parent's currently constituted fluid power/technology services division or affiliate may dispense ancillary OEM production fastener products though in-plant inventory management arrangement; and (iii) with respect to Parent's Kar Products, Inc. and A&H Bolt Company Ltd. subsidiaries only (collectively, "Kar"), Kar may sell MRO products and OEM Products provided that the OEM Products are not sold by any of the Seller Parties' employees or agents dispensing or delivering such OEM Products within the customer's facility through an in-plant inventory management arrangement. Nothing contained in this Agreement shall preclude either party from competing with the other with respect to any products in Mexico. The parties may engage in electronic commerce or Internet sales provided that such activities do not otherwise violate the terms of this Section.

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(2) To preserve the value of the Purchased Assets for Purchaser and the confidential information and goodwill associated therewith, Seller and Parent agree that, for a period of five (5) years after the Closing Date, the Seller Parties shall not, directly or indirectly solicit for employment, any current or future employee or sales agent of Purchaser who worked for Seller, Parent or any affiliate thereof as of the date of this Agreement, or any other current or future employee or agent of Purchaser, or any employee "leased" by Purchaser from Seller, Parent or any affiliate thereof for which Purchaser reimburses, in whole or in part, the cost of such employee's wages, taxes and benefits.

(3) To preserve the value of the Excluded Assets for Seller and the confidential information and goodwill associated therewith, Purchaser agrees that, for a period of five (5) years after the Closing Date, Purchaser shall not solicit business from the MRO Accounts listed in Schedule 1.2(b). In the event any of the MRO Accounts terminates its relationship with Seller during such five (5) year period, then Purchaser shall have the right to solicit business from such MRO Account.

(4) If, at the time of enforcement of this Section 11.8, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area.

(5) The parties recognize and affirm that, in the event of a breach by any of them of any of the provisions of this Section 11.8, money damages would be inadequate and neither Seller nor Purchaser would have any adequate remedy at law. Accordingly, the parties agree that each party shall have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and the obligations under this Section 11.8 by an action or actions for specific performance, injunction and/or other equitable relief against the other party without posting any bond or security to enforce or prevent any violations, whether anticipatory, continuing or future, of the provisions of this Section 11.8, including, without limitation, the extension of the Non-Competition Period by a period equal to (i) the length of the violation of this Section 11.8 plus (ii) the length of any court proceedings necessary to stop such violation. In the event of a breach or violation by any Seller Party of any of the provisions of this Section 11.8, the running of the Non-Competition Period, but not of such Seller Party's obligations under this Section 11.8, shall be tolled during the period during which the occurrence of any such breach or violation is investigated and during the continuance of any such breach or violation.

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1.70 Specific Performance. Seller and Parent acknowledge that the Business and the Purchased Assets are unique and recognize and affirm that, in the event of a breach of this Agreement by Seller or Parent, money damages would be inadequate and Purchaser would have no adequate remedy at law. Accordingly, Seller and Parent agree, jointly and severally, that Purchaser shall have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and Seller's and Parent's obligations hereunder by an action or actions for specific performance, injunction and/or other equitable relief, without posting any bond or security.

1.71 Remittances. All remittances, mail and other communications relating to the Purchased Assets, Assumed Liabilities or the Business received by Seller, Parent, or the officers and directors of Seller, at any time after the Closing Date, shall be immediately turned over to Purchaser by such parties. Seller shall cooperate with Purchaser, and take such actions as Purchaser reasonably requests, to assure that customers of the Business send their remittances directly to Purchaser, and to assure that remittances from customers of the Business which are improperly sent to Seller are not commingled with Seller's assets and are turned over to Purchaser. All remittances, mail and other communications relating to the Excluded Assets, Excluded Liabilities or the MRO Accounts received by Purchaser or the officers and directors of Purchaser at any time after the Closing Date shall be promptly turned over to

Seller by such parties.

1.72 Efforts To Consummate Closing Transactions. On the terms and subject to the conditions contained in this Agreement, Seller, Parent and Purchasers each shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate, as soon as reasonably practicable, the Closing, including the satisfaction of all conditions thereto set forth herein.

1.73 Employees and Agents of Seller. Except as provided in this Section 11.12, Purchaser is under no legal obligation to employ any personnel presently employed by Seller. Prior to the Closing Date, Purchaser may, but shall not be required to, offer employment to such persons currently employed by Seller as Purchaser in its sole discretion shall determine. Purchaser shall have the absolute right to establish all terms and conditions of employment, including wages, benefits and benefit plans, for any employees of Seller to whom it chooses to make an offer of employment to be employed by Purchaser. Further, it is expressly agreed that Purchaser is not bound to assume, implement or continue any wages, terms and conditions of employment, benefits or benefit plans which may currently exist for Seller's employees. All such offers of employment shall be on the terms and conditions established by Purchaser and shall be contingent upon employment commencing with Purchaser only following the Closing Date. Seller agrees not to discourage any individuals who are offered employment or an

agency relationship with Purchaser from accepting such employment or agency relationship with Purchaser. Purchaser shall offer employment to a sufficient number of Seller's employees and take and refrain from taking such other actions as may be necessary to avoid subjecting Purchaser, Seller or Parent to any disclosure or announcement obligations or any other liability under the Worker's Adjustment and Retraining Notification Act, P.L. 100-379, 102 Stat. 890, as amended (the "WARN Act") with respect to employees of the Business. As of the date hereof, Purchaser does not contemplate any "plant closing" or "employee layoff," as such terms are used in the WARN Act, with respect to Purchaser or any former employees of Seller hired by Purchaser with respect to the Business. As of the date hereof Purchaser has offered employment to 65 employees of Seller at the Lenexa, Kansas facility and at least 10 employees of Seller at the Cincinnati, Ohio facility.

1.74 Implied Representations or Warranties. Purchasers understand that Seller and Parent and their respective officers, directors, employees, stockholders, Affiliates and representatives are not making any representation or warranty whatsoever, express or implied, except those representations and warranties of Seller and Purchasers explicitly set forth in this Agreement. Subject to such representations and warranties, Purchasers understand that the Purchased Assets and Business being acquired at the Closing as a result of this Agreement and the transactions contemplated hereby shall be deemed to have been acquired on an "as is, where is" basis and in their then present condition. Except as otherwise explicitly set forth herein, Purchasers understand that none of Seller and Parent, their respective officers, directors, employees, stockholders, Affiliates or representatives has made or is making any representation, express or implied, as to any warranty of merchantability, suitability or fitness for a particular purpose, with respect to any of the tangible assets being so acquired.

ARTICLE 12.

MISCELLANEOUS

1.75 Amendment and Waiver. This Agreement may be amended, and any provision of this Agreement may be waived; provided, however, that any such amendment or waiver shall be binding on Seller and Parent only if such amendment or waiver is set forth in a writing executed by Seller and Parent and that any such amendment or waiver shall be binding upon Purchaser only if such amendment or waiver is set forth in a writing executed by Purchaser. No course of dealing between or among any persons having any interest in this Agreement shall be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any person under or by reason of this Agreement.

1.76 Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when personally delivered, mailed by first class mail, return receipt requested or delivered by a nationally recognized courier service. Notices, demands and communications to Seller or Purchaser shall, unless another address is specified in writing in accordance

herewith, be sent to the address indicated below:

Notices to Seller and Parent

SunSource Inc.
One Logan Square
Philadelphia, PA
Attention: Joseph M. Corvino
Telephone: (215) 282-1290
Telecopier: (215) 282-1309

with a copy to:

Morgan, Lewis & Bockius, LLP
One Logan Square
Philadelphia, PA
Attention: Thomas Sharbaugh, Esq.
Telephone: (215) 963-5004
Telecopier: (215) 963-5299

Notices to Purchaser

c/o Lawson Products, Inc.
1666 East Touhy Avenue
Des Plaines, Illinois 60018
Attention: Robert J. Washlow
Telephone: (847) 827-9666
Telecopier: (847) 795-9030

and

Assembly Component Systems, Inc.
709 Second Avenue, SE
Decatur, Alabama 35601
Attention: Stanley Belsky
Telephone: (256) 353-1931
Telecopier: (256) 355-0274

with a copy to:

Vedder, Price, Kaufman & Kammholz
222 North LaSalle Street
Chicago, Illinois 60601
Attention: Pearl A. Zager, Esq.
Telephone: (312) 609-7548
Telecopier: (312) 609-5005

1.77 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder of Seller or Parent shall be assignable by Seller or Parent without the prior written consent of Purchaser. Purchaser may assign this Agreement, in whole or in part, without restriction to any of its affiliates existing as of the date hereof or in the future; provided, however, that any such assignment shall not affect the obligations of Lawson hereunder.

1.78 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

1.79 No Third Party Beneficiaries. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any other persons other than the parties hereto and their respective successors and permitted assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party, nor shall any provision give any third parties any right of subrogation or action over or against any party. This Agreement is not intended to and does not create any third party beneficiary rights whatsoever.

1.80 No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

1.81 Captions. The captions used in this Agreement are for convenience of reference only and do not constitute a part of this Agreement and shall not be deemed to limit, characterize or in any way affect any provision of this Agreement, and all provisions of this Agreement shall be enforced and construed

as if no caption had been used in this Agreement.

1.82 Complete Agreement. This document and the documents referred to herein contain the complete agreement between the parties and supersede any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

1.83 Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same instrument.

1.84 Governing Law; Consent to Forum. This Agreement has been negotiated, executed and delivered at and shall be deemed to have been made in Chicago, Illinois. The internal law, not the law of conflicts, of the State of Illinois shall govern all questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement. As part of the consideration for the Purchase Price received, Seller and Parent hereby consent and agree that the Circuit Court of Cook County, Illinois, or, at Purchaser's option, the United States District Court for the Northern District of Illinois, Eastern Division, shall have exclusive jurisdiction to hear and determine any claims or disputes among the parties pertaining to this Agreement or to any matter arising out of or related to this Agreement. Seller and Parent expressly submit and consent in advance to such jurisdiction in any action or suit commenced in any such court, and hereby waive any objection which either of them may have based upon lack of personal jurisdiction, improper venue or forum non conveniens and hereby consent to the granting of such legal or equitable relief as is deemed appropriate by such court. Seller and Parent hereby waive personal service of the summons, complaint and other process issued in any such action or suit and agree that service of such summons, complaint and other process may be made by registered or certified mail addressed to Seller at the address set forth in this Agreement and that service so made shall be deemed completed upon the earlier of Seller's actual receipt thereof or three (3) days after deposit in the U.S. Mail, proper postage prepaid. Nothing in this Agreement shall be deemed or operate to affect the right of Purchaser to serve legal process in any other manner permitted by law, or to preclude the enforcement by Purchaser of any judgment or order obtained in such forum or the taking of any action under this Agreement to enforce same in any other appropriate forum or jurisdiction.

1.85 Knowledge. Any reference to the knowledge, best knowledge, awareness or similar concepts with respect to Seller or Parent or both means the actual knowledge of any officer, director or supervisory employee of Seller or any officer or director of Parent.

1.86 Bulk Sales. Subject to the provisions of Section 9.1(b), Purchaser waives compliance by Seller with the bulk sales or similar laws of any state relating to the sale of the Purchased Assets contemplated by this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SELLER:

SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.

By:_____
Its

PARENT:

SUNSOURCE INC.

By:_____
Its

SUNSOURCE INDUSTRIAL SERVICES

COMPANY, INC.

By:_____
Its

PURCHASER:

ACS/SIMCO, INC.

By:_____
Its President

SCHEDULE 1.2(b)

MRO ACCOUNTS SCHEDULE

MRO ACCOUNTS

Tipper Tie, Inc. (Delaware Corporation)
2000 Lufkin Road
Apex, North Carolina 27502

Alamo Group
1502 E. Walnut St.
Seguin, Texas 78155

Iowa Mold Tooling Co., Inc. (IMT)
500 Hwy 18
Garner, Iowa 50438

Tamrock
_____
_____
_____

SCHEDULE 3.5

OUTSTANDING LIABILITIES

1. $78,000 product defect claim by Modine Manufacturing Co., Inc.

2. Sexual harassment claim by Geri Mowl, an employee of Hillman Industrial.

TRANSITIONAL SERVICES AND SUPPLY AGREEMENT

THIS TRANSITIONAL SERVICES AND SUPPLY AGREEMENT dated as of July 1, 1999, is made by and among SunSource Inventory Management Company, Inc. ("Seller"), a Delaware corporation, SunSource, Inc., a Delaware corporation, and SunSource Industrial Services Company, Inc., a Delaware corporation (collectively "Parent"), The Hillman Group, Inc., a Delaware corporation ("Hillman"), Lawson Products, Inc., a Delaware corporation ("Lawson"), and ACS/SIMCO, Inc. ("Purchaser"), an Illinois corporation. Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings given to them in that certain Asset Purchase Agreement among Seller, Purchaser and certain related parties, dated as of July 1, 1999 (the "Purchase Agreement").

W I T N E S S E T H:

WHEREAS, Purchaser and Seller have entered into the Purchase Agreement pursuant to which Purchaser will purchase substantially all of the assets owned by Seller which are used in the conduct of the Business on the terms, conditions and provisions contained therein; and

WHEREAS, Purchaser desires to obtain the use of certain facilities and receive certain support and transition services from Seller and Hillman on the terms and subject to the conditions herein contained, and Seller and Hillman wish to provide such facilities, support and transition services to Purchaser as provided herein; and

WHEREAS, Purchaser desires to have the right to purchase certain inventory from Seller and Parent on the terms and subject to the conditions herein contained, and Seller and Parent wish to sell such inventory to Purchaser; and

WHEREAS, Seller desires to have Purchaser act as its agent to sell certain obsolete inventory and to collect certain doubtful accounts receivable, and Purchaser is willing to do so on the terms and subject to the conditions set forth herein; and

WHEREAS, Lawson is willing to guarantee the performance of Purchaser hereunder subject to the terms and conditions set forth herein; and

WHEREAS, Parent is willing to guarantee the performance of Seller and Hillman hereunder subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and of the covenants and agreements herein contained and the consummation of the Purchase Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Services Provided by Purchaser. Subject to the terms and conditions of this Agreement, Purchaser will provide to Seller the following agency services (the "Purchaser Services"):

(1) Purchaser agrees to undertake the collection of the existing and future receivables from the accounts owned by Seller and listed on Schedule 1(a) attached hereto and made a part hereof (the "Accounts") until the earlier of December 31, 2003 and the date on which Purchaser's retainage rights under Section 4 have been fully satisfied. In this regard, Purchaser shall devote not less than the same efforts as it devotes to its own accounts receivable; provided that Purchaser shall not be obligated to collect the Accounts and does not promise or guaranty that the Accounts will be collected. Purchaser shall credit any payments received from a particular Account against the oldest invoice outstanding from such Account. No compromise or settlement of any of the Accounts will be accepted without the prior written consent of Seller. If, on the date of termination of Purchaser's obligations hereunder, Purchaser has not collected all of the Accounts, Purchaser shall so notify Seller and deliver to Seller all of the information in Purchaser's possession concerning the uncollected Accounts. Subject to Purchaser's right of retainage pursuant to Section 4, Purchaser shall pay to Seller all sums collected with respect to the Accounts. For up to three full calendar months after the Closing, Purchaser will maintain the Accounts on Purchaser's FAS PAC computer system, including the Frame Relay Circuits between Kansas City and the Accounts, and allow Seller's personnel access to the Business' computer hardware and software to convert the Accounts to Seller's computer systems. All costs associated with this service will be charged to Seller.

(2) Purchaser agrees to attempt to sell certain obsolete

inventory not reserved on the Latest Balance Sheet and Closing Balance Sheet having an aggregate value of $444,445.62, acquired from Seller pursuant to the Purchase Agreement and described in Schedule 1(b)-I attached hereto and made a part hereof (the "Obsolete Inventory") until December 31, 2003 or until such time as Seller directs Purchaser to scrap any of the Obsolete Inventory. Purchaser shall not sell any item of Obsolete Inventory for less than the minimum sale price set forth in Schedule 1(b)-I without Seller's prior written authorization or approval. Subject to Purchaser's right of retainage under Section 4, for each item of Obsolete Inventory sold by Purchaser, Purchaser shall promptly pay to Seller the value of such item of Obsolete Inventory as shown on Seller's books and records used to determine Closing Tangible Net Worth ("Purchaser's Cost"). For the first 30 days after the Closing Date, Hillman, an affiliate of Seller and subsidiary of Parent, shall have the right to purchase any of the Obsolete Inventory at Purchaser's Cost plus a mark-up equal to the mark-up that Parent or Hillman would charge Purchaser under Section 3. Purchaser shall not be obligated to

sell any of the Obsolete Inventory and does not promise or guaranty that any of the Obsolete Inventory will be sold. To the extent that Purchaser does not sell all of such Obsolete Inventory by December 31, 2000, Purchaser shall give Seller notice thereof (the "Obsolete Inventory Notice") and assign, convey and transfer to Seller any Obsolete Inventory then remaining unsold for no consideration if the sum to be retained by Purchaser pursuant to Section 4 has been satisfied and retained in full. If such sum has not been fully satisfied and retained, then Seller and Parent shall be jointly and severally liable to pay to Purchaser the difference between $444,445.62 and the value of any unsold Obsolete Inventory (calculated at Purchaser's Cost) within two business days after the date of Purchaser's notice thereof. Purchaser and Seller shall track the sale of the Obsolete Inventory and the proceeds thereof pursuant to the procedures set forth in Schedule 1(b)-II attached hereto and made a part hereof. Any Obsolete Inventory currently located at Hillman's Cincinnati, Ohio facility shall remain there and be stored there at no expense to Purchaser throughout the period of Purchaser's obligations under this Section 1(b). Any Obsolete Inventory not currently located at Hillman's Cincinnati, Ohio facility shall be stored at Purchaser's expense until June 30, 2000. At that time, any remaining Obsolete Inventory shall be shipped to Hillman's Cincinnati, Ohio facility or to such other place as Seller may direct, in each case, at Seller's expense.

Section 2. Services Provided by Seller and Hillman. Subject to the terms and conditions of this Agreement, Seller and Hillman shall provide to Purchaser the following facilities, support and transition services (collectively, the "Seller Services"):

(1) For up to six full calendar months after the Closing Date, Hillman will provide Purchaser with (i) the office and warehouse space in Hillman's Cincinnati, Ohio facility previously used by Seller and Hillman for the "Hillman Industrial" division of the Business and (ii) the ancillary services and personnel previously provided by Hillman to Seller, including, but not limited to, access to computer terminals and computer programs serving Seller's Business (such as inventory monitoring and billing programs) and shipping and support personnel to the extent desired by Purchaser. Seller will charge Purchaser for the Seller Services at the rates set forth in Schedule 2(a) attached hereto and made a part hereof. Purchaser may terminate its use or occupancy of all or any part of the Seller Services at any time during such six month period, and any charges shall be prorated as of the day of such termination. At such time as Purchaser completely terminates the Seller Services and vacates Hillman's facility, Seller and Hillman shall (x) deliver to the loading dock thereon the Purchased Assets, and (y) at no expense to Purchaser, disassemble and remove from Hillman's facility and deliver to the loading dock thereon the racks and shelving which comprise part of the Purchased Assets and are described on the Hillman Equipment Schedule.

(2) For six months after the Closing Date, Seller shall cause Thorn Frass, its employee, or if Mr. Frass shall cease being an employee of Seller during such period, another employee reasonably acceptable to Purchaser, to use commercially reasonable efforts to train up to two employees of Purchaser on the procedures and contacts used by Parent and Seller to import products for the Hillman Industrial Division of the Business. After the Closing Date, such employees and one other employee or representative of Purchaser shall be permitted, at Purchaser's expense, to accompany Mr. Frass (or such other acceptable employee of Seller) on not less than two of his trips to Asia and the "Far East" to meet with Hillman Industrial vendors. Mr. Frass (or such other acceptable employee of Seller) shall introduce Purchaser's employees and representative to all of the key personnel at each of Parent's and Seller's Asian/"Far East" vendor's offices that relate to the Hillman Industrial Division of the Business. From and

after the Closing Date, Seller and Parent shall authorize each such vendor to sell to Purchaser all of the products at any time previously purchased by Seller or Parent for Seller's Business and release such vendors from any covenants to the contrary.

(3) Hillman shall use commercially reasonable efforts to maintain the employment of all employees employed by Hillman to work in Seller's Hillman Industrial division at the Cincinnati, Ohio, facility of Parent (the "Hillman Employees") through December 31, 1999, and Hillman shall provide to Purchaser the services of such employees on a full-time basis. Purchaser shall reimburse Hillman for the actual cost of that portion of the wages, taxes and benefits paid by Hillman to or on behalf of the Hillman Employees, prorated based on the amount of services rendered to Purchaser during such period. Purchaser shall not be required to reimburse Hillman for any Hillman Employees after Purchaser notifies Hillman that it no longer needs the services of such employees. Notwithstanding anything herein to the contrary, Purchaser shall only be liable to reimburse Hillman for the actual amount of the profit-sharing plan contributions made by Hillman to those Hillman Employees who meet the prerequisites therefor under Hillman's profit-sharing plan and who are hired by Purchaser on January 1, 2000 after Purchaser terminates its arrangements with Hillman hereunder ("Actual Profit-Sharing Contribution"). If the aggregate amount of the estimated profit-sharing plan contributions reimbursed by Purchaser to Seller with respect to the Hillman Employees exceeds the Actual Profit-Sharing Contribution, the excess shall be refunded to Purchaser by Hillman on or before January 31, 2000. If said aggregate estimated contributions are less than the Actual Profit-Sharing Contribution, the deficiency shall be paid to Hillman by Purchaser on or before January 31, 2000. Purchaser shall not be liable to reimburse Hillman for the cost of any wages, taxes or benefits accrued or accruing to the Hillman Employees prior to the Closing Date or after their termination date, whether paid at or prior to termination. Purchaser may direct Hillman to terminate Purchaser's use of any of the Hillman Employees at any time during the period prior to December 31, 1999. At any time after the Closing Date, Purchaser may elect, in its sole discretion, to offer employment to any or all of the Hillman Employees. If Purchaser does not elect to offer employment to any one or more of the Hillman Employees, the termination of any such personnel shall be Seller's, Parent's or Hillman's responsibility and shall not be done at any cost or expense to or liability of Purchaser. The rights and obligations of Purchaser under this Agreement are subject to Purchaser's superseding obligations under Section 11.12 of the Purchase Agreement with respect to the number of employees at each facility to whom Purchaser shall offer employment and the WARN Act, including Purchaser's obligation to offer employment to a sufficient number of employees of the Business to avoid any liability under the WARN Act on the part of Seller, Hillman or Parent.

Section 3. Inventory Supply. For a period of twelve full calendar months after the Closing Date, Seller and Parent jointly agree to sell to Purchaser the line of products previously sold by Parent or one of its subsidiaries to Seller in connection with the Business (the "Products") in such quantities as required by the terms of this Agreement. Seller and Parent represent and warrant that the Products will conform to the specifications previously used by Seller for the Products ("Specifications"), provided that, if the Specifications are changed for any Product, Parent shall notify Purchaser at least 30 days in advance and shall provide to Purchaser the customary technical assistance to adapt to such change, and further provided that any changes to such Specifications will not cause the Products to fail to meet quality standards set by Seller prior to the date hereof. Seller shall have the right to request Specifications and quantity requirements from Purchaser prior to filling any order for Products and shall receive written Specifications in advance from Purchaser for any products not previously supplied by Seller or Parent. In the event the Products supplied by Seller meet the written Specifications furnished by Purchaser but do not meet the end customer's specifications, Seller shall have no other obligation to Purchaser therefor and shall be entitled to payment in full for the Products supplied. Should any Products not conform to the Specifications, then Seller and Parent shall, at Purchaser's option, either promptly exchange such Products for conforming Products or take the Products back (without restocking charges) and refund the costs paid by Purchaser for the Products.

Seller and Parent shall sell to Purchaser sufficient quantities of the Products to supply the customers of the Business in accordance with past practice, including, but not limited to, the parties to Seller's Customer Inventory Management Agreements which agreements were assigned to Purchaser at Closing. The Products shall be sold to Purchaser at Seller's or Parent's then

current inter-company wholesale prices. Purchaser shall have the option, but not the obligation, to purchase the Products from Seller and Parent hereunder. In the event Purchaser requires quantities of any Product used by both the Purchaser and the Seller and such quantity is in excess of pre-Closing purchases of such Product by 10% or reduces the safety stock of such Product of the Seller and Parent below a ninety (90) day inventory, Seller shall have first claim on this inventory, and Seller and Parent shall take reasonable steps to replenish such Product stock as soon as possible at no cost penalties. Seller and Parent will deliver the Products to freight carriers designated by Purchaser from time to time within time frames comparable to those previously met by Seller to satisfy the requirements of customers of the Business.

Section 4. Purchaser's Right of Retainage. Purchaser shall have the right to retain from the first payments due from Purchaser to Seller or Hillman with regard to Products purchased pursuant to Section 3, amounts due to Seller with respect to Obsolete Inventory sold pursuant to Section 1(b) and Accounts collected pursuant to Section 1(a) until the aggregate amount retained equals $1,426,000. If the aggregate amount retained is not equal to such sum by December 31, 2003, then Seller and Parent shall be jointly and severally liable to pay to Purchaser the difference between said $1,426,000 and the sum of the amount so retained.

Section 5. Payments to Seller. For each of the five calendar years beginning with the calendar year ending December 31, 1999, and ending with the calendar year ending December 31, 2003, Purchaser shall pay to Seller, within thirty (30) days after the end of each such calendar year, an amount equal to fifteen percent (15%) of Existing Customer Sales (defined below) for such calendar year (including the portion of 1999 prior to the Closing Date) in excess of Twenty-Six Million and no/100 Dollars ($26,000,000.00). Purchaser's liability to Seller under this Section 5 shall not exceed One Million and no/100 Dollars ($1,000,000.00) in the aggregate. If, during any of the five calendar years to which this provision applies, Existing Customer Sales equal or exceed Thirty Million and no/100 Dollars ($30,000,000.00), then Purchaser shall pay to Seller the difference between One Million and no/100 Dollars ($1,000,000.00) and the sum of amounts previously paid or credited to Seller under this Section 5. If (a) Purchaser sells all or substantially all of the assets constituting the Business at any time prior to termination of Purchaser's obligations hereunder and (b) for each calendar year or portion thereof prior to the date of such sale, the average of the Existing Customer Sales was equal to or greater than Twenty-Seven Million, Three Hundred Thirty-Three Thousand, Three Hundred Thirty-Three and 33/100 Dollars ($27,333,333.33) per year, then Purchasers shall be jointly and severally liable to pay to Seller at the time of closing of the sale of such assets the difference between One Million and no/100 Dollars ($1,000,000.00) and the sum of the amounts previously paid or credited to Seller under this Section 5. For purposes of this Section, Existing Customer Sales shall mean net annual sales to Parent, Seller or any of their affiliates (excluding Obsolete Inventory) as well as sales to customers who were either customers of Seller or with whom Seller had an outstanding written proposal for a systems account at the time of Closing and which result in a contract with Purchaser within twelve months of the Closing Date, all of which customers and proposed customers are listed on Schedule 5 attached hereto and made a part hereof. Seller shall have the right, annually, to have its independent auditors review the records of Purchaser to verify Existing Customer Sales. To the extent Purchaser has not retained or been paid $1,426,000 pursuant to Section 4, Purchaser shall have the right to retain any such balance outstanding under Section 4 from any amounts due to Seller hereunder, and any amounts so retained shall be deemed to be amounts paid or credited to Seller hereunder.

Section 6. Books and Records. The parties shall keep accurate and complete books and records in respect of the Services, as the case may be, for the applicable tax audit period. Such books and records shall be kept at the principal place of business of each of Seller, Parent and Purchaser, unless otherwise agreed to by the parties, and such books and records shall be made available to each of the parties and their respective representatives at all reasonable times for examination, audit, inspection, transcription and copying.

Section 7. Term of Agreement and Services. The term of this Agreement will commence on the Closing Date and shall continue until terminated as provided in each Section of this Agreement respectively.

Section 8. Independent Contractor; No Partnership. The Services being performed by Purchaser and Seller under the provisions of this Agreement shall be performed by Purchaser and Seller as an independent contractor for the other party. Nothing in the Agreement shall be deemed or construed by the parties hereto or by any third person to create the relationship of partnership or joint venture between Seller and Purchaser.

Section 9. Personnel. Except as otherwise specifically provided herein,

(a) Seller or Parent will employ, pay, supervise, direct and discharge all Seller personnel providing the Seller Services, (b) Seller and Parent will be solely responsible for the payment of benefits and any other direct and indirect compensation for Seller or Parent personnel assigned to perform the Seller Services, and (c) Seller and Parent will be responsible for the employees' worker's compensation insurance, employment taxes and other employer liabilities relating to such personnel.

Section 10. Dispute Resolution. If a dispute, controversy or claim (collectively, a "Dispute") between Seller and Purchaser arises out of or relates to this Agreement, Seller and Purchaser shall have all rights and remedies available at law or equity.

Section 11. Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when personally delivered, mailed by first class mail, return receipt requested or delivered by a nationally recognized courier service. Notices, demands and communications to Seller or Purchaser shall, unless another address is specified in writing in accordance herewith, be sent to the address indicated below:

Notices to Seller, Parent and Hillman

SunSource Inc.
One Logan Square
Philadelphia, PA
Attention: Joseph M. Corvino
Telephone: (215) 282-1290
Telecopier: (215) 282-1309

with a copy to:

Morgan, Lewis & Bockius, LLP
One Logan Square
Philadelphia, PA
Attention: Thomas Sharbaugh, Esq.
Telephone: (215) 963-5004
Telecopier: (215) 936-5299

Notices to Purchaser

c/o Lawson Products, Inc.
1666 East Touhy Avenue
Des Plaines, Illinois 60018
Attention: Robert J. Washlow
Telephone: (847) 827-9666
Telecopier: (847) 795-9030

and

Assembly Component Systems, Inc.
709 Second Avenue, S.E.
Decatur, Alabama 35601
Attention: Stanley Belsky
Telephone: (256) 353-1931
Telecopier: (256) 355-0274

with a copy to:

Vedder, Price, Kaufman & Kammholz
222 North LaSalle Street
Chicago, Illinois 60601
Attention: Pearl A. Zager, Esq.
Telephone: (312) 609-7548
Telecopier: (312) 609-5005

Section 12. Entire Agreement. This Agreement constitutes the entire Agreement between the parties hereto in respect to the subject matter hereof and supersedes all prior and contemporaneous agreements between the parties hereto in connection with the subject matter hereof.

Section 13. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto; provided, however, that neither party hereto may assign or in any way voluntarily transfer this Agreement, or its respective obligations hereunder, without the prior written consent of the other party, which may be withheld for any reason.

Section 14. Captions. The captions contained in this Agreement are included only for convenience of reference and do not define, limit, explain or modify this Agreement or its interpretation, construction or meaning and are in no way to be construed as a part of this Agreement.

Section 15. Pronouns. The number and gender of each pronoun used in this Agreement, if any, shall be construed to mean such number and gender as the context, circumstances or its antecedent may require.

Section 16. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Illinois (regardless of the laws that might otherwise govern under applicable principles of conflict of laws) as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies.

Section 17. Jurisdiction and Venue. Each party consents to the personal jurisdiction of the state and federal courts located in the State of Illinois and hereby waives any argument that venue in any such forum is not convenient or proper.

Section 18. Amendments, Changes and Modifications. This Agreement may be amended, changed and modified only in a writing executed by both of the parties.

Section 19. Severability. If any clause, provision or section of this Agreement, or any covenant, stipulation, obligations, agreement, act or action, or part thereof made, assumed, entered into or taken under this Agreement is for any reason held to be illegal, invalid or inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other clause, provision or section or any covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken thereunder or hereunder.

Section 20. Lawson Guaranty. Lawson shall cause Purchaser to comply with all of its obligations in this Agreement. Lawson hereby guarantees the prompt and complete performance by Purchaser of all of its obligations in this Agreement.

Section 21. Parent Guaranty. Parent shall cause Seller and Hillman to comply with all of their respective obligations in this Agreement. Parent hereby guarantees the prompt and complete performance by Seller and Hillman of all of their respective obligations in this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed in its name by its duly authorized representative, all as of the day and year first above written.

SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.

By:_____
Name:_____
Title:_____

SUNSOURCE INC.

By:_____
Name:_____
Title:_____

SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC.

By:_____
Name:_____
Title:_____

THE HILLMAN GROUP, INC.

By:_____
Name:_____
Title:_____

ACS/SIMCO, INC.

By:_____
Name:_____
Title:_____

INDEX OF SCHEDULES

SCHEDULE 1(a)

ACCOUNTS
(Owned by Seller)

MRO ACCOUNTS

Tipper Tie, Inc. (Delaware Corporation)
2000 Lufkin Road
Apex, North Carolina 27502

Alamo Group
1502 E. Walnut St.
Seguin, Texas 78155

Iowa Mold Tooling Co., Inc. (IMT)
500 Hwy 18
Garner, Iowa 50438

[TAMROCK]

Schedule 1(b) - I

OBSOLETE INVENTORY

Description	Minimum Sales Price

Schedule 1(b) - II

TRACKING PROCEDURE FOR OBSOLETE INVENTORY

Schedule 2(a)

RATES FOR SELLER SERVICES

Schedule 5

SELLER'S EXISTING CUSTOMERS
OR THOSE WITH WHOM SELLER HAD
OUTSTANDING WRITTEN PROPOSAL

SUNSOURCE INC.
1998 EQUITY COMPENSATION PLAN

AMENDMENT TO
NONQUALIFIED STOCK OPTION GRANT

This amendment, dated as of January 26, 2000, which amends a NONQUALIFIED STOCK OPTION GRANT dated as of April 27, 1999, is delivered by SunSource, Inc. (the "Company") to Maurice P. Andrien (the "Grantee").

RECITALS

A. The SunSource Inc. 1998 Equity Compensation Plan (the "Plan") provides for the grant of options to purchase shares of common stock of the Company. The committee established under the terms of the Plan (the "Committee") made a stock option grant covering 150,000 shares as of April 27, 1999 (the "Original Grant") as an inducement for the Grantee to enter into an employment agreement between the Company and the Grantee.

B. On January 26, 2000 the Committee approved a restructuring of the Original Grant whereby the number of shares covered by the Original Grant shall be reduced to 50,000 and the Grantee shall receive a new grant 100,000 restricted shares under the terms of a Restricted Stock Grant pursuant to the Plan.

C. The Plan is administered and interpreted by the Committee.

NOW, THEREFORE, the parties to this Agreement, intending to be legally bound hereby, agree as follows:

1. The following sentence is added to the end of Section 1 of the Original Grant:

"Effective January 26, 2000, the number of Shares that may be purchased upon the exercise of the Option shall be reduced to 50,000."

2. Except as specifically set forth above, each of the provisions of the Original Grant shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Amendment and the Grantee has executed same to evidence acceptance of this Amendment.

SUNSOURCE INC.

By:_____

Accepted:_____
Grantee

SUNSOURCE INC.
1998 EQUITY COMPENSATION PLAN

RESTRICTED STOCK GRANT

This RESTRICTED STOCK GRANT, dated as of January 26, 2000, is delivered by SunSource Inc. (the "Company"), to Maurice P. Andrien (the "Grantee").

RECITALS

A. The SunSource Inc. Equity Compensation Plan (the "Plan") provides for the grant of restricted stock in accordance with the terms and conditions of the Plan.

B. On January 26, 2000 the committee established under the terms of the Plan (the "Committee") approved a restructuring of Grantee's equity compensation grants whereby the number of shares covered by a previous option grant shall be reduced to 50,000 and the Grantee shall receive a new grant of 100,000 restricted shares under the Plan.

C. The Plan is administered and interpreted by the Committee.

NOW, THEREFORE, the parties to this agreement, intending to be legally bound hereby, agree as follows:

1. Restricted Stock Grant. The Company hereby grants the Grantee 100,000 shares of common stock of the Company effective January 26, 2000 (the "Date of Grant"), subject to the restrictions set forth below and in the Plan ("Restricted Stock"). Shares of Restricted Stock may not be transferred by the Grantee or subjected to any security interest until the shares have become vested pursuant to this Agreement and the Plan. This grant is contingent upon the Grantee executing the Amendment to Nonqualified Stock Option Grant of even date.

2. Vesting of Restricted Stock.

(a) The restrictions described in Section 2(b) and Section 3 shall lapse with respect to the Restricted Stock as follows, provided, that the Grantee has a Company Relationship from the Date of Grant until the respective date set forth below:

(i) 33,333 shares of Restricted Stock shall become vested on July 26, 2000 (six months from the date of grant);

(ii) 33,333 shares of Restricted Stock shall become vested on the earlier of either: (A) the last day of the continuous thirty calendar day period during which the closing price for the Company's stock is at least $9.00 per share, or (B) January 26, 2003 (three years from the date of grant); and

(iii) 33,334 shares of Restricted Stock shall become vested on the earlier of either (A) the last day of the continuous thirty calendar day period during which the closing price for the Company's stock is at least $15.00 per share, or (B) January 26, 2003 (three years from the date of grant).

The vesting of the Restricted Stock shall be cumulative.

(b) If the Grantee voluntarily terminates employment or is involuntarily terminated for "Cause," as defined in the Plan, before the Restricted Stock is fully vested, the shares of Restricted Stock that are not then vested shall be forfeited and must be immediately returned to the Company. The Committee shall accelerate vesting of the Restricted Shares if the Grantee terminates employment on account of death, disability (as defined under the Company's long-term disability plan then in effect), approved retirement, or involuntary termination without Cause.

(c) For purposes of this Agreement, "Company Relationship" means employment as an employee of, or the provision of services to, the Company or a subsidiary.

3. Nonassignability of Rights. During the period before the shares of Restricted Stock vest (the "Restriction Period"), the non-vested Restricted Stock may not be assigned, transferred, pledged or otherwise disposed of by the Grantee. Any attempt to assign, transfer, pledge or otherwise dispose of the shares contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the shares, shall be null and void and without effect.

4. Issuance of Certificates.

(a) Stock certificates representing the Restricted Stock may be issued by the Company and held in escrow by the Company until the Restricted Stock vests, or the Company may hold non-certificated shares until the Restricted Stock vests. During the Restriction Period, the Grantee shall receive any cash dividends with respect to the shares of Restricted Stock, may vote the shares of Restricted Stock and may participate in any distribution pursuant to a plan of dissolution or complete liquidation of the Company. In the event of a dividend or distribution payable in stock or other property or a reclassification, split up or similar event during the Restriction Period, the shares or other property issued or declared with respect to the non-vested shares of Restricted Stock shall be subject to the same terms and conditions relating to vesting as the shares to which they relate.

(b) When the Grantee obtains a vested right to shares of Restricted Stock, a certificate representing the vested shares shall be issued to the Grantee, free of the restrictions under Sections 2 and 3 of this Agreement.

5. Change of Control. In the event of a Change of Control, all restrictions relating to the Restricted Stock shall lapse unless the Committee determines that lapse of the restrictions may result in the loss of pooling of interests accounting treatment or may result in triggering "excess parachute payments" pursuant to Section 13(e) of the Plan.

6. Grant Subject to Plan Provisions. This grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the Shares, (iii) capital or other changes of the Company and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the grant pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. Notwithstanding the foregoing, to the extent the Committee has discretion under the Plan, such discretion shall not be exercised in a manner that is inconsistent with the terms of an employment agreement between the Company and the Grantee ("Employment Agreement").

7. Withholding. The Grantee shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any income and other payroll withholding taxes that the Company is required to withhold with respect to the grant or vesting of the Restricted Stock.

8. No Employment or Other Rights. This grant shall not confer upon the Grantee any right to be retained by or in the employ or service of the Company and shall not interfere in any way with the right of the Company to terminate the Grantee?s employment or service pursuant to the Employment Agreement.

9. Assignment by Company. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Grantee?s consent.

10. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and determined in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

11. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Vice President - Finance at SunSource Inc., 3000 One Logan Square, Philadelphia, PA 19103, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant Instrument as evidence of the Restricted Stock Grant referenced herein, and the Grantee has executed this grant instrument to evidence acceptance of such Restricted Stock grant on the terms and conditions specified herein, all effective as of the Date of Grant.

SUNSOURCE INC.

By:____________________________

Accepted:______________________
Grantee

NOTE AND PLEDGE AGREEMENT

NOTE AND PLEDGE AGREEMENT (the "Note and Pledge Agreement"), dated as of February 24, 2000, between Maurice P. Andrien (the "Maker" and SUNSOURCE INC. (the "Payee").

PRELIMINARY STATEMENT

The Maker has received a restricted stock grant from the Payee effective January 26, 2000 pursuant to a Restricted Stock Grant effective January 26, 2000 (the "Grant Letter"), under the SunSource Inc. 1998 Equity Compensation Plan, whereby the Maker will receive a grant of 100,000 shares (the "Shares") of common stock of the Payee. Concurrently therewith, the Maker is making an election under Section 83(b) of the Internal Revenue Code to be taxed on the date of grant ("83(b) Election" of the Shares, the Payee is making a loan (the "Loan") to the Maker of the amount of taxes resulting to the Maker as a result of the 83(b) Election, and the Maker is delivering this Note and Pledge Agreement to the Payee, whereby the Maker promises, among other things, to pay the principal amount of $206,350.20 (the "Note") in repayment of the Loan and to pledge to the Payee the Shares to secure the payment of the Loan (the "Pledge"). Under the terms of the Pledge, the Payee shall continue to hold the Pledged Securities (as defined below) hereunder until released in accordance with Section B.8 hereof or the termination of this Note and Pledge Agreement.

WITNESSETH:

NOW, THEREFORE, to induce the Payee to make a loan under this Note and Pledge Agreement and in consideration of the mutual covenants contained herein, the parties hereto, each intending to be legally bound hereby, covenant and agree as follows:

A. Promissory Note.

1. Terms. FOR VALUE RECEIVED, and intending to be legally bound, the Maker hereby promises to pay, in lawful money of the United States of America, without demand, defalcation, set off or deduction, to the order of Payee, at the address of the Payee's executive offices, or at such other place as the holder hereof shall from time to time designate in writing, the principal amount of $206,350.20, in three equal annual installments commencing upon February 24, 2001 with interest on the unpaid principal balance until paid at the annual rate of 6.11%, calculated on the basis of a 360-day year consisting of twelve 30-day months. If not sooner paid, the outstanding principal amount, together with accrued interest thereon, shall be immediately due and payable on the first to occur of (i) the date on which the Maker's employment with the Payee terminates for any reason, (ii) a Change of Control of the Payee (as defined in the SunSource Inc. 1998 Equity Compensation Plan), (iii) the date on which the Maker sells or otherwise disposes of any of the Shares, or agrees to sell or otherwise dispose of any of the Shares or (iv) February 24, 2003.

2. Prepayment. The Maker may prepay at any time all or part of the outstanding principal balance hereof without penalty, provided that when making such prepayment the Maker shall pay all interest then accrued and all other sums then due hereunder. Partial prepayments shall be applied to reduce the remaining payments in the inverse order of maturity.

3. Default.

(a) The Maker shall be in default hereunder upon the occurrence of any of the following events (each an "Event of Default"): (i) if the Maker fails to pay the principal or interest or any other sum due hereunder on the applicable due date therefor and such failure continues for at least 30 days after notice of the failure; (ii) if the Maker shall (A) apply for or consent to the appointment of a receiver, custodian, trustee or liquidator of himself or of all or a substantial part of his property, (B) make a general assignment for the benefit of his creditors, (C) file a petition seeking to take advantage of any law providing for the relief of debtors, or (D) take any action for the purpose of effecting any of the foregoing; (iii) if a proceeding or case shall be commenced against the Maker in any court of competent jurisdiction for (A) the winding up, or composition or readjustment of debts, of the Maker, (B) the appointment of a trustee, receiver, custodian, liquidator or the like of the Maker or of all or any substantial part of his property, or (C) similar relief in respect of the Maker under any law providing for the relief of debtors, and such proceeding or case shall continue undismissed, or unstayed and in effect, for a period of 60 days, or an order for relief against the Maker shall be entered in an involuntary case under such Bankruptcy Code; or (iv) if there shall be a default under the Pledge.

(b) Upon the occurrence of an Event of Default, which shall be continuing, the balance of principal of and all accrued interest upon this Note

shall become immediately due and payable (i) without any action or notice of any kind on the part of any holder of this Note in the case of the occurrence of an Event of Default described in subparagraph (ii) or (iii) of paragraph (a) above; or (ii) in the case of other Events of Default, only upon declaration of such default delivered to the Maker by the holder.

(c) The Maker shall pay on demand all costs of collection, including without limitation reasonable attorneys' fees, incurred by the holder hereof with respect to any default by the Maker hereunder. Such amounts, until paid by the Maker, shall be added to the principal hereof, bear interest at the rate set forth in Section A.1. above and be secured by the Pledge.

4. Forgiveness. This Note shall be forgiven and the Payee shall release to the Maker all of the Pledged Securities upon the Maker's involuntary termination from the Payee without "Cause" (as defined in the SunSource Inc. 1998 Equity Compensation Plan).

B. Pledge Agreement.

1. Pledge of Stock. As collateral security for the punctual payment and performance of all existing and future indebtedness, obligations and other liabilities, absolute or contingent, direct or indirect, primary or secondary, of the Maker to the Payee of any nature whatsoever under this Note and Pledge Agreement (all of such indebtedness, obligations and liabilities of the Maker being hereinafter sometimes referred to collectively as the "Obligations"), the Maker hereby deposits with and pledges and hypothecates to the Payee for its benefit and grants to the Payee for its benefit, and agrees that the Payee shall have a first security interest in and pledge of, the number of shares of Shares (the "Pledged Securities") of the Payee set forth below:

Class of Security	Certificate Number	Number of Shares Pledged
Common Stock	_____	100,000

2. Representations and Warranties of the Maker. The Maker represents and warrants to and agrees with Payee as follows:

(a) The Pledged Securities have been duly and validly pledged hereunder in accordance with all applicable laws, and the Maker warrants and covenants to defend the Payee's right, security interest and special property in and to the Pledged Securities against the claims and demands of all persons whomsoever. Except for the security interest created hereby in favor of the Payee and certain contractual restrictions on the transfer thereof, as set forth in the Grant Letter, the Maker is the exclusive legal and equitable owner of, and has good title to, all of the Pledged Securities identified in Section B.1 as being owned by the Maker, free and clear of all claims, liens, security interests and other encumbrances, and the Maker has the unqualified legal right to pledge the same hereunder.

(b) The Maker and his representatives, successors and assigns hereby irrevocably waive and release all preemptive, first-refusal and other similar rights of the Maker to purchase any or all of the Pledged Securities upon any sale thereof by the Payee hereunder, whether such right to purchase arises under the articles of incorporation or any bylaw of the Payee, by agreement, by operation of law or otherwise.

(c) All of the foregoing representations, warranties and agreements shall survive the execution and delivery of this Note and Pledge Agreement and the making of the loan hereunder.

3. Representations and Warranties of the Payee. The Payee represents and warrants to the Maker that the Payee is issuing to the Maker good title to all of the Pledged Securities identified in Section B.1, free and clear of all claims, liens, security interests and other encumbrances except for certain contractual restrictions on the transfer thereof, as set forth in the Grant Letter, and that the Payee has the unqualified legal right to issue the same to the Maker.

4. Reservation of Voting Rights. Upon the occurrence of an Event of Default that shall be continuing, the Payee shall be entitled to exercise any and all voting power with respect to the Pledged Securities. At all other times, the Maker shall be entitled to exercise as he deems appropriate, but in a manner consistent with the provisions of this Note and Pledge Agreement, all voting power with respect to the Pledged Securities.

5. Additional Collateral Security. If any stock dividend shall be declared on any of the Pledged Securities, or any shares of stock or fractions thereof shall be issued pursuant to any stock split involving any of the Pledged Securities, or any distribution of capital shall be made on any of the Pledged Securities, or any property shall be distributed upon or with respect to the Pledged Securities pursuant to any recapitalization or reclassification of the capital of the Payee or pursuant to a reorganization thereof, the shares or

other property so distributed shall be delivered to the Payee to be held by it in pledge as additional collateral security for the Obligations.

6. Remedies. Upon the occurrence of an Event of Default that shall be continuing, the Payee shall have the right at any time and from time to time to take such actions as it deems appropriate with respect to the Pledged Securities. Without limiting the foregoing, the parties acknowledge that the Pledged Securities are subject to the restrictions of the Grant Letter.

7. Right to Execute Endorsements. Upon the occurrence of any Event of Default, the Payee shall have the right, for and in the name, place and stead of the Maker and acting as its attorney-in-fact if necessary, to execute endorsements, assignments and other instruments of conveyance or transfer with respect to all or any of the Pledged Securities whenever any such execution is required or permitted hereunder.

8. Release of Pledged Securities. Upon payment of any portion of the principal amount of the Note, plus all accrued interest thereon, the Payee may release to the Maker a proportionate number of the Pledged Securities, provided that no Event of Default shall exist at that time. Upon payment of the full amount due under the Note, the Payee shall release the remainder of the Pledged Securities to the Maker. The Payee shall release to the Maker all of the Pledged Securities upon the Maker's involuntary termination from the Payee without "Cause" (as defined in the SunSource Inc. 1998 Equity Compensation Plan).

C. Remedies, Termination, Waiver and Miscellaneous.

1. Remedies Cumulative; Indemnities, etc. The rights, powers and remedies provided herein in favor of the Payee shall not be deemed exclusive, but shall be cumulative, and shall be in addition to all other rights and remedies in favor of the Payee existing at law or in equity, including without limitation all of the rights, powers and remedies available to a secured creditor under the Uniform Commercial Code as in effect in the State of Delaware or any other appropriate jurisdiction, and may be exercised concurrently, independently or successively by the holder hereof in such holder"s discretion. The Maker shall indemnify and hold harmless the Payee from and against any and all liabilities, losses and damages that the Payee may incur in the exercise or performance of any of its or their rights, powers or remedies set forth herein, provided, however, that the Maker shall have no obligation to indemnify any such indemnitee against any liability, loss or damage resulting from such indemnitee's own gross negligence or bad faith.

2. Waivers; Amendments. No delay on the part of the Payee in exercising any of its options, powers or rights, and no partial or single exercise thereof, shall constitute a waiver thereof or of any other option, power or right. The Payee shall not be deemed by any act or omission to have waived any such right or remedy or any default by the Maker hereunder or under the Pledge unless such waiver is in writing and signed by the holder, and then only to the extent specifically set forth in the writing. Any such waiver shall not be construed as a continuing waiver or as a bar to or waiver of any right or remedy with respect to any other default by the Maker. None of the terms and conditions of this Note and Pledge Agreement may be amended, modified or waived orally but only in a writing signed by the Payee and the Maker.

3. Return of Collateral. Upon the full payment and performance of all of the Obligations, this Note and Pledge Agreement shall expire and the Maker (except to the extent otherwise contemplated hereby) shall be entitled to the return of all of the Pledged Securities and other property and cash held in pledge hereunder that have not been used or applied to the payment of the Obligations.

4. Transfers of Interest. Upon any assignment or other transfer by the Payee of any of the Obligations, the Payee may transfer its interest in the Pledged Securities, or any part thereof, to the assignee or transferee, who shall thereupon become vested with all the rights, remedies, powers, security interests and liens herein granted to the Payee in respect of the Pledged Securities or the transferred part thereof, subject, however, to the restrictions contained herein.

5. Expenses. The Pledged Securities secure, and the Maker shall pay on demand, all reasonable expenses (including but not limited to reasonable attorneys' fees and costs for legal services, costs of insurance and payments of taxes or other charges) of, or incidental to, the custody, care, sale or realization on any of the Pledged Securities or in any way relating to the enforcement or protection of the rights of the Payee hereunder.

6. Notices. All notices, requests, demands, directions, declarations and other communications provided for herein shall be in writing and shall be deemed effectively given (a) upon personal delivery to the party to be notified, (b) three days after notice shall be deposited with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified (i) if to the Maker, at the address set forth below, and (ii) if to the Payee, at the address designated for payments hereunder from time to time, or (c) upon confirmation that notice shall have been received by fax at the fax number specified for such party with its address. Any party may change

its address or fax number for notice purposes by giving advance notice hereunder to the other party in accordance with this Section C.6.

7. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

8. Certain Waivers; Integration, etc.

(a) The Maker waives presentment for payment, demand, notice of nonpayment, notice of protest, protest and notice of dishonor of this Note, and all other notices in connection with the delivery, acceptance, performance, default or enforcement of the payment of this Note and Pledge Agreement.

(b) The Maker hereby waives any and all present and future laws and rules of court exempting any of the Pledged Securities or any other property, real or personal, or any of the proceeds arising from any sale of such property, from attachment, levy, sale or execution, or providing for any stay of execution, appraisement, exemption from civil process or extension of time for payment.

(c) This instrument states the entire agreement of the parties concerning the subject matter hereof, and it is acknowledged that there are no customs, usages, representations, or assurances referring to the subject matter, and no inducements leading to the execution or delivery hereof, other than those expressed herein.

9. Miscellaneous. This Note and Pledge Agreement shall bind and inure to the benefit of the Maker and the Payee and their respective heirs, executors, administrators, personal representatives, successors and assigns, except that the Maker shall not have the right to assign any of the Maker's rights hereunder or interests herein without the written consent of the Payee. No persons other than the Maker and the Payee and the respective assignees of the Payee (including any creditors of Payee to which the Payee may assign its rights hereunder) are intended to be benefitted hereby or shall have any rights hereunder, as third-party beneficiaries or otherwise. The Maker acknowledges that this Note and Pledge Agreement and the obligations of the Maker hereunder and the security interest created or intended to be created hereby have constituted, and were intended by the Maker to constitute, a material inducement to the Payee to enter into this Note and Pledge Agreement and make the loan contemplated hereby, knowing that the Payee will rely upon this Agreement. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all such counterparts shall together constitute but one and the same instrument. Any provision of this Note and Pledge Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without affecting the validity or enforceability of the remainder of this Agreement or the validity or enforceability of such provision in any other jurisdiction. Words of any gender herein shall include any other genders, and the singular shall include the plural and vice versa, whenever the same is necessary to produce a fair and meaningful construction. The term "Payee" shall apply equally to the initial Payee specified above and to any holder to which this Note may be assigned.

IN WITNESS WHEREOF, the Maker has executed this Note and Pledge Agreement and intending to be legally bound as of the day and year first written above.

MAKER

_____

Address:

_____
_____
_____

PAYEE

SUNSOURCE INC.

By:_____

REVOLVING CREDIT, TERM LOAN, GUARANTY

AND

SECURITY AGREEMENT

PNC BANK, NATIONAL ASSOCIATION
(AS LENDER AND AS AGENT)

AND

THE OTHER LENDERS A PARTY HERETO

WITH

HARDING GLASS, INC.
KAR PRODUCTS INC.
SUNSOURCE INC.
SUNSOURCE TECHNOLOGY SERVICES INC.
THE HILLMAN GROUP, INC.

AND

A. & H. BOLT & NUT COMPANY LIMITED
A & H HOLDING COMPANY, INC.
J.N. FAUVER (CANADA) LIMITED
SUNSOURCE CANADA INVESTMENT COMPANY
SUNSOURCE CORPORATE GROUP, INC.
SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC.
SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.
SUNSOURCE INVESTMENT COMPANY, INC.
SUNSUB A INC.
(CREDIT PARTIES AND GUARANTORS)

December 15, 1999

REVOLVING CREDIT, TERM LOAN, GUARANTY
AND
SECURITY AGREEMENT

Revolving Credit, Term Loan, Guaranty and Security Agreement dated December 15, 1999 among SUNSOURCE INC., a Delaware corporation ("SunSource"), SUNSOURCE TECHNOLOGY SERVICES INC., a Delaware corporation ("SunSource Technology"), KAR PRODUCTS INC., a Delaware corporation ("Kar"), THE HILLMAN GROUP, INC., a Delaware corporation ("Hillman"), HARDING GLASS, INC., a Delaware corporation ("Harding") (SunSource, SunSource Technology, Kar, Hillman and Harding, each a "Borrower" and collectively "Borrowers"), the other Credit Parties (as defined herein) which are now or which hereafter become a party hereto, the financial institutions which are now or which hereafter become a party hereto (collectively, the "Lenders" and individually a "Lender") and PNC BANK, NATIONAL ASSOCIATION ("PNC"), as agent for Lenders (PNC, in such capacity, the "Agent").

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Credit Parties, Lenders and Agent hereby agree as follows:

I. DEFINITIONS.

1.1. Accounting Terms. As used in this Agreement, the Note, or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP; provided, however, whenever such accounting terms are used for the purposes of determining

compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Borrowers for the fiscal year ended December 31, 1998.

1.2. General Terms. For purposes of this Agreement the following terms shall have the following meanings:

"Accountants" shall have the meaning set forth in Section 9.7 hereof.

"Advances" shall mean and include the Revolving Advances, Letters of Credit, as well as the Term Loan.

"Advance Rates" shall have the meaning set forth in Section 2.1(a) hereof.

"Affiliate" of any Person shall mean (a) any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (x) to vote 10% or more of the securities having ordinary voting power for the election of directors of such Person, or (y) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agent" shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

"A. & H. Bolt" shall mean A. & H. Bolt & Nut Company Limited, a corporation subsisting under the laws of the Province of Ontario.

"A & H Holding" shall mean A & H Holding Company, Inc., a Michigan corporation.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the higher of (i) the Base Rate in effect on such day and (ii) the Federal Funds Rate in effect on such day plus 1/2 of 1%.

"Authority" shall have the meaning set forth in Section 4.19(d).

"Base Rate" shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

"Blocked Accounts" shall have the meaning set forth in Section 4.15(h).

"Borrower" or "Borrowers" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Persons.

"Borrowing Base Certificate" shall mean a certificate duly executed by an officer of Borrowing Agent appropriately completed and in substantially the form of Exhibit A hereto.

"Borrowers on a consolidated basis" shall mean the consolidation in accordance with GAAP of the accounts or other items of SunSource and its Subsidiaries.

"Borrowers' Account" shall have the meaning set forth in Section 2.8.

"Borrowing Agent" shall mean SunSource.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which dealings are carried on in the London interbank market.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss.ss.9601 et seq.

"Change of Control" shall mean with respect to all Credit Parties (other than SunSource) (a) the occurrence of any event (whether in one or more transactions) which results in a transfer of control of such Credit Party to a Person who is not an Original Owner or (b) any merger or consolidation of or with any Credit Party or sale of all or substantially all of the property or assets of such Credit Party. For purposes of this definition, "control of Credit Party" shall mean the power, direct or indirect (x) to vote 50% or more of the securities having ordinary voting power for the election of directors of such Credit Party or (y) to direct or cause the direction of the management and policies of such Credit Party by contract or otherwise, but shall not include a merger, consolidation or sale of all or substantially all assets or properties involving only one or more Credit Parties; provided, that, with respect to any such merger, consolidation or sale, to the extent such transaction involves a Borrower, Borrower shall be the surviving entity or shall be the purchaser of the assets or properties.

"Change of Ownership" shall mean the occurrence of one or more of the following events:

(a) with respect to all Credit Parties (other than SunSource):

(i) 50% or more of the common stock of such Credit Party is no longer owned or controlled by (including for the purposes of the calculation of percentage ownership, any shares of common stock into which any capital stock of such Credit Party held by any of the Original Owners is convertible or for which any such shares of the capital stock of such Credit Party or of any other Person may be exchanged and any shares of common stock issuable to such Original Owners upon exercise of any warrants, options or similar rights which may at the time of calculation be held by such Original Owners) a Person who is an Original Owner or

(ii) any merger, consolidation or sale of substantially all of the property or assets of such Credit Party except for any such transaction only involving another Credit Party; provided, that, with respect to any such merger, consolidation or sale, to the extent such transaction involves a Borrower, Borrower shall be the surviving entity or shall be the purchaser of the assets or properties.

(b) with respect to SunSource the direct or indirect sale, lease, exchange or other transfer of all or substantially all of the assets of SunSource to any Person or entity or group of Persons or entities acting in concert as a partnership or other group, other than any Borrower (a "Group of Persons");

(c) the consummation of any consolidation or merger of SunSource with or into another Person (other than another Borrower) with the effect that the stockholders of SunSource immediately prior to the date of the consolidation or merger hold immediately after such merger or consolidation less than 51% of the combined voting power of the outstanding voting securities of the surviving entity of such merger, or the corporation resulting from such consolidation, ordinarily having the right to vote in the election of directors (apart from rights accruing under special circumstances) immediately after such merger or consolidation;

(d) the stockholders of SunSource shall approve any plan or proposal for the liquidation or dissolution of SunSource;

(e) a Person or Group of Persons acting in concert as a partnership, limited partnership, syndicate or other group shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the direct or indirect beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act of 1934, as amended) of securities of Sunsource representing 30% or more of the combined voting power of the then outstanding securities of SunSource ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of the directors; and

(f) a Person or Group of Persons, together with any Affiliates thereof, shall succeed in having a sufficient number of its nominees elected to the Board of Directors of SunSource such that such nominees, when added to any existing directors remaining on the Board of Directors of SunSource after such election who are Affiliates of such Person or Group of Persons, will constitute a majority of the Board of Directors of Sunsource.

"Charges" shall mean all taxes, charges, fees, imposts, levies or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including, without limitation, the Pension Benefit Guaranty

Corporation or any environmental agency or superfund), upon the Collateral, any Credit Party or any of its Affiliates.

"Closing Date" shall mean December 15, 1999 or such other date as may be agreed to by the parties hereto.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time and the regulations promulgated thereunder.

"Collateral" shall mean and include:

(a) all Receivables;

(b) all Equipment;

(c) all General Intangibles;

(d) all Inventory;

(e) all Investment Property;

(f) all Real Property;

(g) all Subsidiary Stock;

(h) all of each Credit Party's right, title and interest in and to (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of each Credit Party's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to any Credit Party from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing this Agreement; (v) all of each Credit Party's contract rights, rights of payment which have been earned under a contract right, instruments, documents, chattel paper, warehouse receipts, deposit accounts and money; (vi) if and when obtained by any Credit Party, all real and personal property of third parties in which such Credit Party has been granted a lien or security interest as security for the payment or enforcement of Receivables; and (vii) any other goods, personal property or real property now owned or hereafter acquired in which any Credit Party has expressly granted a security interest or may in the future grant a security interest to Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent and any Credit Party;

(i) all of each Credit Party's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by any Credit Party or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g) or (h) of this Paragraph; and

(j) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h) and (i) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Commitment Percentage" of any Lender shall mean the percentage set forth below such Lender's name on the signature page hereof as same may be adjusted upon any assignment by a Lender pursuant to Section 17.3(b) hereof.

"Commitment Transfer Supplement" shall mean a document in the form of Exhibit 17.3 hereto, properly completed and otherwise in form and substance satisfactory to Agent by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances under this Agreement.

"Consents" shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and other third parties, domestic or foreign, necessary to carry on any Credit Party's business, including, without limitation, any Consents required under all applicable federal, provincial, state or other applicable law.

"Contract Rate" shall mean, as applicable, the Revolving Interest Rate or the Term Loan Rate.

"Controlled Group" shall mean all members of a controlled

group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with any Credit Party, are treated as a single employer under Section 414 of the Code.

"Credit Party" shall mean each Borrower and each Guarantor and "Credit Parties" shall mean, collectively, Borrowers and Guarantors.

"Customer" shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with any Credit Party, pursuant to which such Credit Party is to deliver any personal property or perform any services.

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

"Default Rate" shall have the meaning set forth in Section 3.1 hereof.

"Defaulting Lender" shall have the meaning set forth in Section 2.16(a) hereof.

"Depository Accounts" shall have the meaning set forth in Section 4.15(h) hereof.

"Documents" shall have the meaning set forth in Section 8.1(c) hereof.

"Dollar" and the sign "$" shall mean lawful money of the United States of America.

"Domestic Rate Loan" shall mean any Advance that bears interest based upon the Alternate Base Rate.

"Early Termination Date" shall have the meaning set forth in Section 13.1 hereof.

"Earnings Before Interest and Taxes" shall mean for any period the sum of (i) net income (or loss) of Borrowers on a consolidated basis for such period (excluding extraordinary gains, plus (ii) all interest expense of Borrowers on a consolidated basis for such period, plus (iii) all charges against income of Borrowers on a consolidated basis for such period for federal, provincial, state and local taxes actually paid.

"EBITDA" shall mean for any period the sum of (i) Earnings Before Interest and Taxes for such period plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period.

"Eligible Inventory" shall mean and include Inventory (excluding work in process), with respect to each Borrower valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in Agent's reasonable opinion, obsolete, slow moving or unmerchantable and which Agent, in its reasonable discretion, shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate including, without limitation, whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than Permitted Encumbrances) as confirmed by Uniform Commercial Code, tax lien and pending suit and judgment searches reasonably satisfactory to Agent, whether Agent has received an executed landlord or warehouse agreement in favor of Agent, in form and substance satisfactory to Agent, with respect to such Inventory and whether the Inventory conforms to all standards imposed by any governmental agency, division or department thereof which has regulatory authority over such goods or the use or sale thereof. Inventory (excluding work in process and unpaid finished goods and raw materials received from suppliers within the immediately preceding thirty (30) day period) of A. & H. Bolt and J.N. Fauver shall be deemed to constitute Eligible Inventory to the extent it would constitute Eligible Inventory based upon the criteria set forth above. The value of Inventory of A. & H. Bolt and J.N. Fauver shall be converted to Dollars by Credit Parties (subject to review and revision by Agent in its reasonable discretion) based upon the exchange rate on the date of computation.

"Eligible Receivables" shall mean and include with respect to each Borrower, each Receivable of such Borrower arising in the ordinary course of such Borrower's business and which Agent, in its reasonable credit judgment, shall deem to be an Eligible Receivable, based on such considerations as Agent may from time to time deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to Agent's first priority perfected security interest and no other Lien (other than Permitted Encumbrances) as confirmed by Uniform Commercial Code, tax lien and pending suit and judgment searches reasonably satisfactory to Agent, and is evidenced by an invoice or other documentary evidence satisfactory to Agent. In addition, no Receivable shall be an Eligible Receivable if:

(a) it arises out of a sale made by any Borrower to an Affiliate of any Borrower or to a Person controlled by an Affiliate of any Borrower;

(b) it is due or unpaid more than (i) ninety (90) days after the original invoice date with respect to Receivables due to any Borrower other than SunSource Technology and Hillman, and (ii) sixty (60) days after the original due date but not more than one hundred fifty (150) days after the original invoice date with respect to Receivables due to SunSource Technology and Hillman;

(c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder. Such percentage may, in Agent's sole discretion, be increased or decreased from time to time;

(d) any covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state, provincial or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(f) the sale is to a Customer outside the continental United States of America or Canada, unless the sale is on letter of credit, guaranty or acceptance terms, in each case acceptable to Agent in its reasonable discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Agent believes, in its reasonable judgment, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States of America, Canada, any province, any state or any department, agency or instrumentality of any of them, unless the applicable Borrower assigns its right to payment of such Receivable to Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been shipped to the Customer or the services giving rise to such Receivable have not been performed by the applicable Borrower or the Receivable otherwise does not represent a final sale (other than with respect to a Harding Progress Billing);

(k) the Receivables of the Customer exceed a credit limit determined by Agent, in its reasonable discretion, to the extent such Receivable exceeds such limit;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim, the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason but only the portion of such Receivable subject to such offset, deduction, defense, dispute or counterclaim shall be deemed ineligible;

(m) the applicable Borrower has made any agreement with any Customer for any deduction therefrom, except for discounts or allowances made in the ordinary course of business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) any return, rejection or repossession of the merchandise has occurred or the rendition of services has been disputed;

(o) such Receivable is not payable to a Borrower; or

(p) such Receivable is not otherwise satisfactory to Agent as determined in good faith by Agent in the exercise of its discretion in a

reasonable manner.

Receivables of A. & H. Bolt and J.N. Fauver shall be deemed to constitute Eligible Receivables to the extent they would constitute Eligible Receivables based upon the criteria set forth above. The value of Receivables of A. & H. Bolt and J.N. Fauver shall be converted by Credit Parties (subject to review and revision by Agent in its reasonable discretion) to Dollars based upon the exchange rate on the date of computation.

"Environmental Complaint" shall have the meaning set forth in Section 4.19(d) hereof.

"Environmental Laws" shall mean all federal, provincial, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, provincial, state and local governmental agencies and authorities with respect thereto.

"Equipment" shall mean and include as to each Credit Party all of such Credit Party's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including, without limitation, all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

"Eurodollar Rate" shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto the interest rate per annum determined by PNC by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate of interest determined by PNC in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates for U.S. Dollars quoted by the British Bankers' Association as set forth on Dow Jones Markets Service (formerly known as Telerate) (or appropriate successor or, if British Banker's Association or its successor ceases to provide such quotes, a comparable replacement determined by PNC) display page 3750 (or such other display page on the Dow Jones Markets Service system as may replace display page 3750) two (2) Business Days prior to the first day of such Interest Period for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the Reserve Percentage. The Eurodollar Rate may also be expressed by the following formula:

$$\text{Eurodollar Rate} = \frac{\text{Average of London interbank offered rates quoted by BBA as shown on Dow Jones Markets Service display page 3750 or appropriate successor}}{1.00 - \text{Reserve Percentage}}$$

"Eurodollar Rate Loan" shall mean an Advance at any time that bears interest based on the Eurodollar Rate.

"Event of Default" shall mean the occurrence of any of the events set forth in Article X hereof.

"Excess Cash Flow" for any fiscal period shall mean (i) EBITDA of Borrowers on a consolidated basis for such fiscal period minus (ii) non-financed capital expenditures made by Borrowers on a consolidated basis during such fiscal period minus (iii) taxes paid in cash by Borrowers on a consolidated basis during such fiscal period minus (iv) interest paid in cash by Borrowers on a consolidated basis during such fiscal period minus (v) Senior Debt Payments (excluding payments of Revolving Advances) paid by Borrowers on a consolidated basis during such fiscal period.

"Federal Funds Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or if such rate is not so published for any day which is a Business Day, the average of quotations for such day on such transactions received by PNC from three Federal funds brokers of recognized standing selected by PNC.

"Fee Letter" shall mean the fee letter dated as of the Closing Date among Borrowers and PNC.

"First Union Loan Agreement" shall mean the Second Amended and Restated Credit Agreement among SunSource Inc., its Subsidiaries as set forth on

Schedule 1 as Borrowers and its Subsidiaries as set forth on Schedule 2 as Guarantors, First Union National Bank, The Bank of Nova Scotia and the other Banks dated December 31, 1998, as amended.

"Fixed Charge Coverage Ratio" shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA minus non-financed capitalized expenditures made by Borrowers on a consolidated basis during such period minus taxes paid in cash by Borrowers on a consolidated basis during such period to (b) all Senior Debt Payments plus, solely for purposes of Section 6.8 hereof, all Subordinated Debt Payments during such period.

"Formula Amount" shall have the meaning set forth in Section 2.1(a).

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

"General Intangibles" shall mean and include as to each Credit Party all of such Credit Party's general intangibles, whether now owned or hereafter acquired including, without limitation, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, service marks, trade secrets, goodwill, copyrights, design rights, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to such Credit Party to secure payment of any of the Receivables by a Customer all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

"Governmental Body" shall mean any nation or government, any state or other political subdivision thereof or any entity exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

"Guarantor" shall mean A. & H. Bolt, A & H Holding, J.N. Fauver, SunSource Canada, SunSource Corporate, SunSource Industrial, SunSource Inventory, SunSource Investment, SunSub A and any other Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and "Guarantors" means collectively all such Persons.

"Guaranty" shall mean any guaranty of the obligations of Borrowers executed by a Guarantor in favor of Agent for its benefit and for the ratable benefit of Lenders including, without limitation, pursuant to Section 16 of this Agreement.

"Harding" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"Harding Divestiture" shall mean the sale by SunSource of all or substantially all of the stock and/or assets of Harding and its Subsidiaries for a purchase price of at least $30,000,000.

"Harding Division" shall mean Harding.

"Harding Progress Billings" shall mean a Receivable of Harding arising under an installment contract with a general contractor which is due and payable within sixty (60) days from the date of the initial invoice sent under such contract.

"Hazardous Discharge" shall have the meaning set forth in Section 4.19(d) hereof.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, Articles 15 and 27 of the New York State Environmental Conservation Law or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

"Hazardous Wastes" shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable federal, provincial and state laws now in force or hereafter enacted relating to hazardous waste disposal.

"Hillman" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"Hillman Division" shall mean Hillman.

"Indebtedness" of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include all indebtedness, debt and other similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment dates of such indebtedness, and all indebtedness secured by a Lien on assets owned by such Person, whether or not such indebtedness actually shall have been created, assumed or incurred by such Person. Any indebtedness of such Person resulting from the acquisition by such Person of any assets subject to any Lien shall be deemed, for the purposes hereof, to be the equivalent of the creation, assumption and incurring of the indebtedness secured thereby, whether or not actually so created, assumed or incurred.

"Individual Formula Amount" shall mean at the date of determination thereof, with respect to each Operating Division an amount equal to: (a) up to the Receivables Advance Rate of Eligible Receivables of such Operating Division, plus (b) up to the Inventory Advance Rate of the value of Eligible Inventory of such Operating Division, minus (c) such reserves as Agent may reasonably deem proper and necessary from time to time.

"Individual Maximum Revolving Advance Amount" shall mean $20,000,000 with respect to the Harding Division, $45,000,000 with respect to the Hillman Division, $30,000,000 with respect to the Kar Division (it being understood and agreed that no Advances shall be made by Agent or Lenders to A. & H. Bolt or J.N. Fauver; rather A. & H. Bolt is part of the Kar Division for purposes of calculating the Advances which can be made solely to Kar) and $50,000,000 and with respect to the SunSource Division, it being understood and agreed that no Advances shall be made by Agent or Lenders to J. N. Fauver; rather J. N. Fauver is part of the SunSource Division for purposes of calculating Advances which can be made solely to SunSource Technology.

"Ineligible Security" shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

"Interest Period" shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(b).

"Inventory" shall mean and include as to each Credit Party all of such Credit Party's now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in such Credit Party's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Inventory Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(ii) hereof.

"Investment Property" shall mean and include as to each Credit Party, all of such Credit Party's now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts.

"Issuer" shall mean any Person who issues a Letter of Credit and/or accepts a draft pursuant to the terms hereof.

"J.N. Fauver" shall mean J.N. Fauver (Canada) Limited, a corporation subsisting under the laws of the Province of Ontario.

"Junior Subordinated Debentures" shall mean, collectively, (a) Amended and Restated Declaration of Trust of SunSource Capital Trust dated and effective as of September 5, 1997 by the trustees a party thereto ("SunSource Capital Declaration of Trust"), as amended by the First Amendment to the SunSource Capital Declaration of Trust dated and effective as of October 16, 1997, (b) Indenture dated as of September 5, 1997 between SunSource Inc. and The Bank of New York, as Trustee, as amended by the First Supplemental Indenture dated as of October 16, 1997, (c) the Guarantee Agreement dated as of September 5, 1997 by SunSource Inc. for the benefit of the holders of the Preferred Securities of SunSource Capital Trust, (d) Contribution Agreement dated as of July 31, 1997 between SunSource. and Lehman Brothers Holdings Inc., (e) No. 1 SunSource 11.6% Junior Subordinated Debenture due 2027, (f) No. 2 SunSource 11.6% Junior Subordinated Debenture due 2027, (g) 130,449 common securities of SunSource Capital Trust representing common individual beneficial interests in the assets of the SunSource Capital Trust designated the 11.6% Trust Common Securities and (h) 4,217,837 preferred securities of SunSource Capital Trust representing preferred undivided beneficial interests in the assets of the SunSource Capital Trust designated the 11.6% Trust Preferred Securities, each as in effect on the Closing Date.

"Kar" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"Kar Division" shall mean, collectively, Kar and A. & H. Bolt.

"Lender" and "Lenders" shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

"Letter of Credit Fees" shall have the meaning set forth in Section 3.2.

"Letters of Credit" shall have the meaning set forth in Section 2.9.

"LIBOR Margin" shall mean (i) two and one-half percent (2.50%) at any time after the repayment of the principal balance of the Term Loan in full in cash and (ii) three percent (3.0%) at all other times.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), Charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

"Material Adverse Effect" shall mean, as determined in Agent's reasonable discretion, a material adverse effect on (a) the condition, operations, assets, business or prospects of the applicable Person or Persons, (b) any Credit Party's ability to pay the Obligations in accordance with the terms hereof, or (c) the value of the Collateral, or Agent's Liens on the Collateral or the priority of any such Lien.

"Maximum Loan Amount" shall mean $155,000,000 (subject to adjustment pursuant to Section 2.14(c)) less repayments of the Term Loan.

"Maximum Revolving Advance Amount" shall mean $130,000,000 (subject to adjustment pursuant to Section 2.14(c)).

"Mortgage" shall mean collectively: (i) the Mortgage, Assignment of Rents and Security Agreement dated as of even date herewith, with Kar as mortgagor and Agent as mortgagee, encumbering a property located in Des Plains, Illinois; (ii) the Deed of Trust, Assignment of Rents and Security Agreement dated as of even date herewith, with SunSource Technology as grantor and Agent as beneficiary, encumbering a property located in Arlington, Texas; and (iii) the Mortgage, Assignment of Rents and Security Agreement dated as of even date herewith with A. & H. Bolt as mortgagor and Agent as mortgagee, encumbering a property located in Windsor, Ontario, Canada.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Sections 3(37) and 4001(a)(3) of ERISA.

"Net Worth" at a particular date, shall mean all amounts which would be included under shareholders' equity on a balance sheet of the Borrowers on a consolidated basis determined in accordance with GAAP as at such date.

"Note" shall mean collectively, the Term Note and the Revolving Credit Note.

"Obligations" " shall mean and include any and all loans, advances, debts, liabilities, obligations, covenants and duties owing by Credit Parties under this Agreement and the Other Documents to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender of any kind or nature, present or future (including, without limitation, any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to any Credit Party, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including, without limitation, this Agreement and the Other Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Agent's or any Lenders non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other

similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated arising under this Agreement, the Other Documents and any amendments, extensions, renewals or increases and all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys' fees and expenses and all obligations of any Credit Party to Agent or Lenders to perform acts or refrain from taking any action.

"Operating Division " shall mean as applicable, the Harding Division, Hillman Division, Kar Division or SunSource Division.

"Original Owners" shall mean, with respect to each Credit Party, the Person(s) set forth on Schedule 1.2B hereto, and shall also be deemed to include each other Credit Party.

"Other Documents" shall mean the Note, the Pledge Agreement, the Questionnaire, any Guaranty, and any and all other agreements, instruments and documents, including, without limitation, guaranties, pledges, powers of attorney, consents, and all other writings heretofore, now or hereafter executed by any Credit Party and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

"Parent" of any Person shall mean a corporation or other entity owning, directly or indirectly at least 50% of the shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of the Person, or other Persons performing similar functions for any such Person.

"Participant" shall mean each Person who shall be granted the right by any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

"Payment Office" shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Agent, if any, which it may designate by notice to Borrowing Agent and to each Lender to be the Payment Office.

"PBGC" shall mean the Pension Benefit Guaranty Corporation.

"Pension Plan" shall mean any Plan subject to Title IV of ERISA (other than a Multiemployer Plan), the funding requirements of which under ERISA Section 302 or Code Section 412 are the responsibility of any Credit Party or any member of the Controlled Group.

"Permitted Encumbrances" shall mean (a) Liens in favor of Agent for the benefit of Agent and Lenders; (b) Liens for taxes, assessments or other governmental charges not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Credit Parties; provided, that, the Lien shall have no effect on the priority of the Liens in favor of Agent or the value of the assets in which Agent has such a Lien and a stay of enforcement of any such Lien shall be in effect; (c) Liens securing Indebtedness disclosed in the financial statements referred to in Section 5.5, the existence of which Agent has consented to in writing; (d) deposits or pledges to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance; (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of any Credit Party's business; (f) judgment Liens that have been stayed or bonded and mechanics', workers', materialmen's or other like Liens arising in the ordinary course of any Credit Party's business with respect to obligations which are not due or which are being contested in good faith by the applicable Credit Party; (g) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided that (x) any such lien shall not encumber any other property of the Credit Parties and (y) the aggregate amount of Indebtedness secured by such Liens incurred as a result of such purchases during any fiscal year shall not exceed the amount provided for in Section 7.6; and (h) Liens disclosed on Schedule 1.2.

"Person" shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, institution, public benefit corporation, joint venture, entity or government (whether federal, provincial, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA, maintained for employees of Credit Parties or any member of the Controlled Group or any such Plan to which any Credit Party or any

member of the Controlled Group is required to contribute on behalf of any of its employees.

"Pledge Agreement" shall mean, collectively, the Pledge Agreements each dated as of the Closing Date made by each of SunSource, SunSource Investment, SunSub A, SunSource Industrial, Kar and SunSource Canada in favor of Agent.

"Pro Forma Balance Sheet" shall have the meaning set forth in Section 5.5(a) hereof.

"Pro Forma Financial Statements" shall have the meaning set forth in Section 5.5(b) hereof.

"Projections" shall have the meaning set forth in Section 5.5(b) hereof.

"Purchasing Lender" shall have the meaning set forth in Section 16.3 hereof.

"Questionnaire" shall mean the Documentation Information Questionnaire and the responses thereto provided by Credit Parties and delivered to Agent.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C.ss.ss.6901 et seq., as same may be amended from time to time.

"Real Property" shall mean all of each Credit Party's right, title and interest in and to the owned and leased premises identified on Schedule 4.19 hereto.

"Receivables" shall mean and include, as to each Credit Party, all of such Credit Party's accounts, contract rights, instruments (including those evidencing indebtedness owed to Credit Parties by their Affiliates), documents, chattel paper, general intangibles relating to accounts, drafts and acceptances, and all other forms of obligations owing to such Credit Party arising out of or in connection with the sale or lease of Inventory or the rendition of services, all guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Agent hereunder.

"Receivables Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(i) hereof.

"Release" shall have the meaning set forth in Section 5.7(c)(i) hereof.

"Reportable Event" shall mean a reportable event described in Section 4043(b) of ERISA or the regulations promulgated thereunder, other than a reportable event as to which the provision of 30 days' notice to the PBGC is waived under applicable regulations.

"Required Lenders" shall mean Lenders holding at least sixty-six and two-thirds percent (66 2/3%) of the Advances and, if no Advances are outstanding, shall mean Lenders holding sixty-six and two-thirds percent (66 2/3%) of the Commitment Percentages.

"Reserve Percentage" shall mean the maximum effective percentage in effect on any day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding.

"Revolving Advances" shall mean Advances made other than Letters of Credit and the Term Loan.

"Revolving Credit Note" shall mean, collectively, the promissory notes referred to in Section 2.1(a) hereof.

"Revolving Interest Rate" shall mean an interest rate per annum equal to (a) the Alternate Base Rate with respect to Domestic Rate Loans, and (b) the sum of the Eurodollar Rate plus the LIBOR Margin with respect to Eurodollar Rate Loans.

"Section 20 Subsidiary" shall mean the Subsidiary of the bank holding company controlling PNC, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

"Senior Debt Payments" shall mean and include all cash actually expended by Borrowers on a consolidated basis to make (a) interest payments on any Advances hereunder, plus, (b) scheduled principal payments on the Term Loan, plus (c) payments for all fees, commissions and charges set forth

herein and with respect to any Advances, plus (d) capitalized lease payments, plus (e) payments with respect to any other Indebtedness for borrowed money including, without limitation, the Indebtedness under the Junior Subordinated Debentures.

"Senior Notes" shall mean, collectively, (a) the Amended and Restated Note Purchase Agreement dated as of December 31, 1998 by and among SunSource and its Subsidiaries set forth on schedule 1 thereto, as obligors, and its Subsidiaries set forth on schedule 2 thereto, as Guarantors and (b) all notes, agreements, documents and instruments executed in connection therewith, each as in effect on the Closing Date.

"Settlement Date" shall mean the Closing Date and thereafter Wednesday of each week unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

"Subordinated Debt Payments" shall mean and include all cash actually expended to make payments of principal and interest on the Junior Subordinated Note.

"Subsidiary" shall mean a corporation or other entity of whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

"Subsidiary Stock" shall mean all of the issued and outstanding shares of stock owned by any Borrower or Guarantor of any Subsidiary of such Borrower or Guarantor, as set forth on Schedule 1.2A hereto.

"SunSource" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"SunSource Canada" shall mean SunSource Canada Investment Company, an unlimited liability company subsisting under the laws of the Province of Nova Scotia.

"SunSource Capital Trust" shall mean SunSource Capital Trust, a Delaware statutory business trust.

"SunSource Corporate" shall mean SunSource Corporate Group, Inc.

"SunSource Division" shall mean, collectively, SunSource, J.N. Fauver and SunSource Technology.

"SunSource Industrial" shall mean SunSource Industrial Services Company, Inc., a Delaware corporation.

"SunSource Inventory" shall mean SunSource Inventory Management Company, Inc. a Delaware corporation.

"SunSource Investment" shall mean SunSource Investment Company, Inc., a Delaware corporation.

"SunSource Technology" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Person.

"SunSub A" shall mean SunSub A Inc., a Delaware corporation.

"Tangible Net Worth" shall mean, at a particular date, (a) the aggregate amount of all assets of Borrowers on a consolidated basis as may be properly classified as such in accordance with GAAP consistently applied excluding such other assets as are properly classified as intangible assets under GAAP, less (b) the aggregate amount of all liabilities of the Borrowers on a consolidated basis.

"Term" shall have the meaning set forth in Section 13.1 hereof.

"Term Loan" shall mean the Advances made pursuant to Section 2.4 hereof.

"Term Loan Rate" shall mean an interest rate per annum equal to (a) the Alternate Base Rate with respect to Domestic Rate Loans, (b) the sum of the Eurodollar Rate plus the LIBOR Margin with respect to Eurodollar Rate Loans.

"Term Note" shall mean, collectively, the promissory notes described in Section 2.4 hereof.

"Termination Event" shall mean (i) a Reportable Event with respect to any Pension Plan or Multiemployer Plan; (ii) the withdrawal of any Credit Party or any member of the Controlled Group from a Pension Plan or Multiemployer Plan during a plan year in which such entity was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice of intent to terminate a Pension Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan or notice of same regarding a Multiemployer Plan; (v) any event or condition (a) which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan, or (b) that may reasonably be expected to result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of any Credit Party or any member of the Controlled Group from a Multiemployer Plan.

"Toxic Substance" shall mean and include any material present on the Real Property which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. ss.ss. 2601 et seq., applicable state law, or any other applicable federal, provincial or state laws now in force or hereafter enacted relating to toxic substances. "Toxic Substance" includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

"Transactions" shall have the meaning set forth in Section 5.5 hereof.

"Transferee" shall have the meaning set forth in Section 16.3(b) hereof.

"Undrawn Availability" at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount or (ii) the Maximum Revolving Advance Amount, minus (b) the sum of (i) the outstanding amount of Advances (other than the Term Loan) plus (ii) all amounts due and owing to Borrowers' trade creditors which are outstanding beyond normal trade terms, plus (iii) fees and expenses for which Borrowers are liable but which have not been paid or charged to Borrowers' Account.

"Week" shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

1.3. Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the State of New York shall have the meaning given therein unless otherwise defined herein.

1.4. Certain Matters of Construction. The terms "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Agent is a party, including, without limitation, references to any of the Other Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

II. ADVANCES, PAYMENTS.

2.1. (a) Revolving Advances. Subject to the terms and conditions set forth in this Agreement including, without limitation, Section 2.1(b), each Lender, severally and not jointly, will make Revolving Advances to Borrowers in aggregate amounts outstanding at any time equal to such Lender's Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount less the aggregate amount of outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) up to 85%, subject to the provisions of Section 2.1(c) hereof ("Receivables Advance Rate"), of Eligible Receivables (the amount to be advanced against Eligible Receivables consisting of Harding Progress Billings shall not exceed $5,000,000 at any time and from time to time), plus

(ii) up to the lesser of (A) 60%, subject to the provisions of Section 2.1(c) hereof ("Inventory Advance Rate"), of the value of the Eligible Inventory (the Receivables Advance Rate and the

Inventory Advance Rate shall be referred to collectively, as the "Advance Rates") or (B) $65,000,000 in the aggregate at any one time, minus

(iii) an amount equal to the sum of (x) the aggregate amount of outstanding standby Letters of Credit plus, (y) the product of (I) the aggregate amount of outstanding documentary Letters of Credit multiplied by (II) 1 minus the Inventory Advance Rate, minus

(iv) such reserves as Agent may reasonably deem proper and necessary from time to time.

The amount derived from the sum of (x) Sections 2.1(a)(y)(i) and (ii) minus (y) Section 2.1 (a)(y)(iv) at any time and from time to time shall be referred to as the "Formula Amount". The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the "Revolving Credit Note") substantially in the form attached hereto as Exhibit 2.1(a).

(b) Individual Revolving Advances. Each Lender, severally and not jointly, will make Revolving Advances to each Operating Division in aggregate amounts outstanding at any time not greater than such Lender's Commitment Percentage of the lesser of (x) such Operating Division's Individual Maximum Revolving Advance Amount less the aggregate amount of outstanding Letters of Credit applicable to such Operating Division or (y) such Operating Division's Individual Formula Amount less the aggregate amount of outstanding Letters of Credit applicable to such Operating Division.

(c) Discretionary Rights. The Advance Rates may be increased or decreased by Agent at any time and from time to time in the exercise of its reasonable discretion. Each Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing the reserves may limit or restrict Advances requested by Borrowing Agent.

2.2. Procedure for Borrowing Advances.

(a) Borrowing Agent on behalf of any Borrower may notify Agent prior to 11:00 a.m. on a Business Day of a Borrower's request to incur, on that day, a Revolving Advance hereunder. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Advance as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable.

(b) Notwithstanding the provisions of (a) above, in the event any Borrower desires to obtain a Eurodollar Rate Loan, Borrowing Agent shall give Agent at least three (3) Business Days' prior written notice, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount shall be in a minimum amount of $1,000,000 and in integral multiples of $1,000,000 thereafter, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two, three or six months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan shall be made available to Borrower during the continuance of a Default or an Event of Default.

(c) Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrowing Agent may elect as set forth in subsection (b)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term.

Borrowing Agent shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Agent pursuant to Section 2.2(b) or by its notice of conversion given to Agent pursuant to Section 2.2(d), as the case may be. Borrowing Agent shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Agent of such duration not less than three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Agent does not receive timely notice of the Interest Period elected by Borrowing Agent, Borrowers shall be deemed to have elected to convert to a Domestic Rate Loan subject to Section 2.2(d) hereinbelow.

(d) Provided that no Event of Default shall have occurred and be continuing, any Borrower may, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Rate Loan, or on any

Business Day with respect to Domestic Rate Loans, convert any such loan into a loan of another type in the same aggregate principal amount provided that any conversion of a Eurodollar Rate Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Rate Loan. If a Borrower desires to convert a loan, Borrowing Agent shall give Agent not less than three (3) Business Days' prior written notice to convert from a Domestic Rate Loan to a Eurodollar Rate Loan or one (1) Business Day's prior written notice to convert from a Eurodollar Rate Loan to a Domestic Rate Loan, specifying the date of such conversion, the loans to be converted and if the conversion is from a Domestic Rate Loan to any other type of loan, the duration of the first Interest Period therefor. After giving effect to each such conversion, there shall not be outstanding more than eight (8) Eurodollar Rate Loans, in the aggregate.

(e) At its option and upon three (3) Business Days' prior written notice, any Borrower may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time, without premium or penalty, but with accrued interest on the principal being prepaid to the date of such repayment. Such Borrower shall specify the date of prepayment of Advances which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, such Borrower shall indemnify Agent and Lenders therefor in accordance with Section 2.2(f) hereof.

(f) Each Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders may sustain or incur as a consequence of any prepayment, conversion of or any default by any Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by any Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Agent or Lenders to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrowing Agent shall be conclusive absent manifest error.

(g) Notwithstanding any other provision hereof, if any applicable law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (g), the term "Lender" shall include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lenders to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrowers shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Agent, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans into loans of another type. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrowers shall pay Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lenders to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lenders to Borrowing Agent shall be conclusive absent manifest error.

2.3. Disbursement of Advance Proceeds. All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrowers to Agent or Lenders, shall be charged to Borrowers' Account on Agent's books. During the Term, Borrowers may use the Revolving Advances by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrowers or deemed to have been requested by Borrowers under Section 2.2(a) hereof shall, with respect to requested Revolving Advances to the extent Lenders make such Revolving Advances, be made available to the applicable Borrower on the day so requested by way of credit to such Borrower's operating account at PNC, or such other bank as Borrowing Agent may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Revolving Advances deemed to have been requested by any Borrower, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4. Term Loan. Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, will make a Term Loan to Borrowers in the sum equal to such Lender's Commitment Percentage of $25,000,000. The Term Loan shall be advanced on the Closing Date and shall be, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an

Event of Default under this Agreement or termination of this Agreement: equal quarterly installments of $1,250,000 each commencing on April 1, 2000 and on the first day of each July, October, January and April thereafter until December 14, 2004 when the entire unpaid principal balance of the Term Loan shall be due and payable. The Term Loan shall be evidenced by one or more secured promissory notes (collectively, the "Term Note") in substantially the form attached hereto as Exhibit 2.4.

2.5. Maximum Advances. The aggregate balance of Revolving Advances outstanding at any time shall not exceed the lesser of (a) Maximum Revolving Advance Amount or (b) the Formula Amount.

2.6. Repayment of Advances.

(a) The Revolving Advances shall be due and payable in full on the last day of the Term subject to earlier prepayment as herein provided. The Term Loan shall be due and payable as provided in Section 2.4 hereof and in the Term Note.

(b) Each Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent's agreement to conditionally credit Borrowers' Account as of the Business Day on which Agent receives those items of payment, each Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations one (1) Business Day after the Business Day Agent receives such payments via wire transfer or electronic depository check. Agent is not, however, required to credit Borrowers' Account for the amount of any item of payment which is not a wire transfer or electric depository check and unsatisfactory to Agent until such item of payment has cleared and become good funds. Agent may charge Borrowers' Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent at the Payment Office not later than 1:00 P.M. (New York Time) on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by charging Borrowers' Account or by making Advances as provided in Section 2.2 hereof.

(d) Credit Parties shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

2.7. Repayment of Excess Advances. The aggregate balance of Advances outstanding at any time in excess of the maximum amount of Advances permitted hereunder shall be immediately due and payable without the necessity of any demand, at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8. Statement of Account. Agent shall maintain, in accordance with its customary procedures, a loan account ("Borrowers' Account") in the name of Borrowers on a collective basis in which shall be recorded the date and amount of each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and amount of any Advance shall not adversely affect Agent or any Lender. Each month, Agent shall send to Borrowing Agent a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent and Borrowers, during such month. The monthly statements shall be deemed correct and binding upon Borrowers in the absence of manifest error and shall constitute an account stated between Lenders and Borrowers unless Agent receives a written statement of Borrowers' specific exceptions thereto within thirty (30) days after such statement is received by Borrowing Agent. The records of Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9. Letters of Credit. Subject to the terms and conditions hereof, Agent shall issue or cause the issuance of Letters of Credit ("Letters of Credit") on behalf of any Borrower; provided, however, that Agent will not be required to issue or cause to be issued any Letters of Credit to the extent that the face amount of such Letters of Credit would then cause the sum of (i) the outstanding Revolving Advances plus (ii) outstanding Letters of Credit to exceed the lesser of (x) the Maximum Revolving Advance Amount or (y) the Formula Amount; provided, further, however, that Agent will not be required to issue or cause to be issued any Letters of Credit to the extent that the face amount of such Letters of Credit issued for an Operating Division of such Borrower would

then cause the sum of (i) the outstanding Revolving Advances to the Operating Division of such Borrower plus (ii) the outstanding Letters of Credit issued or caused to be issued on behalf of the Operating Division of such Borrower to exceed the lesser of (x) such Borrower's Operating Division's Individual Maximum Revolving Advance Amount or (y) such Borrower's Operating Division's Individual Formula Amount. The maximum undrawn amount of outstanding Letters of Credit shall not exceed $15,000,000 in the aggregate at any time. All disbursements or payments related to Letters of Credit shall be deemed to be Domestic Rate Loans consisting of Revolving Advances and shall bear interest at the Revolving Interest Rate for Domestic Rate Loans; Letters of Credit that have not been drawn upon shall not bear interest.

2.10. Issuance of Letters of Credit.

(a) Borrowing Agent, on behalf of Borrowers, may request Agent to issue or cause the issuance of a Letter of Credit by delivering to Agent at the Payment Office, Agent's form of Letter of Credit Application (the "Letter of Credit Application") completed to the satisfaction of Agent; and, such other certificates, documents and other papers and information as Agent may reasonably request. Borrowing Agent, on behalf of Borrowers, also has the right to give instructions and make agreements with respect to any application, any applicable letter of credit and security agreement, any applicable letter of credit reimbursement agreement and/or any other applicable agreement, any letter of credit and the disposition of documents, disposition of any unutilized funds, and to agree with Agent upon any amendment, extension or renewal of any Letter of Credit.

(b) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date not later than six (6) months after such Letter of Credit's date of issuance and in no event later than the last day of the Term. Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, and any amendments or revision thereof adhered to by the Issuer and, to the extent not inconsistent therewith, the laws of the State of New York.

(c) Agent shall use its reasonable efforts to notify Lenders of the request by Borrowing Agent for a Letter of Credit hereunder.

2.11. Requirements For Issuance of Letters of Credit.

(a) In connection with the issuance of any Letter of Credit Borrowers shall indemnify, save and hold Agent, each Lender and each Issuer harmless from any loss, cost, expense or liability, including, without limitation, payments made by Agent, any Lender or any Issuer and expenses and reasonable attorneys' fees incurred by Agent, any Lender or Issuer arising out of, or in connection with, any Letter of Credit to be issued or created for any Borrower. Borrowers shall be bound by Agent's or any Issuer's regulations and good faith interpretations of any Letter of Credit issued or created for Borrowers' Account, although this interpretation may be different from its own; and, neither Agent, nor any Lender, nor any Issuer nor any of their correspondents shall be liable for any error, negligence, or mistakes, whether of omission or commission, in following Borrowing Agent's or any Borrower's instructions or those contained in any Letter of Credit or of any modifications, amendments or supplements thereto or in issuing or paying any Letter of Credit, except for Agent's, any Lender's, any Issuer's or such correspondents' willful misconduct or gross (not mere) negligence.

(b) Borrowing Agent shall authorize and direct any Issuer to name the applicable Borrower as the "Applicant" or "Account Party" of each Letter of Credit. If Agent is not the Issuer of any Letter of Credit, Borrowing Agent shall authorize and direct the Issuer to deliver to Agent all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit, the application therefor or any acceptance therefor.

(c) In connection with all Letters of Credit issued or caused to be issued by Agent under this Agreement, each Borrower hereby appoints Agent, or its designee, as its attorney, with full power and authority following an Event of Default and while such Event of Default is continuing, (i) to sign and/or endorse such Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances; (ii) to sign such Borrower's name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department ("Customs") in the name of such Borrower or Agent or Agent's designee, and to sign and deliver to Customs officials powers of attorney in the name of such Borrower for such purpose; and (iv) to complete in such Borrower's name or Agent's, or in the name of Agent's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Agent nor its attorneys will be liable for any

acts or omissions nor for any error of judgment or mistakes of fact or law, except for Agent's or its attorney's willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

(d) Each Lender shall to the extent of the percentage amount equal to the product of such Lender's Commitment Percentage times the aggregate amount of all unreimbursed reimbursement obligations arising from disbursements made or obligations incurred with respect to the Letters of Credit be deemed to have irrevocably purchased an undivided participation in each such unreimbursed reimbursement obligation. In the event that at the time a disbursement is made the unpaid balance of Revolving Advances exceeds or would exceed, with the making of such disbursement, the lesser of the Maximum Revolving Advance Amount or the Formula Amount, and such disbursement is not reimbursed by Borrowers within two (2) Business Days, Agent shall promptly notify each Lender and upon Agent's demand each Lender shall pay to Agent such Lender's proportionate share of such unreimbursed disbursement together with such Lender's proportionate share of Agent's unreimbursed costs and expenses relating to such unreimbursed disbursement. Upon receipt by Agent of a repayment from any Borrower of any amount disbursed by Agent for which Agent had already been reimbursed by Lenders, Agent shall deliver to each Lender that Lender's pro rata share of such repayment. Each Lender's participation commitment shall continue until the last to occur of any of the following events: (A) Agent ceases to be obligated to issue or cause to be issued Letters of Credit hereunder; (B) no Letter of Credit issued hereunder remains outstanding and uncancelled or (C) all Persons (other than the applicable Borrower) have been fully reimbursed for all payments made under or relating to Letters of Credit.

2.12. Additional Payments. Any sums expended by Agent or any Lender due to any Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including, without limitation, any Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14 and 6.1 hereof, may be charged to Borrowers' Account as a Revolving Advance and added to the Obligations.

2.13. Manner of Borrowing and Payment.

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders. The Term Loan shall be advanced according to the Commitment Percentages of Lenders.

(b) Each payment (including each prepayment) by Borrowers on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders. Each payment (including each prepayment) by Borrowers on account of the principal of and interest on the Term Note, shall be made from or to, or applied to that portion of the Term Loan evidenced by the Term Note pro rata according to the Commitment Percentages of Lenders. Except as expressly provided herein, all payments (including prepayments) to be made by any Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M., New York time, in Dollars and in immediately available funds.

(c) (i) Notwithstanding anything to the contrary contained in Sections 2.13(a) and (b) hereof, commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment by any Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 P.M., New York time, on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (w) such Revolving Advances and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (y) such repayments and (z) such Revolving Advances.

(ii) Each Lender shall be entitled to earn interest at the applicable Contract Rate on outstanding Advances which it has funded.

(iii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a "benefited Lender") shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender's Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender's Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender's Advances may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrowers a corresponding amount. Agent will promptly notify Borrowers of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrowers; provided, however, that Agent's right to such recovery shall not prejudice or otherwise adversely affect Borrowers' rights (if any) against such Lender.

2.14. Mandatory Prepayments.

(a) Subject to Section 4.3 hereof, when any Borrower sells or otherwise disposes of any Collateral other than Inventory in the ordinary course of business, Borrowers shall repay the Advances in an amount equal to the net proceeds of such sale (i.e., gross proceeds less the reasonable costs of such sales or other dispositions), such repayments to be made promptly but in no event more than two (2) Business Day following receipt of such net proceeds, and until the date of payment, such proceeds shall be held in trust for Agent. The foregoing shall not be deemed to be implied consent to any such sale otherwise prohibited by the terms and conditions hereof. Such repayments shall be applied first to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and second, to the remaining Advances in such order as Agent may determine, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof.

(b) Borrowers shall prepay the outstanding amount of the Advances in an amount equal to 75% of Excess Cash Flow for each fiscal year commencing on or after January 1, 2000, payable upon delivery of the financial statements to Agent referred to in and required by Section 9.7 for such fiscal year but in any event not later than ninety (90) days after the end of each such fiscal year, which amount shall be applied first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and, second, to the remaining Advances in such order as Agent may determine subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof. In the event that the financial statement is not so delivered, then a calculation based upon estimated amounts shall be made by Agent upon which calculation Borrowers shall make the prepayment required by this Section 2.14(b), subject to adjustment when the financial statement is delivered to Agent as required hereby. The calculation made by Agent shall not be deemed a waiver of any rights Agent or Lenders may have as a result of the failure by Borrowers to deliver such financial statement.

(c) Upon the consummation of the Harding Divestiture, the Borrowers shall repay the Revolving Advances in an amount (the "Harding Divestiture Revolving Amount") equal to the applicable Advance Rate multiplied by the amount of Eligible Receivables and Eligible Inventory at Harding, such repayments to be made concurrently with the consummation of the Harding Divestiture. In addition, Borrowers shall repay the Advances in an amount equal to net proceeds (i.e., gross proceeds less reasonable transaction costs) from

the Harding Divestiture in excess of the Harding Divestiture Revolving Amount, such repayments to be made within one (1) Business Day of receipt of such net proceeds, and until paid, such proceeds shall be held in trust for Agent. Such repayments shall be applied first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and, second, to the remaining Advances in such order as Agent may determine, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof.

2.15. Use of Proceeds. Borrowers shall apply the proceeds of Advances to (i) repay existing indebtedness owed to (x) First Union and the other lenders pursuant to the First Union Loan Agreement and (y) the holders of the Senior Notes pursuant to the Senior Notes, (ii) pay fees and expenses relating to this transaction, and (iii) to provide for their working capital needs.

2.16. Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrowing Agent that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "Lender Default"), all rights and obligations hereunder of such Lender (a "Defaulting Lender") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.16 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders (the "Non-Defaulting Lenders") which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, such amount shall not be applied to any Advances of a Defaulting Lender at any time when, and to the extent that, the aggregate amount of Advances of any Non-Defaulting Lender exceeds such Non-Defaulting Lender's Commitment Percentage of all Advances then outstanding.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have Advances outstanding.

(d) Other than as expressly set forth in this Section 2.16, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.16 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which any Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

III. INTEREST AND FEES.

3.1. Interest. Interest on Advances shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period or, for Eurodollar Rate Loans with an Interest Period in excess of three months, (a) three months from the commencement of such Eurodollar Rate Loan and (b) the end of the Interest Period. Interest charges shall be computed on the actual principal amount of Advances outstanding during the month at a rate per annum equal to (i) with respect to Revolving Advances, the applicable Revolving Interest Rate and (ii) with respect to the Term Loan, the applicable Term Loan Rate. Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract Rate shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date. Upon and after the occurrence of

an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Obligations shall bear interest at the applicable Contract Rate plus two percent (2%) per annum (as applicable, the "Default Rate").

3.2. Letter of Credit Fees.

(a) Borrowers shall pay (x) to Agent, for the benefit of Lenders, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by one and one-half percent (1.50%) per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable monthly in arrears on the first day of each month and on the last day of the Term and (y) to the Issuer, any and all fees and expenses as agreed upon by the Issuer and the Borrowing Agent in connection with any Letter of Credit, including, without limitation, in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Agent for any and all fees and expenses, if any, paid by Agent to the Issuer (all of the foregoing fees, the "Letter of Credit Fees"). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer's prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason.

Following the occurrence and during the continuance of an Event of Default, on demand, Borrowers will cause cash to be deposited and maintained in an account with Agent, as cash collateral, in an amount equal to one hundred and five percent (105%) of the outstanding Letters of Credit, and each Borrower hereby irrevocably authorizes Agent, in its discretion, on such Borrower's behalf and in such Borrower's name, to open such an account and to make and maintain deposits therein, or in an account opened by such Borrower, in the amounts required to be made by such Borrower, out of the proceeds of Receivables or other Collateral or out of any other funds of such Borrower coming into any Lender's possession at any time. Agent will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Agent and such Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. No Borrower may withdraw amounts credited to any such account except upon payment and performance in full of all Obligations and termination of this Agreement.

3.3. Facility Fee. If, for any quarter during the Term, the average daily unpaid balance of the Revolving Advances for each day of such quarter does not equal the Maximum Revolving Advance Amount, then Borrowers shall pay to Agent for the ratable benefit of Lenders a fee at a rate equal to one-half of one percent (.50%) per annum on the amount by which the Maximum Revolving Advance Amount exceeds such average daily unpaid balance. Such fee shall be payable to Agent in arrears on the first day of each quarter.

3.4. Fee Letter. Borrowers shall pay Agent the amounts set forth in the Fee Letter at the times set forth therein.

3.5. Computation of Interest and Fees. Interest and fees hereunder shall be computed on the basis of a year of 360 days and for the actual number of days elapsed. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable Contract Rate during such extension. For the purposes of the Interest Act (Canada), whenever interest is calculated on the basis of a year of 360 days, each rate of interest determined pursuant to such calculation expressed as an annual rate is equivalent to such rate as so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360.

3.6. Maximum Charges. In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrowers, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to Borrowers and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.7. Increased Costs. In the event that any applicable law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.7, the term "Lender" shall include Agent or any Lender and any corporation or

bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Agent or any Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Agent or any Lender, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

and the result of any of the foregoing is to increase the cost to Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Advances by an amount that Agent or such Lender deems to be material, then, in any case Borrowers shall promptly pay Agent or such Lender, upon its demand, such additional amount as will compensate Agent or such Lender for such additional cost or such reduction, as the case may be, provided that the foregoing shall not apply to increased costs which are reflected in the Eurodollar Rate. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrowers, and such certification shall be conclusive absent manifest error.

3.8. Basis For Determining Interest Rate Inadequate or Unfair. In the event that Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Eurodollar Rate applicable pursuant to Section 2.2 hereof for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan,

then Agent shall give Borrowing Agent prompt written, telephonic or telegraphic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrowing Agent shall notify Agent no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and no Borrower shall have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

3.9. Capital Adequacy.

(a) In the event that Agent or any Lender shall have determined that any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any Lender (for purposes of this Section 3.9, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans 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 Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, from time to time, Borrowers shall pay upon demand to Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such reduction. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.9 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.9(a) hereof when delivered to Borrowers shall be conclusive absent manifest error.

IV. COLLATERAL: GENERAL TERMS

4.1. Security Interest in the Collateral. To secure the prompt payment and performance to Agent and each Lender of the Obligations, each Credit Party hereby assigns, pledges and grants to Agent for its benefit and for the ratable benefit of each Lender a continuing security interest in and to all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Each Credit Party shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Agent's security interest and shall cause its financial statements to reflect such security interest.

4.2. Perfection of Security Interest. Each Credit Party shall take all action that may be necessary or desirable, or that Agent may request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in the Collateral or to enable Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all Liens other than Permitted Encumbrances, (ii) obtaining landlords' or mortgagees' lien waivers, (iii) delivering to Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements satisfactory to Agent, and (v) executing and delivering financing statements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest under the Uniform Commercial Code or other applicable law. Agent is hereby authorized to file financing statements signed by Agent instead of Credit Party in accordance with Section 9-402(2) of Uniform Commercial Code as adopted in the State of New York. All charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrowers' Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for the ratable benefit of Lenders immediately upon demand.

4.3. Disposition of Collateral. Each Credit Party will safeguard and protect all Collateral for Agent's general account and make no disposition thereof whether by sale, lease or otherwise except (a) the sale of Inventory in the ordinary course of business and (b) the disposition or transfer of obsolete and worn-out Equipment in the ordinary course of business during any fiscal year having an aggregate fair market value for all Credit Parties of not more than $250,000 and only to the extent that (i) the proceeds of any such disposition are used to acquire replacement Equipment which is subject to Agent's first priority security interest or (ii) the proceeds of which are remitted to Agent to be applied pursuant to Section 2.14.

4.4. Preservation of Collateral. Following the demand by Agent for payment of all Obligations due and owing in accordance with Section 11.1 hereof, in addition to the rights and remedies set forth in Section 11.1 hereof, Agent: (a) may at any time take such steps as Agent deems necessary to protect Agent's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Agent may deem appropriate; (b) may employ and maintain at any of any Credit Party's premises a custodian who shall have full authority to do all acts necessary to protect Agent's interests in the Collateral; (c) may lease warehouse facilities to which Agent may move all or part of the Collateral; (d) may use any Credit Party's owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (e) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is

located, and may proceed over and through any of Credit Party's owned or leased property. Each Credit Party shall cooperate fully with all of Agent's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Agent may direct. All of Agent's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be charged to Borrowers' Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations.

4.5. Ownership of Collateral. With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (a) each Credit Party shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of the its respective Collateral to Agent; and, except for Permitted Encumbrances the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (b) each document and agreement executed by each Credit Party or delivered to Agent or any Lender in connection with this Agreement shall be true and correct in all material respects; (c) all signatures and endorsements of each Credit Party that appear on such documents and agreements shall be genuine and each Credit Party shall have full capacity to execute same; and (d) each Credit Party's Equipment and Inventory shall be located as set forth on Schedule 4.5 and shall not be removed from such location(s) without the prior written consent of Agent except with respect to the sale of Inventory in the ordinary course of business and Equipment to the extent permitted in Section 4.3 hereof.

4.6. Defense of Agent's and Lenders' Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. During such period no Credit Party shall, without Agent's prior written consent, pledge, sell (except Inventory in the ordinary course of business and Equipment to the extent permitted in Section 4.3 hereof), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Each Credit Party shall defend Agent's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Agent for payment of all Obligations, Agent shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including without limitation: labels, stationery, documents, instruments and advertising materials. If Agent exercises this right to take possession of the Collateral, Credit Parties shall, upon demand, assemble it in the best manner possible and make it available to Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other applicable law. Each Credit Party shall, and Agent may, at its option, instruct all suppliers, carriers, forwarders, warehousers or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into any Credit Party's possession, they, and each of them, shall be held by such Credit Party in trust as Agent's trustee, and such Credit Party will immediately deliver them to Agent in their original form together with any necessary endorsement.

4.7. Books and Records. Each Credit Party shall (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including without limitation by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Credit Parties.

4.8. Financial Disclosure. Each Credit Party hereby irrevocably authorizes and directs all accountants and auditors employed by such Credit Party at any time during the Term to exhibit and deliver to Agent and each Lender copies of any of any Credit Party's financial statements, trial balances or other accounting records of any sort in the accountant's or auditor's possession, and to disclose to Agent and each Lender any information such accountants may have concerning such Credit Party's financial status and business operations. Each Credit Party hereby authorizes all federal, provincial, state and municipal authorities to furnish to Agent and each Lender copies of reports or examinations relating to such Credit Party, whether made by such Credit Party or otherwise; however, Agent and each Lender will attempt to obtain such information or materials directly from such Credit Party prior to obtaining such information or materials from such accountants or such authorities.

4.9. Compliance with Laws. Each Credit Party shall comply in all

material respects with all acts, rules, regulations and orders of any legislative, administrative or judicial body or official applicable to its respective Collateral or any part thereof or to the operation of such Credit Party's business the non-compliance with which could reasonably be expected to have a Material Adverse Effect on such Credit Party. Each Credit Party may, however, contest or dispute any acts, rules, regulations, orders and directions of those bodies or officials in any reasonable manner, provided that any related Lien is inchoate or stayed and sufficient reserves are established to the reasonable satisfaction of Agent to protect Agent's Lien on or security interest in the Collateral. The Collateral at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the Collateral so that such insurance shall remain in full force and effect.

4.10. Inspection of Premises. At all reasonable times and so long as (a) no Event of Default has occurred and is then continuing and (b) Agent, in its reasonable discretion, does not believe that any Credit Party has or is committing fraud, upon reasonable prior notice, Agent and each Lender shall have full access to and the right to audit, check, inspect and make abstracts and copies from each Credit Party's books, records, audits, correspondence and all other papers relating to the Collateral and the operation of each Credit Party's business. Agent, any Lender and their agents may enter upon any of each Credit Party's premises at any time during business hours and at any other reasonable time, and from time to time, for the purpose of inspecting the Collateral and any and all records pertaining thereto and the operation of such Credit Party's business. So long as no Event of Default has occurred and is then continuing, Credit Parties shall only be liable to pay Agent's and each Lender's costs and expenses in connection with four (4) inspections during any twelve (12) month period of each Credit Party's premises.

4.11. Insurance. Each Credit Party shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At each Credit Party's own cost and expense in amounts and with carriers acceptable to Agent, each Credit Party shall (a) keep all its insurable properties and properties in which each Credit Party has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to such Credit Party's including, without limitation, business interruption insurance; (b) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to such Borrower insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of such Credit Party either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which such Credit Party is engaged in business; (e) furnish Agent with (i) copies of all policies and evidence of the maintenance of such policies by the renewal thereof at least thirty (30) days before any expiration date, and (ii) appropriate loss payable endorsements in form and substance satisfactory to Agent, naming Agent as a co-insured and loss payee as its interests may appear with respect to all insurance coverage referred to in clauses (a) and (c) above, and providing (A) that all proceeds thereunder shall be payable to Agent, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least thirty (30) days' prior written notice is given to Agent. In the event of any loss thereunder, the carriers named therein hereby are directed by Agent and the applicable Credit Party to make payment for such loss to Agent and not to such Credit Party and Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to any Credit Party and Agent jointly, Agent may endorse such Credit Party's name thereon and do such other things as Agent may deem advisable to reduce the same to cash. Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a) and (b) above. All loss recoveries received by Agent upon any such insurance may be applied to the Obligations, in such order as Agent in its sole discretion shall determine. Any surplus shall be paid by Agent to Credit Parties or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Credit Parties to Agent, on demand. Anything hereinabove to the contrary notwithstanding, and subject to the fulfillment of the conditions set forth below, Agent shall remit to Credit Parties insurance proceeds received by Agent during any calendar year under insurance policies procured and maintained by Credit Parties which insure Credit Parties insurable properties to the extent such insurance proceeds do not exceed $500,000 in the aggregate during such calendar year or $500,000 per occurrence. In the event the amount of insurance proceeds received by Agent for any occurrence exceeds $500,000 then Agent shall not be obligated to remit the insurance proceeds to Credit Parties unless Credit Parties shall provide Agent with evidence reasonably satisfactory to Agent that the insurance proceeds will be used by Credit Parties to repair, replace or

restore the insured property which was the subject of the insurable loss subject to Borrowers' ability to reborrow such amounts as Revolving Advances to be used for such purpose. In the event Credit Parties have previously received (or, after giving effect to any proposed remittance by Agent to Credit Parties would receive) insurance proceeds which equal or exceed $500,000 in the aggregate during any calendar year, then Agent may, in its sole discretion, either remit the insurance proceeds to Credit Parties upon Credit Parties providing Agent with evidence reasonably satisfactory to Agent that the insurance proceeds will be used by Credit Parties to repair, replace or restore the insured property which was the subject of the insurable loss, or apply the proceeds to the Obligations, as aforesaid. The agreement of Agent to remit insurance proceeds in the manner above provided shall be subject in each instance to satisfaction of each of the following conditions: (x) No Event of Default shall then have occurred and be continuing, and (y) Credit Parties shall use such insurance proceeds to repair, replace or restore the insurable property which was the subject of the insurable loss and for no other purpose.

4.12. Failure to Pay Insurance. If any Credit Party fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of such Credit Party, and charge Borrowers' Account therefor as a Revolving Advance of a Domestic Rate Loan and such expenses so paid shall be part of the Obligations.

4.13. Payment of Taxes. Each Credit Party will pay, when due, all taxes, assessments and other Charges lawfully levied or assessed upon such Credit Party or any of the Collateral including, without limitation, real and personal property taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes. If any tax by any governmental authority is or may be imposed on or as a result of any transaction between any Credit Party and Agent or any Lender which Agent or any Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Agent's or any Lender's opinion, may possibly create a valid Lien on the Collateral, Agent may without notice to Credit Parties pay the taxes, assessments or other Charges and each Credit Party hereby indemnifies and holds Agent and each Lender harmless in respect thereof. Agent will not pay any taxes, assessments or Charges to the extent that any Credit Party has contested or disputed those taxes, assessments or Charges in good faith, by expeditious protest, administrative or judicial appeal or similar proceeding provided that any related tax lien is stayed and sufficient reserves are established to the reasonable satisfaction of Agent to protect Agent's security interest in or Lien on the Collateral. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrowers' Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations and, until Credit Parties shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Credit Parties' credit and Agent shall retain its security interest in any and all Collateral held by Agent.

4.14. Payment of Leasehold Obligations. Each Credit Party shall at all times pay, when and as due, its rental obligations under all leases under which it is a tenant, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Agent's request will provide evidence of having done so.

4.15. Receivables.

(a) Nature of Receivables. Each of the Receivables which constitute "accounts" under the Uniform Commercial Code shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named, for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of a Credit Party, or work, labor or services theretofore rendered by a Credit Party as of the date each Receivable is created. Same shall be due and owing in accordance with the applicable Credit Party's standard terms of sale without dispute, setoff or counterclaim except as may be stated on the accounts receivable schedules delivered by Credit Parties to Agent.

(b) Solvency of Customers. Each Customer, to the best of each Credit Party's knowledge, as of the date each Receivable is created, is and will be solvent and able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of any Credit Party who are not solvent such Credit Party has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Locations of Credit Party . Each Credit Party's chief executive office is located at the addresses set forth on Schedule 4.15(c) hereto. Until written notice is given to Agent by Borrowing Agent of any other office at which any Credit Party keeps its records pertaining to Receivables,

all such records shall be kept at such executive office.

(d) Collection of Receivables. Until any Credit Party's authority to do so is terminated by Agent (which notice Agent may give at any time following the occurrence of an Event of Default or a Default or when Agent in its sole discretion deems it to be in Lenders' best interest to do so), each Credit Party will, at such Credit Party's sole cost and expense, but on Agent's behalf and for Agent's account, collect as Agent's property and in trust for Agent all amounts received on Receivables, and shall not commingle such collections with any Credit Party's funds or use the same except to pay Obligations. Each Credit Party shall, upon request, deliver to Agent, or deposit in the Blocked Account, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) Notification of Assignment of Receivables. At any time following the occurrence of an Event of Default and while such Event of Default is continuing, Agent shall have the right to send notice of the assignment of, and Agent's security interest in, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrowers' Account and added to the Obligations.

(f) Power of Agent to Act on Credit Parties Behalf. Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent or any Credit Party any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and each Credit Party hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Each Credit Party hereby constitutes Agent or Agent's designee as such Credit Party's attorney with power (i) to endorse such Credit Party's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign such Credit Party's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign such Credit Party's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Agent to preserve, protect, or perfect Agent's interest in the Collateral and to file same; (v) to demand payment of the Receivables; (vi) to enforce payment of the Receivables by legal proceedings or otherwise; (vii) to exercise all of Credit Party s' rights and remedies with respect to the collection of the Receivables and any other Collateral; (viii) to settle, adjust, compromise, extend or renew the Receivables; (ix) to settle, adjust or compromise any legal proceedings brought to collect Receivables; (x) to prepare, file and sign such Credit Party's name on a proof of claim in bankruptcy or similar document against any Customer; (xi) to prepare, file and sign such Credit Party's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. Agent shall only exercise such power of attorney with respect to (v), (vi), (vii), (viii), (ix), (x) and (xi) following the occurrence and during the continuation of an Event of Default. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence; this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Agent shall have the right at any time following the occurrence and during the continuation of an Event of Default, to change the address for delivery of mail addressed to any Credit Party to such address as Agent may designate and to receive, open and dispose of all mail addressed to any Credit Party.

(g) No Liability. Neither Agent nor any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Following the occurrence of an Event of Default and while such Event of Default is continuing Agent may, without notice or consent from any Credit Party, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Agent is authorized and empowered to accept following the occurrence of an Event of Default and during the continuation thereof the return of the goods represented by any of the Receivables, without notice to or consent by any Credit Party, all without discharging or in any way affecting any Credit Party's liability hereunder.

(h) Establishment of a Lockbox Account, Dominion Account. All proceeds of Collateral shall, at the direction of Agent, be deposited by Credit

Parties into a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") as Agent may require pursuant to an arrangement with such bank as may be selected by Credit Parties and be acceptable to Agent. Credit Parties shall issue to any such bank, an irrevocable letter of instruction directing said bank to transfer such funds so deposited to Agent, either to any account maintained by Agent at said bank or by wire transfer to appropriate account(s) of Agent. All funds deposited in such Blocked Account shall immediately become the property of Agent and Credit Parties shall obtain the agreement by such bank to waive any offset rights against the funds so deposited. Neither Agent nor any Lender assumes any responsibility for such blocked account arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder. Alternatively, Agent may establish depository accounts ("Depository Accounts") in the name of Agent at a bank or banks for the deposit of such funds and Credit Parties shall deposit all proceeds of Collateral or cause same to be deposited, in kind, in such Depository Accounts of Agent in lieu of depositing same to the Blocked Accounts.

(i) Adjustments. No Credit Party will, without Agent's consent, compromise or adjust any material amount of the Receivables (or extend the time for payment thereof) or accept any material returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of such Credit Party.

4.16. Inventory. To the extent Inventory held for sale or lease has been produced by any Credit Party, it has been and will be produced by such Credit Party in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

4.17. Maintenance of Equipment. The Equipment shall be maintained in good operating condition and repair (reasonable wear and tear excepted) and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved. No Credit Party shall use or operate the Equipment in violation of any law, statute, ordinance, code, rule or regulation. Each Credit Party shall have the right to sell Equipment to the extent set forth in Section 4.3 hereof.

4.18. Exculpation of Liability. Nothing herein contained shall be construed to constitute Agent or any Lender as any Credit Party's agent for any purpose whatsoever, nor shall Agent or any Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. Neither Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any of any Credit Party's obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall be responsible in any way for the performance by any Credit Party of any of the terms and conditions thereof.

4.19. Environmental Matters. (a) Credit Parties shall ensure that the Real Property remains in compliance with all Environmental Laws and they shall not place or permit to be placed any Hazardous Substances on any Real Property except as permitted by applicable law or appropriate governmental authorities.

(b) Credit Parties shall establish and maintain a system to assure and monitor continued compliance with all applicable Environmental Laws which system shall include periodic reviews of such compliance.

(c) Credit Parties shall (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws. Credit Parties shall use their best efforts to obtain certificates of disposal, such as hazardous waste manifest receipts, from all treatment, transport, storage or disposal facilities or operators employed by Credit Parties in connection with the transport or disposal of any Hazardous Waste generated at the Real Property.

(d) In the event any Credit Party obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or any Credit Party's interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrowing Agent shall, within five (5) Business Days, give

written notice of same to Agent detailing facts and circumstances of which any Credit Party is aware giving rise to the Hazardous Discharge or Environmental Complaint. Such information is to be provided to allow Agent to protect its security interest in the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

(e) Credit Parties shall promptly forward to Agent copies of any request for information, notification of potential liability, demand letter relating to potential responsibility with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by any Credit Party to dispose of Hazardous Substances and shall continue to forward copies of material correspondence between any Credit Party and the Authority regarding such claims to Agent until the claim is settled. Credit Parties shall promptly forward to Agent copies of all documents and reports concerning a Hazardous Discharge at the Real Property that any Credit Party is required to file under any Environmental Laws. Such information is to be provided solely to allow Agent to protect Agent's security interest in the Real Property and the Collateral.

(f) Credit Parties shall respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral or Real Property to any Lien. If any Credit Party shall fail to respond promptly to any Hazardous Discharge or Environmental Complaint or any Credit Party shall fail to comply with any of the requirements of any Environmental Laws, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent's interest in Collateral: (A) give such notices or (B) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Agent (or such third parties as directed by Agent) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Agent and Lenders (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances shall be paid upon demand by Borrowers, and until paid shall be added to and become a part of the Obligations secured by the Liens created by the terms of this Agreement or any other agreement between Agent, any Lender and any Credit Party.

(g) Promptly upon the written request of Agent from time to time which request shall only be made if Agent, in its reasonable discretion, believes that Hazardous Substances may be found on, under, at or within the applicable Real Property, Credit Parties shall provide Agent, at Credit Parties' expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Agent, to assess with a reasonable degree of certainty the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Agent. If such estimates, individually or in the aggregate, exceed $100,000, Agent shall have the right to require Credit Parties to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of these costs and expenses.

(h) Credit Parties shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by Agent or Lenders under or on account of any Environmental Laws, including, without limitation, the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, including any loss of value of the Real Property as a result of the foregoing except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Agent or any Lender. Credit Parties' obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, provincial, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Credit Parties' obligation and the indemnifications hereunder shall survive the termination of this Agreement.

(i) For purposes of Section 4.19 and 5.7, all references to Real Property shall be deemed to include all of Credit Parties' right, title and interest in and to its owned and leased premises.

4.20. Financing Statements. Except as respects the financing statements filed by Agent and the financing statements described on Schedule 1.2, no

financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

4.21. Amalgamation. Each Credit Party acknowledges that if it amalgamates with any other corporation, then (i) the Agent's security interest attaches to the Collateral which will extend to and include all of the personal property of each of the amalgamating corporations and all of the personal property of the amalgamated corporation owned on the amalgamation becoming effective and thereafter owned or acquired, (ii) the term "Credit Party", where used in this Agreement, will extend to and include the amalgamating corporations and the amalgamated corporation, and (iii) the term "Obligations" where used in this Agreement will extend to and included "Obligations" of the amalgamating corporations and the Obligations of the amalgamated corporation.

V. REPRESENTATIONS AND WARRANTIES.

Each Credit Party represents and warrants as follows:

5.1. Authority. Each Credit Party has full power, authority and legal right to enter into this Agreement and the Other Documents and to perform all its respective Obligations hereunder and thereunder. This Agreement and the Other Documents constitute the legal, valid and binding obligation of such Credit Party enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally. The execution, delivery and performance of this Agreement and of the Other Documents (a) are within such Credit Party's corporate powers, have been duly authorized, are not in contravention of law or the terms of such Credit Party's by-laws, certificate of incorporation or other applicable documents relating to such Credit Party's formation or to the conduct of such Credit Party's business or of any material agreement or undertaking to which such Credit Party is a party or by which such Credit Party is bound, and (b) will not conflict with nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of such Credit Party under the provisions of any agreement, charter document, instrument, by-law, or other instrument to which such Credit Party is a party or by which it or its property may be bound.

5.2. Formation and Qualification. (a) Each Credit Party is duly incorporated and in good standing under the laws of the jurisdictions listed on Schedule 5.2(a) and is qualified to do business and is in good standing in the jurisdictions listed on Schedule 5.2(a) which constitute all jurisdictions in which qualification and good standing are necessary for such Credit Party to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect on such Credit Party. Each Credit Party has delivered to Agent true and complete copies of its organizational documents and will promptly notify Agent of any amendment or changes thereto.

(b) The only Subsidiaries of each Credit Party are listed on Schedule 5.2(b).

5.3. Survival of Representations and Warranties. All representations and warranties of such Credit Party contained in this Agreement and the Other Documents shall be true at the time of such Credit Party's execution of this Agreement and the Other Documents, and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4. Tax Returns. Each Credit Party's federal tax identification number is set forth on Schedule 5.4. Each Credit Party has filed all federal, provincial, state and local tax returns and other reports each is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable. Federal, provincial, state and local income tax returns of each Credit Party have been examined and reported upon by the appropriate taxing authority or closed by applicable statute and satisfied for all fiscal years prior to and including the fiscal year ending December 31, 1998. The provision for taxes on the books of each Credit Party are adequate for all years not closed by applicable statutes, and for its current fiscal year, and no Credit Party has any knowledge of any deficiency or additional assessment in connection therewith not provided for on its books.

5.5. Financial Statements.

(a) The pro forma balance sheet of Borrowers on a consolidated basis (the "Pro Forma Balance Sheet") furnished to Agent on the Closing Date reflects the consummation of the transactions contemplated under this Agreement (the "Transactions") and is accurate, complete and correct and fairly reflects the financial condition of Borrowers in all material respects on a consolidated basis as of the Closing Date after giving effect to the Transactions, and has

been prepared in accordance with GAAP, consistently applied. The Pro Forma Balance Sheet has been certified as accurate, complete and correct in all material respects by the President and Chief Financial Officer of SunSource. All financial statements referred to in this subsection 5.5(a), including the related schedules and notes thereto, have been prepared, in accordance with GAAP, except as may be disclosed in such financial statements.

(b) The twelve-month cash flow projections of the Borrowers on a consolidated basis and their projected balance sheets as of the Closing Date, copies of which are annexed hereto as Exhibit 5.5(b) (the "Projections") were prepared by the Chief Financial Officer of SunSource, are based on underlying assumptions which provide a reasonable basis for the projections contained therein and reflect Borrowers' judgment based on present circumstances of the most likely set of conditions and course of action for the projected period. The cash flow Projections together with the Pro Forma Balance Sheet, are referred to as the "Pro Forma Financial Statements".

(c) The consolidated and consolidating balance sheets of the Borrowers, their Subsidiaries and such other Persons described therein (including the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship existed) as of September 30, 1999 and the related statements of income, changes in stockholder's equity, and changes in cash flow for the period ended on such date, all accompanied by reports thereon containing opinions without qualification by independent certified public accountants, copies of which have been delivered to Agent, have been prepared in accordance with GAAP, consistently applied (except for changes in application in which such accountants concur and present fairly the financial position of the Borrowers and their Subsidiaries at such date and the results of their operations for such period. Since September 30, 1999 there has been no change in the condition, financial or otherwise, of Borrowers or their Subsidiaries as shown on the consolidated balance sheet as of such date and no change in the aggregate value of machinery, equipment and Real Property owned by Borrowers and their respective Subsidiaries, except changes in the ordinary course of business, none of which individually or in the aggregate has been materially adverse.

5.6. Corporate Name. No Credit Party has been known by any other corporate name or any French version of its name in the past five years and does not sell Inventory under any other name except as set forth on Schedule 5.6, nor has any Credit Party been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years.

5.7. O.S.H.A. and Environmental Compliance.

(a) Each Credit Party has duly complied with, and its facilities, business, assets, property, leaseholds and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws; there have been no outstanding citations, notices or orders of non-compliance issued to any Credit Party or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations.

(b) Each Credit Party has been issued all required federal, provincial, state and local licenses, certificates or permits relating to all applicable Environmental Laws.

(c) (i) There are no visible signs of releases, spills, discharges, leaks or disposal (collectively referred to as "Releases") of Hazardous Substances at, upon, under or within any Real Property; (ii) there are no underground storage tanks or polychlorinated biphenyls on the Real Property; (iii) none of the Real Property has ever been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) no Hazardous Substances are present on the Real Property, excepting such quantities as are handled in accordance with all applicable manufacturer's instructions and governmental regulations and in proper storage containers and as are necessary for the operation of the commercial business of any Credit Party or of its tenants.

5.8. Solvency; No Litigation, Violation, Indebtedness or Default.

(a) After giving effect to the Transactions, Credit Parties will be solvent, able to pay their debts as they mature, have capital sufficient to carry on their business and all businesses in which they are about to engage, and (i) as of the Closing Date, the fair present saleable value of their assets, calculated on a going concern basis, is in excess of the amount of their liabilities and (ii) subsequent to the Closing Date, the fair saleable value of their assets (calculated on a going concern basis) will be in excess of the amount of their liabilities.

(b) Except as disclosed in Schedule 5.8(b), no Credit Party has (i) any pending or threatened litigation, arbitration, actions or proceedings which involve the possibility of having a Material Adverse Effect on

such Credit Party, and (ii) any liabilities nor indebtedness for borrowed money other than the Obligations.

(c) No Credit Party is in violation of any applicable statute, regulation or ordinance in any respect which could reasonably be expected to have a Material Adverse Effect on such Credit Party, nor is any Credit Party in material violation of any order of any court, governmental authority or arbitration board or tribunal.

(d) As of the Closing Date and on the last day of each fiscal quarter, no Credit Party nor any member of the Controlled Group maintains or contributes to any Plan other than those listed on Schedule 5.8(d) hereto. Credit Parties shall be required to add any new Plans not listed on Schedule 5.8(d) on the last day of each fiscal quarter to reflect Plans entered into during such fiscal quarter. Except where the failure to be true would not reasonably be expected to have a Material Adverse Effect on any Credit Party or any member of the Controlled Group, or except as set forth in Schedule 5.8(d), (i) no Pension Plan has incurred any "accumulated funding deficiency," as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, and each Credit Party and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA in respect of each Pension Plan, (ii) each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined by the Internal Revenue Service to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code, (iii) with respect to each Pension Plan, no Credit Party nor any member of the Controlled Group has incurred any material liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid, (iv) no Pension Plan has been terminated by the plan administrator thereof nor by the PBGC, and to the knowledge of the Credit Parties there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Pension Plan, (v) at this time, the current value of the assets of each Pension Plan equals or exceeds the present value of the accrued benefits and other liabilities of such Pension Plan and no Credit Party nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities, (vi) no Credit Party nor any member of the Controlled Group has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan, (vii) no Credit Party nor any member of a Controlled Group has incurred any material liability for any excise tax arising under Section 4972 or 4980B of the Code, and to the knowledge of the Credit Party no fact exists which could give rise to any such liability, (viii) no Credit Party nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a non-exempt "prohibited transaction" described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA, (ix) each Credit Party and each member of the Controlled Group has made all contributions due and payable with respect to each Plan, (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period contained in 29 CFR ss.2615.3 has not been waived, (xi) no Credit Party nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of any Credit Party and any member of the Controlled Group, and (xii) no Credit Party nor any member of the Controlled Group has withdrawn, completely or partially, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980.

5.9. Patents, Trademarks, Copyrights and Licenses. All patents, patent applications, trademarks, trademark applications, service marks, service mark applications, copyrights, copyright applications, design rights, tradenames, assumed names, trade secrets and licenses owned or utilized by any Credit Party are set forth on Schedule 5.9, are valid and have been duly registered or filed with all appropriate governmental authorities and constitute all of the intellectual property rights which are necessary for the operation of its business; there is no objection to or pending challenge to the validity of any such patent, trademark, copyright, design right, tradename, trade secret or license and no Credit Party is aware of any grounds for any challenge, except as set forth in Schedule 5.9 hereto. Each patent, patent application, patent license, trademark, trademark application, trademark license, service mark, service mark application, service mark license, design right, copyright, copyright application and copyright license owned or held by any Credit Party and all trade secrets used by any Credit Party consist of original material or property developed by such Credit Party or was lawfully acquired by such Credit Party from the proper and lawful owner thereof. Each of such items has been maintained so as to preserve the value thereof from the date of creation or acquisition thereof. With respect to all software used by any Credit Party, such Credit Party is in possession of all source and object codes related to each piece of software.

5.10. Licenses and Permits. Except as set forth in Schedule 5.10, each

Credit Party (a) is in compliance with and (b) has procured and is now in possession of, all material licenses or permits required by any applicable federal, provincial, state, or local law or regulation for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to be in such compliance or to procure such licenses or permits could have a Material Adverse Effect on such Credit Party.

5.11. Default of Indebtedness. No Credit Party is in default in the payment of the principal of or interest on any Indebtedness in excess of $50,000 or under any instrument or agreement under or subject to which any Indebtedness in excess of $50,000 has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

5.12. No Default. No Credit Party is in default in the payment or performance of any of its contractual obligations and no Default has occurred.

5.13. No Burdensome Restrictions. No Credit Party is party to any contract or agreement the performance of which could have a Material Adverse Effect on such Credit Party. No Credit Party has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien which is not a Permitted Encumbrance.

5.14. No Labor Disputes. No Credit Party is involved in any labor dispute; there are no strikes or walkouts or union organization of any Credit Party's employees threatened or in existence and no labor contract is scheduled to expire during the Term other than as set forth on Schedule 5.14 hereto.

5.15. Margin Regulations. No Credit Party is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Advance will be used for "purchasing" or "carrying" "margin stock" as defined in Regulation U of such Board of Governors.

5.16. Investment Company Act. No Credit Party is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.17. Disclosure. No representation or warranty made by any Credit Party in this Agreement or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to Credit Parties or which reasonably should be known to Borrowers which Credit Parties have not disclosed to Agent in writing with respect to the transactions contemplated by this Agreement which could reasonably be expected to have a Material Adverse Effect on any Credit Party.

5.18. Delivery of Junior Subordinated Debentures. Agent has received complete copies of the Junior Subordinated Debentures (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Agent.

5.19. Swaps. No Credit Party is a party to, nor will it be a party to, any swap agreement whereby such Credit Party has agreed or will agree to swap interest rates or currencies unless same provides that damages upon termination following an event of default thereunder are payable on an unlimited "two-way basis" without regard to fault on the part of either party.

5.20. Conflicting Agreements. No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on any Credit Party or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.21. Application of Certain Laws and Regulations. No Credit Party nor any Affiliate of any Credit Party is subject to any statute, rule or regulation which regulates the incurrence of any Indebtedness, including without limitation, statutes or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

5.22. Business and Property of Credit Parties . Upon and after the Closing Date, Credit Parties do not propose to engage in any business other than as set forth on Schedule 5.22 hereto and activities necessary to conduct the foregoing. On the Closing Date, each Credit Party will own all the property and possess all of the rights and Consents necessary for the conduct of the business of such Credit Party.

5.23. Year 2000. Credit Parties and their respective Subsidiaries have reviewed the areas within their business and operations which could reasonably be expected to be adversely affected by, and have developed a program to address on a timely basis, the risk that certain computer applications used by Credit Parties or their respective Subsidiaries (or any of their respective material suppliers, customers or vendors) may be unable to recognize and perform properly date-sensitive functions involving dates prior to and after December 31, 1999 (the "Year 2000 Problem"). The Year 2000 Problem is not expected to have a Material Adverse Effect on Credit Parties.

5.24. Section 20 Subsidiaries. Credit Parties do not intend to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

VI. AFFIRMATIVE COVENANTS.

Each Credit Party shall, until payment in full of the Obligations and termination of this Agreement:

6.1. Payment of Fees. Pay to Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Depository Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge Borrowers' Account for all such fees and expenses.

6.2. Conduct of Business and Maintenance of Existence and Assets. (a) Conduct continuously and operate actively its business according to good business practices and maintain all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), including, without limitation, all licenses, patents, copyrights, design rights, tradenames, trade secrets and trademarks and take all actions necessary to enforce and protect the validity of any intellectual property right or other right included in the Collateral; (b) keep in full force and effect its existence and comply in all material respects with the laws and regulations governing the conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect on such Credit Party; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States, Canada or any political subdivision thereof where the failure to do so could reasonably be expected to have a Material Adverse Effect on such Credit Party.

6.3. Violations. Promptly notify Agent in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to any Credit Party which could reasonably be expected to have a Material Adverse Effect on any Credit Party.

6.4. Government Receivables. At the Agent's request, take all steps necessary to protect Agent's interest in the Collateral under the Federal Assignment of Claims Act or other applicable federal, provincial, state or local statutes or ordinances and deliver to Agent appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between any Credit Party and the United States, Canada, any province, any state or any department, agency or instrumentality of any of them.

6.5. Minimum EBITDA. Maintain, with respect to Borrowers on a consolidated basis, EBITDA of not less than $6,000,000 for the three months ending March 31, 2000.

6.6. Fixed Charge Coverage Ratio. Maintain, with respect to Borrowers on a consolidated basis, a Fixed Charge Coverage Ratio of not less than 1.35 to 1 for the three months ending June 30, 2000, the six months ending September 30, 2000, the nine months ending December 31, 2000 and thereafter on the last day of each March, June, September and December for the twelve months period ending on such last day.

6.7. Undrawn Availability. Maintain, with respect to Borrowers on a consolidated basis, at all times at least $5,000,000 of Undrawn Availability (as calculated under Section 2.1(a)(y)) including, without limitation, after giving

effect to any payments made under the Junior Subordinated Debentures.

6.8. Deferred Interest. In the event (a) at December 31, 1999, January 31, 2000 and February 29, 2000, Undrawn Availability with respect to Borrowers on a consolidated basis, is less than $8,000,000, (b) at March 31, 2000, April 30, 2000, May 31, 2000 and June 30, 2000, Undrawn Availability with respect to Borrowers on a consolidated basis is less than $10,000,000 or (c) commencing on June 30, 2000, the Fixed Charge Coverage Ratio for the most recently completed fiscal quarter (for the three month, six month, nine month or rolling twelve month period described in Section 6.6 hereof) is less than 1.25 to 1, Credit Parties shall exercise their right to defer interest due under the Junior Subordinated Debentures and prior to paying any such deferred interest under the Junior Subordinated Debentures prior to the end of such deferral period, Credit Parties shall obtain the written consent of Required Lenders to make such payment.

6.9. Execution of Supplemental Instruments. Execute and deliver to Agent from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Agent may request, in order that the full intent of this Agreement may be carried into effect.

6.10. Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so could not reasonably be expected to have a Material Adverse Effect or when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and each Credit Party shall have provided for such reserves as Agent may reasonably deem proper and necessary, subject at all times to any applicable subordination arrangement in favor of Lenders.

6.11. Standards of Financial Statements. Cause all financial statements referred to in Sections 9.7, 9.8, 9.9, 9.10, 9.11, 9.12, 9.13 and 9.14 as to which GAAP is applicable to be complete and correct in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

6.12. Harding Mortgages. If the Harding Divestiture is not consummated on or before March 31, 2000, Harding shall, at the request of Agent, execute and deliver to Agent a Mortgage, in form and substance satisfactory to Agent, on each of its owned Real Property having a fair market value of $100,000 or more along with such other instruments, agreements or documents reasonably requested by Agent in connection therewith including, without limitation, title commitments, surveys and environmental reports, all of which shall be in form and substance satisfactory to Agent.

6.13. Net Worth. On or before March 31, 2000, Borrowers and Required Lenders shall in good faith negotiate the establishment of minimum Net Worth requirements to be tested at the end of each fiscal quarter commencing with the fiscal quarter ending March 31, 2000.

VII. NEGATIVE COVENANTS.

No Credit Party shall, until satisfaction in full of the Obligations and termination of this Agreement:

7.1. Merger, Consolidation, Acquisition and Sale of Assets.

(a) Enter into any merger, amalgamation, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or stock of any Person or permit any other Person to consolidate with or merge with it.

(b) Sell, lease, transfer or otherwise dispose of any of its properties or assets, except in the ordinary course of its business and except (i) as provided in Section 4.3 or (ii) the Harding Divestiture.

7.2. Creation of Liens. Create or suffer to exist or permit any of its Subsidiaries to create or suffer to exist any Lien or transfer upon or against any of its property or assets (including, without limitation, any life insurance policies) now owned or hereafter acquired, except Permitted Encumbrances.

7.3. Guarantees. Become liable upon the obligations of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Lenders) except (a) as disclosed on Schedule 7.3, (b) the endorsement of checks in the ordinary course of business and (c) SunSource may guaranty, in the ordinary course of business, obligations of any other Credit Party under such Credit Party's real property leases.

7.4. Investments. Purchase or acquire obligations or stock of, or any other interest in, any Person, except (a) obligations issued or guaranteed by the United States of America or any agency thereof, (b) commercial paper with maturities of not more than 180 days and a published rating of not less than A-1 or P-1 (or the equivalent rating), (c) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least $500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency, and (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof.

7.5. Loans. Make advances, loans or extensions of credit to any Person, including without limitation, any Parent, Subsidiary or Affiliate except with respect to the extension of commercial trade credit in connection with the sale of Inventory in the ordinary course of its business except loans to employees which shall not exceed $500,000 in the aggregate at any time.

7.6. Capital Expenditures. Contract for, purchase or make any expenditure or commitments for fixed or capital assets (including capitalized leases) in any fiscal year in an aggregate amount for all Credit Parties in excess of $8,000,000.

7.7. Dividends. Declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of any Credit Party (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of any Credit Party except that so long as (a) a notice of termination with regard to this Agreement shall not be outstanding, (b) no Event of Default shall have occurred and then be continuing, and (c) the purpose for such purchase, redemption or dividend shall be as set forth in writing to Agent at least ten (10) days prior to such purchase, redemption or dividend and such purchase, redemption or dividend shall in fact be used for such purpose, Credit Parties shall be permitted to pay dividends to any other Credit Party, to pay professional fees, franchise taxes and other ordinary course of business operating expenses (excluding salaries and other employee compensation) incurred by such Credit Party.

7.8. Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (i) Indebtedness to Agent or to Lenders; (ii) Indebtedness incurred for capital expenditures permitted under Section 7.6 hereof; (iii) Indebtedness due under the Junior Subordinated Debentures as in effect on the date hereof, and (iv) Indebtedness set forth in the financial statements delivered pursuant to Section 5.5 hereof.

7.9. Nature of Business. Substantially change the nature of the business in which it is presently engaged, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the ordinary course of business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted.

7.10. Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise deal with, any Affiliate, except transactions in the ordinary course of business, on an arm's-length basis on terms no less favorable than terms which would have been obtainable from a Person other than an Affiliate.

7.11. Leases. Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.6 hereof) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed $15,000,000 in any one fiscal year in the aggregate for all Credit Parties.

7.12. Subsidiaries.

(a) Form any Subsidiary.

(b) Enter into any partnership, joint venture or similar arrangement.

7.13. Fiscal Year and Accounting Changes. Change its fiscal year from December 31 or make any significant change (i) in accounting treatment and reporting practices except as required by GAAP or (ii) in tax reporting treatment except as required by law.

7.14. Pledge of Credit. Now or hereafter pledge Agent's or any Lender's

credit on any purchases or for any purpose whatsoever or use any portion of any Advance in or for any business other than such Credit Party's business as conducted on the date of this Agreement.

7.15. Amendment of Articles of Incorporation, By-Laws. Amend, modify or waive any term or material provision of its Articles of Incorporation, By-Laws, or any of its organizational documents unless required by law.

7.16. Compliance with ERISA. Except where the failure to comply would reasonably be expected to have a Material Adverse Effect on any Credit Party or member of the Controlled Group (i) (x) without prior notice to Agent, maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d), (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in section 406 of ERISA and Section 4975 of the Code, (iii) incur, or permit any member of the Controlled Group to incur, any material "accumulated funding deficiency", as that term is defined in Section 302 of ERISA or Section 412 of the Code, (iv) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could result in any material liability of any Credit Party or any member of the Controlled Group or the imposition of a lien on the property of any Credit Party or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), without prior written consent of Agent (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (vii) fail promptly to notify Agent of the occurrence of any Termination Event, (viii) fail to materially comply, or permit a member of the Controlled Group to fail to materially comply, with the requirements of ERISA or the Code or other applicable laws in respect of any Plan, (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or the Code or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan.

7.17. Prepayment of Indebtedness. At any time, directly or indirectly, prepay any Indebtedness (other than to Lenders), or repurchase, redeem, retire or otherwise acquire any Indebtedness of any Credit Party.

7.18. Junior Subordinated Debentures. At any time, directly or indirectly, pay, prepay, repurchase, redeem, retire or otherwise acquire, or make any payment on account of any principal of, interest on or premium payable in connection with the repayment or redemption of the Junior Subordinated Debentures, except for payments of interest (subject to Section 6.8 hereof) required by the terms of the Junior Subordinated Debentures as in effect on the Closing Date.

7.19. Other Agreements. Enter into any material amendment, waiver or modification of the Junior Subordinated Debentures, or any related agreements.

VIII. CONDITIONS PRECEDENT.

8.1. Conditions to Initial Advances. The agreement of Lenders to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Lenders, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) Note. Agent shall have received the Notes duly executed and delivered by an authorized officer of each Borrower;

(b) Filings, Registrations and Recordings. Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by the Agent to be filed, registered or recorded in order to create, in favor of Agent, a perfected security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Agent shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Corporate Proceedings of Credit Parties . Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of each Credit Party authorizing (i) the execution, delivery and performance of this Agreement, the Notes, the Mortgage and any related agreements, (collectively the "Documents") and (ii) the granting by each Credit Party of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of each Credit Party as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(d) Incumbency Certificates of Credit Parties . Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Credit Party, dated the Closing Date, as to the incumbency and signature of the officers of each Credit Party executing this Agreement, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(e) Certificates. Agent shall have received a copy of the Articles or Certificate of Incorporation of each Borrower and each Guarantor, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the By-Laws of each Borrower and each Guarantor and all agreements of each Borrower's and each Guarantor's shareholders certified as accurate and complete by the Secretary of each Borrower and such Guarantor;

(f) Good Standing Certificates. Agent shall have received good standing certificates for each Borrower and each Guarantor dated not more than thirty (30) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of each Borrower's and each Guarantor's jurisdiction of incorporation and each jurisdiction where the conduct of each Borrower's and each Guarantor's business activities or the ownership of its properties necessitates qualification;

(g) Legal Opinion. Agent shall have received the executed legal opinion of Morgan, Lewis & Bockius, LLP, Cowles Thompson, a Professional Corporation, Katz Randall Weinberg Richmond, Wilson Walker Hochberg Slopen and supporting opinions issued in connection with the foregoing, in form and substance satisfactory to Agent which shall cover such matters incident to the transactions contemplated by this Agreement, the Notes, and related agreements as Agent may reasonably require and each Borrower and each Guarantor hereby authorizes and directs such counsel to deliver such opinions to Agent and Lenders;

(h) No Litigation. (i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or threatened against any Borrower or any Guarantor or against the officers or directors of any Borrower or any Guarantor (A) in connection with the Other Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, have a Material Adverse Effect on any Borrower or any Guarantor; and (ii) no injunction, writ, restraining order or other order of any nature materially adverse to any Borrower or any Guarantor or the conduct of its business or inconsistent with the due consummation of the Transactions shall have been issued by any Governmental Body;

(i) Financial Condition Certificates. Agent shall have received an executed Financial Condition Certificate in the form of Exhibit 8.1(k). \

(j) Collateral Examination. Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of the Receivables, Inventory, General Intangibles and Equipment of each Borrower and Guarantor and all books and records in connection therewith;

(k) Fees. Agent shall have received all fees payable to Agent and Lenders on or prior to the Closing Date pursuant to Article III hereof;

(l) Pro Forma Financial Statements. Agent shall have received a copy of the Pro Forma Financial Statements which shall be satisfactory in all respects to Agent;

(m) Junior Subordinated Debentures. Agent shall have received final executed copies of the Junior Subordinated Debentures, and all related agreements, documents and instruments as in effect on the Closing Date which shall be satisfactory in all respects to Agent;

(n) Insurance. Agent shall have received in form and substance satisfactory to Agent, certified copies of Borrower s' and Guarantor's casualty insurance policies, together with loss payable endorsements on Agent's standard form of loss payee endorsement naming Agent as loss payee, and certified copies of Credit Parties' and Guarantor's liability insurance policies, together with endorsements naming Agent as a co-insured;

(o) Title Insurance. Agent shall have received fully paid mortgagee title insurance policies (or binding commitments to issue title insurance policies, marked to Agent's satisfaction to evidence the form of such policies to be delivered with respect to the Mortgage), in standard ALTA form,

issued by a title insurance company satisfactory to Agent, each in an amount equal to not less than the fair market value of the Real Property subject to the Mortgage, insuring the Mortgage to create a valid Lien on the Real Property with no exceptions which Agent shall not have approved in writing and no survey exceptions;

(p) Environmental Reports. Agent shall have received all environmental studies and reports prepared by independent environmental engineering firms with respect to all Real Property owned or leased by Credit Parties or any Guarantor;

(q) Payment Instructions. Agent shall have received written instructions from SunSource directing the application of proceeds of the initial Advances made pursuant to this Agreement;

(r) Blocked Accounts. Agent shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

(s) Consents. Agent shall have received any and all Consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Other Documents; and, Agent shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral, as Agent and its counsel shall deem necessary;

(t) No Adverse Material Change. (i) since September 30, 1999, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect on any Borrower or any Guarantor and (ii) no representations made or information supplied to Agent shall have been proven to be inaccurate or misleading in any material respect;

(u) Leasehold Agreements. Agent shall have received landlord, mortgagee or warehouseman agreements satisfactory to Agent with respect to all premises leased by Borrowers or any Guarantor at which Inventory is located;

(v) October Financial Statements. Agent shall have received the financial statements of Borrowers on a consolidated basis for the month of October, 1999 which shall be satisfactory in all respects to Agent;

(w) Pledge Agreement and Other Documents. Agent shall have received (i) the Pledge Agreement and (ii) the executed Other Documents, all in form and substance satisfactory to Agent;

(x) Net Worth. Agent shall have received the Pro Forma Balance Sheet reflecting a Net Worth after giving effect to the Indebtedness under the Junior Subordinated Debentures and after giving effect to the Transactions of at least $123,800,000;

(y) Contract Review. Agent shall have reviewed all material contracts of Credit Parties and Guarantors including, without limitation, leases, union contracts, labor contracts, vendor supply contracts, license agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all respects to Agent;

(z) Closing Certificate. Agent shall have received a closing certificate signed by the Chief Financial Officer of SunSource dated as of the date hereof, stating that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, (ii) Credit Parties and Guarantors are on such date in compliance with all the terms and provisions set forth in this Agreement and the Other Documents and (iii) on such date no Default or Event of Default has occurred or is continuing;

(aa) Borrowing Base. Agent shall have received evidence from SunSource that the aggregate amount of Eligible Receivables and Eligible Inventory is sufficient in value and amount to support Advances in the amount requested by Credit Parties on the Closing Date;

(bb) Undrawn Availability. After giving effect to the initial Advances hereunder, Credit Parties shall have Undrawn Availability of at least $15,000,000;

(cc) Mortgage. Agent shall have received in form and substance satisfactory to Lenders (i) an executed Mortgage and (ii) surveys; and

(dd) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions shall be satisfactory in form and substance to Agent and its counsel.

8.2. Conditions to Each Advance. The agreement of Lenders to make any Advance requested to be made on any date (including, without limitation, the initial Advance), is subject to the satisfaction of the following conditions

precedent as of the date such Advance is made:

(a) Representations and Warranties. Each of the representations and warranties made by any Credit Party in or pursuant to this Agreement and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement or any related agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date;

(b) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date; provided, however that Lenders, in their sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances. In the case of any Advances requested to be made, after giving effect thereto, the aggregate Advances shall not exceed the maximum amount of Advances permitted under Section 2.1 hereof.

Each request for an Advance by any Borrower hereunder shall constitute a representation and warranty by each Credit Party as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

IX. INFORMATION AS TO CREDIT PARTIES.

Each Credit Party shall, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1. Disclosure of Material Matters. Immediately upon learning thereof, report to Agent all matters materially affecting the value, enforceability or collectibility of any portion of the Collateral including, without limitation, any Credit Party's reclamation or repossession of, or the return to any Credit Party of, a material amount of goods or claims or disputes asserted by any Customer or other obligor.

9.2. Schedules. Deliver to Agent on or before the twentieth (20th) day of each month as and for the prior month (a) accounts receivable agings, (b) accounts payable schedules and (c) Inventory reports and (d) a Borrowing Base Certificate (which shall be calculated as of the last day of the prior month and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement). In addition, each Borrower will deliver to Agent at such intervals as Agent may require: (i) confirmatory assignment schedules, (ii) copies of Customer's invoices, (iii) evidence of shipment or delivery, (iv) monthly reconciliations of the above reports, and (v) such further schedules, documents and/or information regarding the Collateral as Agent may require including, without limitation, trial balances and test verifications. Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Agent and executed by each Borrower and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and any Borrower's failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3. Environmental Reports. Furnish Agent, concurrently with the delivery of the financial statements referred to in Sections 9.7 and 9.8, with a certificate signed by the Chief Financial Officer of SunSource, on behalf of each Borrower stating, to the best of his knowledge, that each Borrower is in compliance in all material respects with all federal, provincial, state and local laws relating to environmental protection and control and occupational safety and health. To the extent any Credit Party is not in compliance with the foregoing laws, the certificate shall set forth with specificity all areas of non-compliance and the proposed action such Credit Party will implement in order to achieve full compliance.

9.4. Litigation. Promptly notify Agent in writing of any litigation, suit or administrative proceeding affecting any Credit Party, whether or not the claim is covered by insurance, and of any suit or administrative proceeding, which in any such case could reasonably be expected to have a Material Adverse Effect on any Credit Party.

9.5. Material Occurrences. Promptly notify Agent in writing upon the occurrence of (a) any Event of Default or Default; (b) any event of default under the Junior Subordinated Debentures; (c) any event which with the giving of notice or lapse of time, or both, would constitute an event of default under the Junior Subordinated Debentures; (d) any event, development or circumstance whereby any financial statements or other reports furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of any Credit Party as of the date of such statements; (e) any accumulated retirement plan funding

deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject any Credit Party to a tax imposed by Section 4971 of the Code; (f) each and every default by any Credit Party which might result in the acceleration of the maturity of any Indebtedness in excess of $50,000, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (g) any other development in the business or affairs of any Credit Party which could reasonably be expected to have a Material Adverse Effect on such Credit Party; in each case describing the nature thereof and the action Credit Parties propose to take with respect thereto.

9.6. Government Receivables. Notify Agent immediately if any of its Receivables arise out of contracts between any Credit Party and the United States, Canada, any province, any state, or any department, agency or instrumentality of any of them.

9.7. Annual Financial Statements. Furnish Agent and Lenders within ninety (90) days after the end of each fiscal year of Borrowers, financial statements of Borrowers on a consolidating and consolidated basis including, but not limited to, statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, all prepared in accordance with GAAP applied on a basis consistent with prior practices, and in reasonable detail and reported upon without qualification by an independent certified public accounting firm selected by Borrowers and satisfactory to Agent (the "Accountants"). The report of the Accountants shall be accompanied by a statement of the Accountants certifying that (i) they have caused the Loan Agreement to be reviewed, (ii) in making the examination upon which such report was based either no information came to their attention which to their knowledge constituted an Event of Default or a Default under this Agreement or any related agreement or, if such information came to their attention, specifying any such Default or Event of Default, its nature, when it occurred and whether it is continuing, and such report shall contain or have appended thereto calculations which set forth Credit Parties' compliance with the requirements or restrictions imposed by Sections 6.5, 6.6, 6.7, 7.6 and 7.11 hereof. In addition, the reports shall be accompanied by a certificate of the Chief Financial Officer of SunSource, on behalf of each Credit Party, which shall state that, based on an examination sufficient to permit him to make an informed statement, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by the affected Credit Party with respect to such event, and such certificate shall have appended thereto calculations which set forth Credit Party's compliance with the requirements or restrictions imposed by Sections 6.5, 6.6, 6.7, 7.6 and 7.11 hereof.

9.8. Quarterly Financial Statements. Furnish Agent and Lenders within forty-five (45) days after the end of each fiscal quarter, an unaudited balance sheet of Borrowers on a consolidated and consolidating basis and unaudited statements of income on a consolidated and consolidating basis and stockholders' equity and cash flow of Borrowers on a consolidated basis reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to the business of Credit Parties. The reports shall be accompanied by a certificate signed by the Chief Financial Officer of SunSource, on behalf of each Credit Party, which shall state that, based on an examination sufficient to permit him to make an informed statement, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by the affected Credit Parties with respect to such default and, such certificate shall have appended thereto calculations which set forth the affected Credit Parties' compliance with the requirements or restrictions imposed by Sections 6.5, 6.6, 6.7, 7.6 and 7.11 hereof.

9.9. Monthly Financial Statements. Furnish Agent and Lenders within forty (40) days after the end of each month, an unaudited balance sheet of Borrowers on a consolidated and consolidating basis and unaudited statements of income of Borrowers on a consolidated and consolidating basis reflecting results of operations from the beginning of the fiscal year to the end of such month and for such month, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to the business of Credit Parties. The reports shall be accompanied by a certificate of the Chief Financial Officer of SunSource, on behalf of each Credit Party, which shall state that, based on an examination sufficient to permit him to make an informed statement, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Credit Parties with respect to such event and, such certificate shall have appended thereto

calculations which set forth Credit Parties' compliance with the requirements or restrictions imposed by Sections 6.5, 6.6, 6.7, 7.6 and 7.11 hereof.

9.10. Other Reports. Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, (i) with copies of such financial statements, reports and returns as each Borrower shall send to its stockholders and (ii) copies of all notices sent pursuant to the Junior Subordinated Debentures.

9.11. Additional Information. Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent to determine whether the terms, covenants, provisions and conditions of this Agreement and the Notes have been complied with by Borrowers including, without limitation and without the necessity of any request by Agent, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of any Borrower's opening of any new office or place of business or any Borrower's closing of any existing office or place of business, and (c) promptly upon any Borrower's learning thereof, notice of any labor dispute to which any Borrower may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any Borrower is a party or by which any Borrower is bound.

9.12. Projected Operating Budget. Furnish Agent, no later than fifteen (15) days prior to the beginning of each of SunSource's fiscal years commencing with fiscal year 2001, a month by month projected operating budget and cash flow of Borrowers on a consolidated and consolidating basis for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by the President or Chief Financial Officer of SunSource to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

9.13. Variances From Operating Budget. Furnish Agent, concurrently with the delivery of the financial statements referred to in Section 9.7 and each quarterly and monthly report, a written report summarizing all material variances from budgets submitted by Borrowers pursuant to Section 9.12 and a discussion and analysis by management with respect to such variances.

9.14. Notice of Suits, Adverse Events. Furnish Agent with prompt notice of (i) any lapse or other termination of any Consent issued to any Borrower by any Governmental Body or any other Person that is material to the operation of any Borrower's business, (ii) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (iii) copies of any periodic or special reports filed by any Borrower with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of any Borrower, or if copies thereof are requested by Lender, and (iv) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to any Borrower.

9.15. ERISA Notices and Requests. Furnish Agent with prompt written notice in the event that (i) any Borrower or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which such Borrower or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (ii) any Borrower or any member of the Controlled Group knows or has reason to know that a non-exempt prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement describing such transaction and the action which such Borrower or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (iii) a funding waiver request has been filed with respect to any Pension Plan together with all communications received by any Borrower or any member of the Controlled Group with respect to such request, (iv) any material increase in the benefits of any existing Plan or the establishment of any new Plan or the commencement of contributions to any Plan to which any Borrower or any member of the Controlled Group was not previously contributing shall occur, (v) any Borrower or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Pension Plan or to have a trustee appointed to administer a Pension Plan, together with copies of each such notice, (vi) any Borrower or any member of the Controlled Group shall receive any unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (vii) any Borrower or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (viii) any Borrower or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; (ix) any Borrower or any member of the Controlled Group knows that (a) a Multiemployer Plan has been terminated, (b) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a

Multiemployer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16. Additional Documents. Execute and deliver to Agent, upon request, such documents and agreements as Agent may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

X. EVENTS OF DEFAULT.

The occurrence of any one or more of the following events shall constitute an "Event of Default":

10.1. failure by any Credit Party to pay any principal or interest on the Obligations when due, whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment or failure to pay any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document;

10.2. any representation or warranty made or deemed made by any Credit Party in this Agreement or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

10.3. failure by any Credit Party to (i) furnish financial information when due or when requested, or (ii) permit the inspection of its books or records in accordance with Section 4.10 hereof;

10.4. issuance of a notice of Lien, levy, assessment, injunction or attachment against a material portion of any Credit Party's property which is not stayed or lifted within thirty (30) days;

10.5. except as otherwise provided for in Sections 10.1 and 10.3, failure or neglect of any Credit Party to perform, keep or observe any term, provision, condition, covenant herein contained, or contained in any other agreement or arrangement, now or hereafter entered into between any Credit Party and Agent or any Lender except for a failure or neglect of any Credit Party to perform, keep or observe any term, provision, condition or covenant, contained in Sections 4.7, 4.9, 4.11, 6.1, 6.3, 6.4, 9.4, 9.6 or 9.15 hereof which is cured within thirty (30) days from the occurrence of such failure or neglect;

10.6. any judgment or judgments are rendered or judgment liens filed against any Credit Party or any execution, sequestration or other process of any court becomes enforceable against a Credit Party or if a distress or an analogous process is levied on all or part of its assets which, when aggregated with judgements and other process of any court for all Credit Parties are in aggregate amount in excess of $500,000 which within forty (40) days of such rendering or filing is not either satisfied, stayed or discharged of record;

10.7. any Credit Party shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state, provincial or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within forty-five (45) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

10.8. any Credit Party shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business or institute or be subject to any formal or informal proceeding for its dissolution, liquidation or winding up, or agree to make a bulk sale of assets without the consent of Agent or Lenders;

10.9. any Affiliate or any Subsidiary of any Credit Party, or any Guarantor, shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state, provincial or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within forty-five (45) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

10.10. any change in any Credit Party's condition or affairs (financial or otherwise) which in Agent's reasonable opinion has a Material Adverse Effect on such Credit Party including, without limitation, as a result of the Year 2000 Problem;

10.11. any Lien created hereunder or provided for hereby or under any related agreement for any reason ceases to be or is not a valid and perfected Lien having a first priority interest;

10.12. an event of default has occurred and been declared under the Junior Subordinated Debentures which default shall not have been cured or waived within any applicable grace period;

10.13. a default of the obligations of any Credit Party under any other agreement to which it is a party shall occur which adversely affects its condition, affairs or prospects (financial or otherwise) which default is not cured within any applicable grace period;

10.14. termination or breach of any Guaranty or similar agreement executed and delivered to Agent in connection with the Obligations of any Borrower, or if any Guarantor attempts to terminate, challenges the validity of, or its liability under, any such Guaranty or similar agreement;

10.15. any Change of Ownership or Change of Control shall occur;

10.16. any material provision of this Agreement shall, for any reason, cease to be valid and binding on any Credit Party, or any Credit Party shall so claim in writing to Agent;

10.17. (i) any Governmental Body shall (A) revoke, terminate, suspend or adversely modify any license, permit, patent trademark or tradename of any Credit Party, the continuation of which is material to the continuation of any Credit Party's business, or (B) commence proceedings to suspend, revoke, terminate or adversely modify any such license, permit, trademark, tradename or patent and such proceedings shall not be dismissed or discharged within sixty (60) days, or (c) schedule or conduct a hearing on the renewal of any license, permit, trademark, tradename or patent necessary for the continuation of any Credit Party's business and the staff of such Governmental Body issues a report recommending the termination, revocation, suspension or material, adverse modification of such license, permit, trademark, tradename or patent; (ii) any agreement which is necessary or material to the operation of any Credit Party's business shall be revoked or terminated and not replaced by a substitute acceptable to Agent within thirty (30) days after the date of such revocation or termination, and such revocation or termination and non-replacement would reasonably be expected to have a Material Adverse Effect on any Credit Party;

10.18. any portion of the Collateral shall be seized or taken by a Governmental Body, or any Credit Party or the title and rights of any Credit Party or any Original Owner which is the owner of any material portion of the Collateral shall have become the subject matter of litigation which might, in the opinion of Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents; or

10.19. an event or condition specified in Sections 7.16 or 9.15 hereof shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, any Credit Party or any member of the Controlled Group shall incur, or in the opinion of Agent be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which, in the reasonable judgment of Agent, would have a Material Adverse Effect on any Credit Party.

XI. LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT.

11.1. Rights and Remedies. Upon the occurrence of (i) an Event of Default pursuant to Section 10.7 all Obligations shall be immediately due and payable and this Agreement and the obligation of Lenders to make Advances shall be deemed terminated, and (ii) any of the other Events of Default and at any time thereafter (such default not having previously been cured), at the option of Agent or at the direction of Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances and (iii) a filing of a petition against Credit Party in any involuntary case under any state, provincial or federal bankruptcy laws, the obligation of Lenders to make Advances hereunder shall be terminated other than as may be required by an appropriate order of the bankruptcy court having jurisdiction over any Credit Party. Upon the occurrence of any Event of Default and while such Event of Default is continuing, Agent shall have the right to exercise any and all other rights and remedies provided for herein, under the Uniform Commercial Code or under any other applicable law and at law or equity generally, including, without limitation, the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. Agent may enter any of any Credit Party's premises or other

premises without legal process and without incurring liability to any Credit Party therefor, and Agent may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Agent may deem advisable and Agent may require Credit Parties to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as Agent may elect. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Agent shall give Credit Parties reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Credit Parties at least five (5) days or such other period that may be required by any law of Canada or any province thereof prior to such sale or sales is reasonable notification. At any public sale Agent or any Lender may bid for and become the purchaser, and Agent, any Lender or any other purchaser at any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and such right and equity are hereby expressly waived and released by each Credit Party. In connection with the exercise of the foregoing remedies, Agent is granted permission to use all of each Credit Party's trademarks, trade styles, trade names, patents, patent applications, licenses, franchises and other proprietary rights which are used in connection with (a) Inventory for the purpose of disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The proceeds realized from the sale of any Collateral shall be applied in accordance with Section 11.5 hereof. If any deficiency shall arise, Credit Parties shall remain liable to Agent and Lenders therefor.

11.2. Agent's Discretion. Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Agent's or Lenders' rights hereunder.

11.3. Setoff. In addition to any other rights which Agent or any Lender may have under applicable law, upon the occurrence of an Event of Default and while such Event of Default is continuing hereunder, Agent and such Lender shall have a right to apply any Credit Party's property held by Agent and such Lender to reduce the Obligations.

11.4. Rights and Remedies not Exclusive. The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any right or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5. Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of the Agent in connection with enforcing the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of this Document;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of each of the Lenders in connection with enforcing its rights under this Agreement and the Other Documents or otherwise with respect to the Obligations owing to such Lender;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations (including the payment or cash collateralization of the outstanding Letters of Credit);

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above;

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the

numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Agent in a cash collateral account and applied (A) first, to reimburse the Issuer from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 11.5.

11.6. Canadian Remedies. Upon the occurrence of an Event of Default and during the continuation thereof, solely with respect to Credit Parties organized under the laws of Canada or any province thereof,

(a) Agent may, by instrument in writing, appoint a receiver ("Receiver" which term shall include a receiver and a manager) of all or any part of Collateral and remove any Receiver appointed and appoint another Receiver in its stead or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver in respect of any Credit Party or the Collateral;

(b) subject to the provisions of the document appointing it, any Receiver appointed shall have all the powers of Agent pursuant to this Agreement;

(c) Agent shall have the power to carry on the business of any Credit Party in whole or in part, the power to purchase on credit, the power to borrow in any Credit Party's name or in Agent's name with or without security and to advance its own money to any Credit Party at such rates of interest as it may deem reasonable, the power to take possession of Collateral and to preserve Collateral or its value and to sell, lease or otherwise dispose of Collateral, the power to enter upon, use and occupy all premises owned or occupied by any Credit Party where Collateral is situated and maintain Collateral on such premises and generally to deal with Collateral in the same manner and to the same extent as any Credit Party. A Receiver appointed under this Agreement shall only borrow money with the prior consent of Agent;

(d) to facilitate the realization of Collateral, Agent may carry on or concur in the carrying on of all or any part of the business of any Credit Party and may to the exclusion of all others, including any Credit Party, enter upon, occupy and use all or any of the premises of any Credit Party and use free of charge all or any of the tools, machinery and equipment of any Credit Party for such time as Agent sees fit to manufacture or complete the manufacture of any Inventory and to pack and ship the finished products and Agent shall not be liable to any Credit Party for any act, omission or neglect in so doing or liable to any Credit Party for any rent, charges, depreciation or damages in connection with such actions;

(e) Agent may seize, collect, realize, borrow money on the security of, release to third parties or otherwise deal with Collateral in such manner, upon such terms and conditions and at such times as Agent may deem advisable and without notice to any Credit Party (except as required by any applicable law), and may charge on its own behalf and pay to others reasonable amounts of costs and expenses incurred and for services rendered (including without limitation the fees of any Receiver and fees and disbursements of Agent's and Receiver's legal and accounting advisors) in connection with the enforcement of its security interest or the exercise of any rights of Agent under this Agreement, including, without limitation, the operations of Debtor's accounts and business, retaking, holding, repairing, processing, preparing for disposition, collecting, realizing, borrowing on the security of, disposing of or obtaining payment for Collateral or advice or direction with respect to any of the above. When in possession of Collateral, Agent shall not have any obligation to keep Collateral identifiable;

Each Credit Party agrees with Agent that:

(a) the Receiver shall be the agent of the respective Credit Party for the purpose of:

(i) carrying on and managing the business and affairs of Credit Party, and,

(ii) establishing liability for all of the acts, omissions or neglect of the Receiver and those for whom it is in law responsible and Agent shall not be liable for such acts, omissions or neglect; and,

(b) Agent is hereby irrevocably authorized to give instructions to the Receiver relating to the performance of its duties.

XII. WAIVERS AND JUDICIAL PROCEEDINGS.

12.1. Waiver of Notice. Each Credit Party hereby waives notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

12.2. Delay. No delay or omission on Agent's or any Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any default.

12.3. Jury Waiver. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

XIII. EFFECTIVE DATE AND TERMINATION.

13.1. Term. This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Credit Party, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until December 14, 2004 (the "Term") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ninety (90) days' prior written notice upon payment in full of the Obligations.

13.2. Termination. The termination of the Agreement shall not affect any Credit Party's, Agent's or any Lender's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully disposed of, concluded or liquidated. The security interests, Liens and rights granted to Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrowers' Account may from time to time be temporarily in a zero or credit position, until all of the Obligations of each Credit Party have been paid or performed in full after the termination of this Agreement or each Credit Party has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders with respect thereto. Accordingly, each Credit Party waives any rights which it may have under Section 9-404(1) of the Uniform Commercial Code or any similar right under any other statute to demand the filing of termination statements with respect to the Collateral, and Agent shall not be required to send such termination statements to each Credit Party, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations are paid or performed in full.

XIV. REGARDING AGENT.

14.1. Appointment. Each Lender hereby designates PNC to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in the Fee Letter), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including

without limitation, collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or applicable law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2. Nature of Duties. Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct, or (ii) responsible in any manner for any recitals, statements, representations or warranties made by any Credit Party or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of any Credit Party to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of any Credit Party. The duties of Agent as respects the Advances to Borrowers shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3. Lack of Reliance on Agent and Resignation. Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of each Credit Party in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of each Credit Party. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by any Credit Party pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any Other Document, or of the financial condition of any Credit Party, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Note, the Other Documents or the financial condition of any Credit Party, or the existence of any Event of Default or any Default.

Agent may resign on sixty (60) days' written notice to each of Lenders and Borrowing Agent and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrowers.

Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4. Certain Rights of Agent. If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5. Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and

its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6. Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or a Credit Party referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

14.7. Indemnification. To the extent Agent is not reimbursed and indemnified by Credit Parties, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross (not mere) negligence or willful misconduct.

14.8. Agent in its Individual Capacity. With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term "Lender" or any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with any Credit Party as if it were not performing the duties specified herein, and may accept fees and other consideration from any Credit Party for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9. Credit Parties' Undertaking to Agent. Without prejudice to their respective obligations to Lenders under the other provisions of this Agreement, each Credit Party hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Credit Party's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

XV. BORROWING AGENCY.

15.1. Borrowing Agency Provisions.

(a) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes Agent to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Neither Agent nor any Lender shall incur liability to Borrowers as a result thereof. To induce Agent and Lenders to do so and in consideration thereof, each Borrower hereby indemnifies Agent and each Lender and holds Agent and each Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Agent or any Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Agent or any Lender on any request or instruction from Borrowing Agent or any other action taken by Agent or any Lender with respect to this Section 15.1 except due to willful misconduct or gross (not mere) negligence by the indemnified party.

(c) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted to Agent or any Lender to any Borrower, failure of Agent or any Lender to give

any Borrower notice of borrowing or any other notice, any failure of Agent or any Lender to pursue or preserve its rights against any Borrower, the release by Agent or any Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Agent or any Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof.

15.2. Waiver of Subrogation. Each Credit Party expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Credit Party may now or hereafter have against the other Credit Parties or other Person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Credit Parties' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until termination of this Agreement and repayment in full of the Obligations.

XVI. GUARANTEE.

16.1. Each Guarantor unconditionally guarantees, as a primary obligor and not merely as a surety, jointly and severally with each other Guarantor when and as due, whether at maturity, by acceleration, by notice of prepayment or otherwise, the due and punctual performance of all Obligations, including, without limitation, the due and punctual payment of the principal of and all interest on each Revolving Credit Note and each Term Note. Each payment made by any Guarantor pursuant to this Guarantee shall be made in lawful money of the United States in immediately available funds.

16.2. Each Guarantor hereby absolutely, unconditionally and irrevocably waives (i) promptness, diligence, notice of acceptance, notice of presentment for payment and any other notice with respect to this Guarantee, (ii) demand of payment, protest, notice of protest, notice of dishonor or nonpayment, notice of the present and future amount of the Obligations and any other notice with respect to the Obligations, (iii) any requirement that the Agent or any other Lender protect, secure, perfect or insure any security interest or Lien or any property subject thereto or exhaust any right or take any action against any other Credit Party, or any Person or any Collateral, (iv) any other action, event or precondition to the enforcement of this Guarantee or the performance by each such Guarantor of the Obligations and (v) any defense arising by any lack of capacity or authority or any other defense of any Borrower or any notice, demand or defense by reason of the cessation from any cause of Obligations other than payment and performance in full by the Obligations by the Borrowers and any defense that any other guarantee or security was or was to be obtained by Agent.

16.3. No invalidity, irregularity, voidableness, voidness or unenforceability of this Agreement, any Revolving Credit Note, any Term Note, or any other Document or any other agreement or instrument relating thereto, or of all or any part of the Obligations or of any collateral security therefor shall affect, impair or be a defense to this Guarantee.

16.4. This Guarantee is one of payment and performance, not collection, and the obligations of each Guarantor under this Guarantee are independent of the Obligations of the other Loan Parties, and a separate action or actions may be brought and prosecuted against any Guarantor to enforce this Guarantee, irrespective of whether any action is brought against any other Credit Party or other Persons or whether any other Credit Party or other Persons are joined in any such action or actions. Each Guarantor waives any right to require that any resort be had by Agent or any Lender to any security held for payment of the Obligations or to any balance of any deposit account or credit on the books of any Agent or any Lender in favor of any Credit Party or any other Person. No election to proceed in one form of action or proceedings, or against any Person, or on any Obligations, shall constitute a waiver of Agent's right to proceed in any other form of action or proceeding or against any other Person unless Agent has expressed any such waiver in writing. Without limiting the generality of the foregoing, no action or proceeding by Agent against any Borrower under any document evidencing or securing indebtedness of such Borrowers to Agent shall diminish the liability of any Guarantor under this Guarantee, except to the extent Agent receives actual payment on account of Obligations by such action or proceeding, notwithstanding the effect of any such election, action or proceeding upon the right of subrogation of any Guarantor in respect of Borrowers.

16.5. The liability of each Guarantor under this Guarantee shall be absolute, unlimited and unconditional irrespective and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason, including, without limitation, any claim of waiver, release, surrender alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of any other Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor shall not be discharged or impaired or released or limited or otherwise affected

by:

(i) any change in the manner, place or terms of payment or performance, and/or any change or extension of the time of payment or performance of, release, renewal or alteration of, or any new agreements relating to any Obligation, any security therefor, or any liability incurred directly or indirectly in respect thereof, or any rescission of, or amendment, waiver or other modification of, or any consent to departure from, this Agreement, the Revolving Credit Notes, the Term Notes or any Other Document, including any increase in the Obligations resulting from the extension of additional credit to Borrower or otherwise;

(ii) any sale, exchange, release, surrender, loss, abandonment, realization upon any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, all or any of the Obligations, and/or any offset there against, or failure to register, to perfect, or continue the perfection of, any Lien in any such property, or delay in the perfection or the registration of any such Lien, or any amendment or waiver of or consent to departure from any other guaranty for all or any of the Obligations;

(iii) the failure of the Agent or any Lender to assert any claim or demand or to enforce any right or remedy against any Borrower or any other Credit Party or any other Person under the provisions of this Agreement, the Revolving Credit Notes, the Term Notes, any Letter of Credit or any other document or instrument executed and delivered in connection herewith or therewith;

(iv) any settlement or compromise of any Obligation, any security therefor or any liability (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and any subordination of the payment of all or any part thereof to the payment of any obligation (whether due or not) of any Credit Party to creditors of any Credit Party other than any other Credit Party;

(v) any manner of application of Collateral, or proceeds thereof, to all or any of the Obligations, or any manner of sale or other disposition of any Collateral for all or any of the Obligations or any other assets of any Credit Party;

(vi) any other agreements or circumstance of any nature whatsoever that may or might in any manner or to any extent vary the risk of any Guarantor, or that might otherwise at law or in equity constitute a defense available to, or a discharge of, this Guarantee and/or the obligations of Guarantor, or a defense to, or discharge of, any Credit Party or any other Person or party relating to this Guarantee or the Obligations or otherwise with respect to the Advances, Letters of Credit or other financial accommodations to Borrower pursuant to the Other Documents;

(vii) the loss or diminution of authority, liquidation, dissolution, winding-up, winding-down, amalgamation, any arrangement under corporate legislation, any change in the name, business, membership, directorate, powers, objects, or organization or management, or other change in the corporate form, winding up proceedings, proceedings under the Bankruptcy and Insolvency Act R.S.C. 1985 c. B-3 as amended from time to time or any successor legislation thereto, proceedings in the Companies' Creditors Arrangement Act R.S.C. 1985 c. C-36 as amended from time to time or any successor legislation thereto, liquidation, receivership proceedings, appointment of a receiver, manager or receiver and manager or other insolvency proceedings occurring in respect of any Borrower, or any other Credit Party or the assumption by any Person of the obligation to pay or perform Obligations;

(viii) the Agent shall have the right to do any of the above without notice to or the consent of any Guarantor and each Guarantor expressly waives any right to notice of, consent to, knowledge of and participation in any agreements relating to any of the above or any other present or future event relating to Obligations whether under this Agreement or otherwise or any right to challenge or question any of the above and waives any defenses of such Guarantor which might arise as a result of such dealings.

16.6. Agent may at any time and from time to time (whether or not after revocation or termination of this Guarantee) without the consent of, or notice (except as shall be required by applicable statute and cannot be waived) to, any Guarantor, and without incurring responsibility to any Guarantor or impairing or releasing the Obligations, apply any sums by whomsoever paid or howsoever realized to any Obligations regardless of what Obligations remain unpaid.

16.7. (a) This Guarantee shall continue to be effective or be reinstated, as the case may be, if claim is ever made upon the Agent or any Lender for repayment or recovery of any amount or amounts received by such Person in payment or on account of any of the Obligations and such Person repays all or part of said amount for any reason whatsoever, including, without limitation, by reason of any judgment, decree or order of any court or administrative body having jurisdiction over such Person or the respective property of each, or any settlement or compromise of any claim effected by such Person with any such claimant (including any Borrower); and in such event each Guarantor agrees that any such judgment, decree, order, settlement or compromise or other circumstances shall be binding upon such Guarantor, notwithstanding any revocation hereof or the cancellation of any note (including the Term Notes and/or the Revolving Credit Notes) or other instrument evidencing any Obligation, and each Guarantor shall be and remain liable to the Agent and/or Lenders for the amount so repaid or recovered to the same extent as if such amount had never originally been received by such Person(s).

(b) Agent shall not be required to marshal any assets in favor of any Guarantor, or against or in payment of Obligations.

(c) No Guarantor shall have the right to be reimbursed, indemnified or subrogated to any of Agent's rights until Agent has received payment and performance in full of all Obligations (whether or not guaranteed hereby) and all reasonable costs and expenses incurred by Agent in obtaining payment and performance of Obligations and this Agreement has been irrevocably terminated. No Guarantor shall be entitled to claim against any present or future security held by Agent from any person for Obligations in priority to or equally with any claim of Agent, or assert any claim for any liability of any Borrower to any Guarantor in priority to or equally with claims of Agent for Obligations, and no Guarantor shall be entitled to compete with Agent with respect to, or to advance any equal or prior claim to any security held by Agent for Obligations.

(d) If any Borrower makes any payment to Agent, which payment is wholly or partly subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to any person under any federal, state or provincial statute or at common law or under equitable principles, then to the extent of such payment the Obligation intended to be paid shall be revived and continued in full force and effect as if the payment had not been made, and the resulting revived Obligation shall continue to be guaranteed, uninterrupted, by each Guarantor under this Guarantee.

(e) All present and future monies payable by any Borrower to each Guarantor are assigned to Agent as security for such Guarantor's liability to Agent under this Guarantee and are postponed and subordinated to Agent's prior right to payment in full of Obligations. All monies received by any Guarantor from any Borrower shall be held by such Guarantor as agent and trustee for Agent. This provision shall remain in effect notwithstanding any termination by any Guarantor of this Guarantee. This assignment, postponement and subordination shall only terminate when Obligations are paid in full and the Agreement is irrevocably terminated.

(f) Each Borrower acknowledges this assignment, postponement and subordination and, except as permitted hereunder, agrees to make no payments to any Guarantor without the prior written consent of Agent. Each Borrower agrees to give full effect to the provisions of this Guarantee.

16.8. Upon the occurrence and during the continuance of any Event of Default, the Agent may and upon written request of the Lenders shall, without notice to or demand upon any Credit Party or any other Person, declare any obligations of each Guarantor hereunder immediately due and payable, and shall be entitled to enforce the obligations of each Guarantor. Upon such declaration by the Agent, the Agent and Lenders are hereby authorized at any time and from time to time to set off and apply any and all deposits (general or special, time or demand, provisions or final) at any time held and other indebtedness at any time owing by the Agent or Lenders to or for the credit or the account of any Guarantor against any and all of the obligations of each Guarantor now or hereafter existing under this Guarantee, whether or not the Agent or Lenders shall have made any demand under this Guarantee and although such obligations may be contingent and unmatured. The rights of the Agent and Lenders hereunder are in addition to other rights and remedies (including other rights of set-off) which the Agent and Lenders may have. Upon such declaration by the Agent, with respect to any claims (other than those claims referred to in the immediately preceding paragraph) of any Guarantor against any Credit Party (the "Claims"), the Agent shall have the full right on the part of the Agent in its own name or in the name of such Guarantor to collect and enforce such Claims by legal action, proof of debt or claim in bankruptcy or liquidation or other similar

proceedings, vote in any proceeding for the arrangement or reorganization of debts at any time proposed, or otherwise, the Agent and each of its officers being hereby irrevocably constituted attorneys-in-fact for each Guarantor for the purpose of such enforcement and for the purpose of endorsing in the name of each Guarantor any instrument for the payment of money. Each Guarantor will receive as trustee for the Agent and will pay to the Agent forthwith upon receipt thereof any amounts which such Guarantor may receive from any Credit Party on account of the Claims. Each Guarantor agrees that at no time hereafter will any of the Claims be represented by any notes, other negotiable instruments or writings, except and in such event they shall either be made payable to the Agent, or if payable to any Guarantor, shall forthwith be endorsed by such Guarantor to the Agent. Each Guarantor agrees that no payment on account of the Claims or any security interest therein shall be created, received, accepted or retained during the continuance of an Event of Default nor shall any financing statement be filed with respect thereto by any Guarantor.

16.9. Any acknowledgment or new promise, whether by payment of principal or interest or otherwise and whether by any Credit Party or others (including any Lenders) with respect to any of the Obligations shall, if the statute of limitations in favor of any Guarantor against the Agent or Lenders shall have commenced to run, toll the running of such statute of limitations and, if the period of such statute of limitations shall have expired, prevent the operation of such statute of limitations.

16.10. (a) All amounts payable from time to time by any Guarantor hereunder shall bear interest at the interest rate per annum then chargeable with respect to Revolving Credit Advances.

(b) If, with respect to any payment under this Guarantee, the application, introduction or adoption of any law, regulation, treaty, convention, guideline, request or directive of any governmental authority or similar agency or any change therein, to Guarantor, or to Agent, or interpretation, or administration thereof, or any compliance by Agent therewith, shall impose or require any reserve, or tax (excluding taxes measured with reference to the net income of Agent), or shall impose any other requirement or condition which results in an increased cost to Agent or reduces the amount received or receivable by Agent with respect with any amount due under this Guarantee or causes Agent to make or to forego any payment, then upon notification to Guarantor by Agent, Guarantor shall immediately pay to Agent such amounts as shall fully compensate Agent and Lenders for all such increased costs, reductions, payments or foregone payments which accrue up to and including the date of receipt by Guarantor of such notice and thereafter, upon demand from time to time, Guarantor shall pay such additional amounts as shall fully compensate Agent for any increased cost, imposed costs, reductions, payments or foregone payments.

16.11. Each Guarantor acknowledges receipt of a copy of each of the Other Documents. Each Guarantor has made an independent investigation of the Loan Parties and of the financial condition of the Loan Parties. Neither Agent nor any Lender has made and neither Agent nor any Lender does make any representations or warranties as to the income, expense, operation, finances or any other matter or thing affecting any Credit Party nor has Agent or any Lender made any representations or warranties as to the amount or nature of the Obligations of any Credit Party to which this Guarantee applies as specifically herein set forth, nor has Agent or any Lender or any officer, agent or employee of Agent or any Lender or any representative thereof, made any other oral representations, agreements or commitments of any kind or nature, and each Guarantor hereby expressly acknowledges that no such representations or warranties have been made and such Guarantor expressly disclaims reliance on any such representations or warranties.

16.12. The provisions of this Section 16 shall remain in effect until indefeasible payment in full in cash of all Obligations and the irrevocable termination of this Agreement.

16.13. If any Obligations remain outstanding following the exercise of any of Agent's rights and/or remedies pursuant to any Mortgage, each Guarantor hereby agrees that the Guaranty made by such Guarantor under this Section 16 shall continue in full force and effect with respect to such Obligations and any future Obligations not withstanding any applicable law, statute or regulation. Further, each Guarantor hereby agrees to execute any instruments, agreements and/or documents reasonably requested by Agent to reflect any of the foregoing.

XVII. MISCELLANEOUS.

17.1. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York. Any judicial proceeding brought by or against any Credit Party with respect to any of the Obligations, this Agreement or any related agreement may be brought in any court of competent jurisdiction in the State of New York, United States of America, and, by

execution and delivery of this Agreement, each Credit Party accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Each Credit Party hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrowing Agent at its address set forth in Section 17.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America, or, at the Agent's and/or any Lender's option, by service upon Borrowing Agent which each Credit Party irrevocably appoints as such Credit Party's Agent for the purpose of accepting service within the State of New York. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against any Credit Party in the courts of any other jurisdiction. Each Credit Party waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Any judicial proceeding by any Credit Party against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of New York, State of New York.

17.2. Entire Understanding. (a) This Agreement and the documents executed concurrently herewith contain the entire understanding among each Credit Party, Agent and each Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by each Credit Party's, Agent's and each Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Each Credit Party acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Credit Parties may, subject to the provisions of this Section 17.2 (b), from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Credit Parties, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Lenders, Agent or Credit Parties thereunder or the conditions, provisions or terms thereof of waiving any Event of Default thereunder, but only to the extent specified in such written agreements; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

(i) increase the Commitment Percentage or maximum dollar commitment of any Lender.

(ii) extend the maturity of any Note or the due date for any amount payable hereunder, or decrease the rate of interest or reduce any fee payable by Borrowers to Lenders pursuant to this Agreement.

(iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 17.2(b).

(iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement) having an aggregate value in excess of $1,000,000.

(v) change the rights and duties of Agent.

(vi) permit any Revolving Advance to be made if after giving effect thereto the total of Revolving Advances outstanding hereunder would exceed the Formula Amount for more than thirty (30) consecutive Business Days or exceed one hundred and ten percent (110%) of the Formula Amount.

(vii) increase the Advance Rates above the Advance Rates in effect on the Closing Date.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Credit Parties, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Credit Parties, Agent and Lenders shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

In the event that Agent requests the consent of a Lender pursuant to

this Section 17.2 and such Lender shall not respond or reply to Agent in writing within ten (10) days of delivery of such request, such Lender shall be deemed to have consented to matter that was the subject of the request. In the event that Agent requests the consent of a Lender pursuant to this Section 17.2 and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Advances to PNC or to another Lender or to any other Person designated by the Agent (the "Designated Lender"), for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrowers. In the event PNC elects to require any Lender to assign its interest to PNC or to the Designated Lender, PNC will so notify such Lender in writing within forty five (45) days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, PNC or the Designated Lender, as appropriate, and Agent.

Notwithstanding the foregoing, Agent may at its discretion and without the consent of the Required Lenders, voluntarily permit the outstanding Revolving Advances at any time to exceed the Formula Amount by up to one hundred and ten percent (110%) of the Formula Amount for up to thirty (30) consecutive Business Days. For purposes of the preceding sentence, the discretion granted to Agent hereunder shall not preclude involuntary overadvances that may result from time to time due to the fact that the Formula Amount was unintentionally exceeded for any reason, including, but not limited to, Collateral previously deemed to be either "Eligible Receivables" or "Eligible Inventory", as applicable, becomes ineligible, collections of Receivables applied to reduce outstanding Revolving Advances are thereafter returned for insufficient funds or overadvances are made to protect or preserve the Collateral. In the event Agent involuntarily permits the outstanding Revolving Advances to exceed the Formula Amount by more than ten percent (10%), Agent shall use its efforts to have the Borrowers decrease such excess in as expeditious a manner as is practicable under the circumstances and not inconsistent with the reason for such excess. Revolving Advances made after Agent has determined the existence of involuntary overadvances shall be deemed to be involuntary overadvances and shall be decreased in accordance with the preceding sentence.

17.3. Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Credit Parties, Agent, each Lender, all future holders of the Obligations and their respective successors and assigns, except that no Credit Party may assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Agent and each Lender.

(b) Each Credit Party acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Transferee"). Each Transferee may exercise all rights of payment (including without limitation rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Transferee were the direct holder thereof provided that Credit Parties shall not be required to pay to any Transferee more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Transferee had such Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Credit Parties be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both such Lender and such Transferee. Each Credit Party hereby grants to any Transferee a continuing security interest in any deposits, moneys or other property actually or constructively held by such Transferee as security for the Transferee's interest in the Advances.

(c) Any Lender may with the consent of Agent which shall not be unreasonably withheld or delayed sell, assign or transfer all or any part of its rights under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender"), in minimum amounts of not less than $5,000,000 pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent for recording. Upon such execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the

extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Credit Parties hereby consent to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Credit Parties shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(d) Agent shall maintain at its address a copy of each Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of the Advances owing to each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and Credit Parties, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Credit Parties or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of $3,500 payable by the applicable Purchasing Lender upon the effective date of each transfer or assignment to such Purchasing Lender provided, that, if PNC makes such transfer or assignment within sixty (60) days of the Closing Date to such Purchasing Lender, such Purchasing Lender shall not be obligated to pay such fee to Agent.

(e) Each Credit Party authorizes each Lender to disclose to any Transferee or Purchasing Lender and any prospective Transferee or Purchasing Lender any and all financial information in such Lender's possession concerning such Credit Party which has been delivered to such Lender by or on behalf of such Credit Party pursuant to this Agreement or in connection with such Lender's credit evaluation of such Credit Party.

17.4. Application of Payments. Agent shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that any Credit Party makes a payment or Agent or any Lender receives any payment or proceeds of the Collateral for any Credit Party's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Agent or such Lender.

17.5. Indemnity. Each Credit Party shall indemnify Agent, each Lender and each of their respective officers, directors, Affiliates, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Agent or any Lender in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Agent or any Lender is a party thereto, except to the extent that any of the foregoing arises out of the gross (not mere) negligence or willful misconduct of the party being indemnified.

17.6. Notice. Any notice or request hereunder may be given to Borrowing Agent or any Credit Party or to Agent or any Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice or request hereunder shall be given by (a) hand delivery, (b) overnight courier, (c) registered or certified mail, return receipt requested, (d) telex or telegram, subsequently confirmed by registered or certified mail, or (e) telecopy to the number set out below (or such other number as may hereafter be specified in a notice designated as a notice of change of address) with electronic confirmation of its receipt. Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, or (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of its receipt, in each case addressed to each party at its address set forth below or at such other address as has been furnished in writing by a party to the other by like notice:

(A)	If to Agent or PNC at:	PNC Bank, National Association Two Tower Center

East Brunswick, New Jersey 08816
Attention: Ryan Peak
Telephone: (732) 220-4315
Telecopier: (732) 220-4393

with a copy to: PNC Bank, National Association
PNC Agency Services
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222
Attention: Arlene Ohler
Telephone: (412) 762-3627
Telecopier: (412) 762-8672

and a copy to: Hahn & Hessen LLP
350 Fifth Avenue
New York, New York 10118-0075
Attention: Steven J. Seif, Esq.
Telephone: (212) 946-0294
Telecopier: (212) 594-7167

(B) If to a Lender other than Agent, as specified on the signature pages hereof

(C) If to Borrowing Agent or any Credit Party, at: SunSource Inc.
3000 One Logan Square, 30th Floor
Philadelphia, Pennsylvania 19103
Attention: Joseph M. Corvino
Telephone: (215) 282-1290
Telecopier: (215) 282-1309

with a copy to: Morgan, Lewis & Bockius, LLP
1701 Market Street
Philadelphia, Pennsylvania
Attention: Andrew Hamilton, Esq.
Telephone: (215) 963-4837
Telecopier: (215) 963-5299

17.7. Survival. The obligations of Credit Parties under Sections 2.2(f), 3.7, 3.8, 3.9, 4.19(h), 14.7 and 17.5 shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

17.8. Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable laws or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

17.9. Expenses. All costs and expenses including, without limitation, reasonable attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Agent, Agent on behalf of Lenders and Lenders (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (b) in connection with the entering into, modification, amendment, administration and enforcement of this Agreement or any consents or waivers hereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with any Credit Party, or (e) in connection with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement and all related agreements, may be charged to Borrowers' Account and shall be part of the Obligations.

17.10. Injunctive Relief. Each Credit Party recognizes that, in the event any Credit Party fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to Lenders; therefore, Agent, if Agent so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

17.11. Consequential Damages. Neither Agent nor any Lender, nor any agent or attorney for any of them, shall be liable to any Credit Party for consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations.

17.12. Captions. The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

17.13. Counterparts; Telecopied Signatures. This Agreement may be

executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

17.14. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

17.15. Confidentiality; Sharing Information. (a) Agent, each Lender and each Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (a) to its examiners, affiliates, outside auditors, counsel and other professional advisors, (b) to Agent, any Lender or to any prospective Transferees and Purchasing Lenders, and (c) as required or requested by any Governmental Body or representative thereof or pursuant to legal process; provided, further that (i) unless specifically prohibited by applicable law or court order, Agent, each Lender and each Transferee shall use its best efforts prior to disclosure thereof, to notify the applicable Credit Party of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of a Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by any Credit Party other than those documents and instruments in possession of Agent or any Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated.

(b) Each Credit Party acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to such Credit Party or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and each Credit Party hereby authorizes each Lender to share any information delivered to such Lender by such Credit Party and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such Subsidiary or Affiliate of such Lender, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provision of Section 17.15 as if it were a Lender hereunder. Such authorization shall survive the repayment of the other Obligations and the termination of the Loan Agreement.

17.16. Publicity. Each Credit Party and each Lender hereby authorizes Agent to make appropriate announcements of the financial arrangement entered into among Credit Parties, Agent and Lenders, including, without limitation, announcements which are commonly known as tombstones, in such publications and to such selected parties as Agent shall in its sole and absolute discretion deem appropriate.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Each of the parties has signed this Agreement as of the day and year first above written.

<TABLE>
<CAPTION>

<S> <C>

HARDING GLASS, INC., as a Borrower
KAR PRODUCTS INC., as a Borrower
SUNSOURCE INC., as a Borrower
SUNSOURCE TECHNOLOGY SERVICES INC., as a Borrower
THE HILLMAN GROUP, INC., as a Borrower
A & H HOLDING COMPANY, INC., as a Guarantor
SUNSOURCE CORPORATE GROUP, INC., as a Guarantor
SUNSOURCE INDUSTRIAL SERVICES, COMPANY, INC., as a Guarantor
SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC., as a Guarantor
SUNSOURCE INVESTMENT COMPANY, INC., as a Guarantor
SUNSUB A INC., as a Guarantor

By:_____
Name: Joseph M. Corvino
Title: Vice President of each of the foregoing corporations

A. & H. BOLT & NUT COMPANY LIMITED, as a Guarantor

By:_____
Name: Joseph M. Corvino
Title:_____

J.N. FAUVER (CANADA) LIMITED, as a Guarantor

By:_____
Name: Joseph M. Corvino
Title:_____

</TABLE>

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

<TABLE>
<CAPTION>

<S> <C>

SUNSOURCE CANADA INVESTMENT COMPANY as a Guarantor

By:_____
Name: Joseph M. Corvino
Title:_____

</TABLE>

<TABLE>
<CAPTION>

<S> <C>

PNC BANK, NATIONAL ASSOCIATION, as Lender and as Agent

By:_____
Name:_____
Title:_____

Address: Two Tower Center Boulevard
East Brunswick, New Jersey 08816

Commitment Percentage: 100%

</TABLE>

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of December, 1999, before me personally came Joseph M. Corvino, to me known, who, being by me duly sworn, did depose and say that he is the Vice President of each of Harding Glass, Inc., Kar Products Inc., SunSource Inc., SunSource Technology Services Inc., The Hillman Group, Inc., A & H Holding Company, Inc., SunSource Corporate Group, Inc., SunSource Industrial Services Company, Inc., SunSource Inventory Management Company, Inc., SunSource Investment Company, Inc. and SunSub A Inc. the corporations described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of each of the said corporations.

Notary Public

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of December, 1999, before me personally came Joseph

M. Corvino, to me known, who, being by me duly sworn, did depose and say that he is the _____ of A. & H. Bolt & Nut Company Limited, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Notary Public

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of December, 1999, before me personally came Joseph M. Corvino, to me known, who, being by me duly sworn, did depose and say that he is the _____ of J.N. Fauver (Canada) Limited, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Notary Public

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of December, 1999, before me personally came Joseph M. Corvino, to me known, who, being by me duly sworn, did depose and say that he is the _____ of SunSource Canada Investment Company, the unlimited liability company described in and which executed the foregoing instrument; and that he signed his name thereto by order of said company.

Notary Public

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of December, 1999, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he is the _____ of PNC Bank, National Association, the association described in and which executed the foregoing instrument; and that he signed his name thereto by order of said association.

Notary Public

List of Exhibits and Schedules

Exhibits

Exhibit 2.1(a)	Revolving Credit Note
Exhibit 2.4	Term Note
Exhibit 5.5(b)	Financial Projections
Exhibit 8.1(k)	Financial Condition Certificate
Exhibit 17.3	Commitment Transfer Supplement
Exhibit A	Borrowing Base Certificate

Schedules

Schedule 1.2	Permitted Encumbrances
Schedule 1.2A	Subsidiary Stock
Schedule 1.2B	Original Owners
Schedule 4.5	Equipment and Inventory Locations
Schedule 4.15(c)	Location of Executive Offices
Schedule 4.19	Real Property
Schedule 5.2(a)	Jurisdictions of Qualification and Good Standing
Schedule 5.2(b)	Subsidiaries
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Schedule 5.6	Prior Names
Schedule 5.8(b)	Litigation

Schedule 5.8(d) Plans
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Schedule 5.10 Licenses and Permits
Schedule 5.14 Labor Disputes
Schedule 5.22 Business of Credit Parties
Schedule 7.3 Guarantees

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[LOGO] June 3, 1999

Mr. Donald T. Marshall
SunSource Inc.
3000 One Logan Square
Philadelphia, Pennsylvania 19103

Dear Don:

As you know the Board of Directors (the "Board") of SunSource, Inc. (the "Company") has been discussing with you the terms of your continued employment by the Company following the recent appointment of a new President and Chief Executive Officer of the Company (the "CEO"). The Company and you desire to facilitate a prompt and smooth transition to the CEO. This letter sets forth the terms on which you and the Company have agreed for the continuation of your employment starting April 28, 1999 (the "Commencement Date").

1. Term.

The term of your employment under this Agreement begins on the Commencement Date and will continue until the third anniversary thereof (the "Term") unless terminated at an earlier date as provided herein.

2. Position.

During the Term, you will continue in your role as Chairman of the Board, which will be an executive officer of the Company, and the Company will nominate you for election to the Board during the Term.

3. Duties.

In your role as Chairman of the Board, you will serve as the chairman of the meetings of the board of directors of the Company (the "Board") and of the stockholders of the Company, and you will retain all corporate governance authority and responsibility applicable to your role as Chairman of the Board. You will also perform in your role as Chairman such executive-level duties as the Board or the CEO may assign to you from time to time. For so long as and to the extent that the CEO requests these services, your services as Chairman will include the following: advising the CEO regarding the strengths and weaknesses of key personnel;

One Logan Square, Philadelphia, PA 19103 o Telephone: 215-282-1290
o Facsimile: 215-282-1309

familiarizing the CEO with the strategies of the Company and its operating subsidiaries; advising the CEO of formal and informal reporting systems; acting as a sound board for the CEO; giving support and guidance to the CEO in order to optimize the chances for the success of the CEO; and visiting the operating companies to obtain such information and make such assessments as the Board deems desirable. It is the intention of the parties that your duties will be largely advisory in nature and will require significantly less than your full-time efforts which time commitment will continue to decrease during the Term, thereby enabling you to pursue your non-work related interests on an expanded basis.

4. Compensation.

(a) During the Term, the Company will pay you an annual base salary (the "Base Salary") of $525,000 in the first year, $425,000 in the second year and $325,000 in the third year. The Company shall pay the Base Salary to you in accordance with its customary payroll policies for executive employees.

(b) The Company is also granting to you on the date hereof by a separate document (the "Grant Letter") non-qualified options to purchase 150,000 shares of Common Stock of the Company at a price per share of $15.00 (the "Options") under the 1998 Equity Compensation Plan (the "Plan"). The Options shall vest and become exercisable by you at the rate of 50,000 shares on each of the first three anniversaries of the Commencement Date and shall be subject to the other terms and restrictions set forth in the Grant Letter and Plan. Except as otherwise provided in the Grant Letter, the Options will be exercisable by you until the tenth (10th) anniversary of the Date of the Grant (as defined in the Grant).

(c) The Compensation Committee of the Board will determine from time to time whether you will receive any options in addition to those provided for herein.

(d) During the Term, the Company will provide you access to an office and secretarial assistance at its corporate headquarters in Philadelphia. The Company will give the office that you currently occupy to the CEO.

(e) During the Term, the Company will provide you with an automobile allowance and country club memberships consistent with such benefits that are provided to you on the date hereof plus such other fringe benefits (other than stock options) that are generally made available to other senior executives of the Company.

5. Termination Without Compensation,

(a) If you become Disabled (as defined below), the Company may terminate the Term, and thereafter the Company would have no further liability or obligation to you except that you would receive from the Company: (i) any unpaid Base Salary and fringe benefits that have accrued through the date of termination; and (ii) whatever benefits that you may be entitled to receive under any then existing disability benefit plans of the Company that apply to you. The term "Disabled" means your becoming permanently and totally disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(b) If you die during the Term, the Term will terminate, and thereafter the Company would not have any further liability or obligation to you, your executors, administrators, heirs, assigns or any other person claiming under or through you except that your estate would receive from the Company (i) any unpaid Base Salary and fringe benefits that have accrued through the date of termination and (ii) whatever benefits that you may be entitled to receive under any then existing life insurance plans of the Company that apply to you.

(c) The Company may terminate the Term for "cause" by giving you notice of the termination, and thereafter the Company would not have any further liability or obligation to you, except that you would be entitled to receive from the Company any unpaid Base Salary and Fringe Benefits that have accrued through the date of termination. For purposes of this Agreement, "cause" shall mean that you have (i) breached Section 7 of this Agreement and not remedied such breach within 30 days after receiving written notice specifying the details thereof; (ii) been engaged in proven disloyalty to the Company, including fraud, embezzlement, theft, commission of a felony or proven dishonesty, affecting the Company adversely in a material way in the course of your employment or services; or (iii) disclosed Company Information (defined in Section 8(a)) in violation of Section 8, affecting the Company adversely in a material way, provided that good faith disclosures in the performance of your duties shall not constitute cause.

6. Relief of Duties With Compensation and Benefits.

(a) The Board shall have the right to relieve you of all of your duties during the Term without cause (as defined above) at any time by giving you 30 days' notice. Under such circumstances, the Company will pay to you the Base Salary and provide you with fringe benefits (including your car allowance and country club memberships) that would have been paid or provided to you if you had continued to perform your duties for the remainder of the Tenn. The Base Salary shall be paid in accordance with the Company's customary payroll policies maintained by the Company.

(b) In the event that the Company shall relieve you of all of your duties under this provision during the Term without cause as defined above, or you and the Company shall mutually agree that you shall cease performing all of your duties, you shall remain an employee of the Company for all purposes and shall retain your right to exercise the Options under the Grant Letter and under the Company's 1998 Equity Compensation Plan ("Plan"), notwithstanding your having been relieved of all of your duties.

7. Agreement Not to Compete.

During the Restricted Period (defined below), you shall not, at any time within the Territory (defined below), directly or indirectly, engage in, or have any interest on behalf of itself or others in, any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, partner, joint venturer, beneficiary under a trust, investor, consultant or otherwise) that engages within the Territory in any of the business activities in which the Company at any time has been engaged, or at any time during the Term will have been engaged (the "Restricted Business"); provided, however, that nothing contained herein shall prevent or prohibit you from owning of record or beneficially up to 1% of the stock or equity of any corporation or other business entity engaged in the Restricted Business if such corporation or other entity is traded on the New York Stock Exchange, the

American Stock Exchange or the NASDAQ National Market. In addition, during the Restricted Period, you shall not directly or indirectly solicit or otherwise encourage any of the Company's employees to terminate their employment with the Company. The "Restricted Period" means the period during which the Company shall be paying you the Base Salary hereunder, whether under Section 4 or Section 6, plus an additional one year after the end of such payments. The "Territory" means any part of North America in which the Company engages in the Restricted Business during the Restricted Period.

If a court determines that the foregoing restrictions are too broad or otherwise unreasonable under applicable law, including with respect to time or space, the court is hereby requested and authorized by the parties hereto to revise the foregoing restriction to include the maximum restrictions allowable under applicable law. You acknowledge, however, that this Section 7 has been negotiated by the parties hereto and that the geographical and time limitations, as well as the limitation on activities, are reasonable in light of the circumstances pertaining to the business of the Company.

8. Confidential Information.

(a) You have had and will have possession of or access to confidential information relating to the business of the Company, including manuals, financial information, business plans, customer lists, the identity of or other facts relating to prospective customers, inventory lists, arrangements with suppliers and customers, computer programs, or other material embodying trade secrets, customer or product information or technical or business information of the Company. All such information, other than any information that (i) is in the public domain through no act or omission of you, (ii) is made available to you after the Term by an independent third party or (iii) is required by law to be disclosed, is referred to collectively as the "Company Information." During and after the Employment Term, you shall not (i) use or exploit in any manner the Company Information for yourself or any person, partnership, association, corporation or other entity other than the Company, (ii) remove any Company Information, or any reproduction thereof, from the possession or control of the Company or (iii) treat Company Information otherwise than in a confidential manner. It is understood that your possession and/or control of Company Information during your employment (and thereafter to the extent necessary to enable you to perform your duties in the event that you serve as a non-employee member of the Board of Directors of the Company) shall not constitute removal of any Company Information, or reproduction thereof, from the possession or control of the Company in violation of this Section 8.

(b) All Company Information developed, created or maintained by you, alone or with others, while employed by the Company and all Company Information maintained by you thereafter, shall remain at all times the exclusive property of the Company. You shall return to the Company all Company Information, and reproductions thereof, whether prepared by you or others, that are in your possession immediately upon request and in any event upon the completion of the Term.

9. Remedies.

You expressly acknowledge that the remedy at law for any breach of Sections 7 or 8 will be inadequate and that, upon any such breach or threatened breach, the Company shall be entitled as a matter of right to injunctive relief in any court of competent jurisdiction, in equity or otherwise and to enforce the specific performance of your obligations under these provisions without the necessity of proving the actual damage to the Company or the inadequacy of a legal remedy. Subject to the remainder of this Section 9, the rights conferred upon the Company by the preceding sentence shall not be exclusive of, but shall be in addition to, any other rights or remedies which the Company may have at law, in equity or otherwise.

10. General.

(a) For purposes of Sections 7, 8, 9 and 10, the term "Company" shall be deemed to include any incorporate or unincorporated subsidiaries or Affiliates (as hereinafter defined) of the Company and any majority-owned subsidiaries thereof. The term "Affiliate" shall mean persons or entities controlling, controlled by or under common control with the applicable person or entity, as well as any officers, directors and majority-owned entities of such person or entity and of its other Affiliates. For the purposes of the foregoing, ownership, directly or indirectly, of 20% or more of the voting stock or other equity interest shall be deemed to constitute control.

(b) The terms of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit and be enforceable by the respective heirs,

representatives, successors (including any successor as a result of a merger or similar reorganization) and assigns of the parties hereto, except that your duties and responsibilities are of a personal nature and shall not be assignable in whole or in part by you.

(d) All notices required to be given under this Agreement shall be in writing and shall be deemed to have been given when personally delivered or when mailed by registered or certified mail, postage prepaid, return receipt requested, or when sent by Federal Express or other overnight delivery service, addressed as follows: if to the Company, to the Company's corporate headquarters, attention the Chief Executive Officer, and if to you, to you at the most residential address on file with the Company for you.

(e) This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and may not be modified or amended in any way except in writing by the parties hereto. As of the date hereof, all prior agreements and understandings, including all employment agreements and any other employment arrangements, between you and the Company are hereby terminated and shall be of no further force and effect from and after the date hereof, except that this Agreement shall not affect your right to receive any unpaid salary or fringe benefits that has accrued as of the date hereof nor shall this Agreement affect you or the Company's rights and obligations under the Company's Deferred Compensation Plan for Key Employees or your Nonqualified Stock Option Grants, dated July 30, 1998 and March 5, 1999.

(f) No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches.

(g) If any provision of this Agreement or application thereof to anyone under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision in any other jurisdiction.

(h) Unless the context of this Agreement clearly requires otherwise, (i) references to the plural include the singular, the singular the plural, the part the whole, (ii) references to one gender include all genders, (iii) "including" has the inclusive meaning frequently identified with the phrase "but not limited to" and (iv) references to "hereunder" or "herein" relate to this Agreement. The section and other headings contained in this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(i) This Agreement may be executed in any number of counterparts, each of which shall be binding as of the date first written above. Each such copy shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

(j) Notwithstanding the termination of the Term and your employment by the Company, this Agreement shall continue to bind the parties hereto for so long as any obligations remain under the terms of this Agreement.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have hereunto duly executed this Agreement as of the day and year first written above.

SUNSOURCE, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino

Title: Vice President - Finance

/s/ Donald T. Marshall

DONALD T. MARSHALL

APPROVED AND RATIFIED BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS.

/s/ XXXXXXXXXXXXXXXXXXXX

EMPLOYMENT AGREEMENT

This Agreement is made as of the 27 day of April, 1999 between SunSource, Inc., a Delaware corporation (the "Company"), SunSource Corporate Group, Inc., a Delaware corporation (the "Management Company" and together with the Company, the "Companies"), and Maurice Andrien (the "Employee").

BACKGROUND

The Management Company desires to employ the Employee, and the Employee desires to be employed by the Management Company, upon the terms and conditions hereinafter set forth. Contemporaneously with this Agreement, the Company, which is the parent company of the Management Company, is granting to the Employee under a separate document that is attached hereto (the "1999 Option Grant") an option to purchase 150,000 shares of Common Stock under the Company's 1998 Equity Compensation Plan (the "1998 Plan").

WITNESSETH:

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, each intending to be legally bound hereby, agree as follows:

1. Definitions.

For all purposes of this Agreement, the following terms shall have the meanings specified in this Section unless the context clearly otherwise requires (other terms are defined elsewhere in this Agreement):

(a) "Beneficial Owner" and the correlative term "Beneficially Own" are used herein within the meaning of Rule 13d-3 under the Exchange Act.

(b) "Board" means the Board of Directors of the Company.

(c) "Change of Control" means the occurrence of any one of the following events:

(i) Any Person other than the management group of Harold J. Cornelius, Joseph M. Corvino, Norman V. Edmonson, Max W. Hillman, Donald T. Marshall, and John P. McDonnell, becomes a Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the voting power of the then outstanding securities of the Company.

(ii) (A) A transaction is approved in which the stockholders of the Company immediately before the transaction will not Beneficially Own in the same relative percentages, immediately after the transaction, shares entitling such stockholders to 75% or more of all votes to which all stockholders of the surviving entity would be entitled in the election of directors or other governing persons (excluding any election of directors by a separate class vote), or where the members of the Board, immediately prior to the transaction, would not, immediately after the transaction, constitute a majority of the board of directors of the surviving entity, (B) the sale or other disposition of all or substantially all of the assets of the Company, SunSource Investments, Inc., or SunSub A Inc., or their respective successors in interest or (C) a liquidation or dissolution of the Company, SunSource Investments, Inc., or SunSub A Inc., or their respective successors in interest; provided, however, that any such action with respect to SunSource Investments, Inc. or SunSub A Inc. shall not constitute a change of control so long as the Company continues to own, directly or indirectly, substantially all of the assets thereof.

(iii) A majority of the Board shall cease for any reason to consist of (A) individuals who on the effective date hereof are serving as directors of the Company, or (B) individuals who subsequently become members of the Board and whose nomination for election or election to the Board is recommended or approved by a majority of the Board.

(d) "Cause" means, except to the extent specified otherwise by the Board, that the Employee has: (i) breached any material provision of this Agreement and does not remedy such breach within 30 days after receiving written notice specifying the details thereof; (ii) been engaged in fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment or service or deliberate injury to any SunSource Company; or (iii) disclosed any material Company Information (defined in Section 9(a)) in violation of Section 9.

(e) "Common Stock" means the common stock of the Company.

(f) "Compensation Committee" means the Compensation Committee of the Board.

(g) "Constructive Termination Without Cause" means a termination of the Employee's employment by the Employee following the occurrence, without his prior written consent, of one or more of the following events: (1) a reduction in the Salary, or a significant diminution in the Fringe Benefits; (2) a significant diminution in the Employee's duties, responsibilities, titles or position, including the failure to maintain his status as a member of the Board, or the assignment to Employee of duties and responsibilities inconsistent with the title or positions held by the Employee on the date of this Agreement; (3) the failure of the Company to obtain the unconditional assumption, in writing or by operation of law, of the Company's obligation to the Employee under this Agreement by any successor prior to or at the time of a reorganization, merger, consolidation, disposition of all or substantially all of the assets of the Company or similar transaction; provided, however, that a Constructive Termination Without Cause will not take effect unless: (x) the Employee has delivered written notice to the Board within 60 days after acquiring knowledge of one

of the events described in this paragraph (g) that provide a basis for Constructive Termination Without Cause, stating which one of these events has occurred; (y) within 30 days after receipt of such notice the Company has not remedied such event and provided the Employee with written notice of such remedy; and (z) if the Company has not remedied such event within such period and provided such notice, the Employee has notified the Company in writing that he is terminating the Employment Term as of a certain date; and provided further that the failure of the Employee to effect a Constructive Termination Without Cause as to any one event described in this paragraph (g) will not affect the Employee's entitlement to effect a Constructive Termination Without Cause as to any other such event.

(h) "Disabled" means the Employee's becoming permanently and totally disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(j) "Person" is used as defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act.

(k) "SunSource Company" means any one or more of the Company, the Management Company and any Subsidiary.

(l) "Subsidiary" shall mean any corporation in which the Company, directly or indirectly, owns at least 50% of the then outstanding voting securities of such company entitled to vote generally in an election of such company's directors, or an unincorporated entity of which the Company, directly or indirectly, owns at least 50% of the profits or capital interests.

2. Employment.

The Management Company hereby employs the Employee, and the Employee hereby accepts employment by the Management Company, upon the terms and conditions set forth in this Agreement. During the term of employment under this Agreement (the "Employment Term"), the Employee shall be the President and Chief Executive Officer of each of the Management Company and the Company and, with respect to each such SunSource Company, perform such duties as are customarily performed by the most senior executive officer of a corporation, subject to the supervision and control of the respective boards of directors thereof. The Employee shall also be a member of the Board during the Employment Term.

3. Performance.

The Employee shall devote his entire working time and attention to the performance of his duties hereunder; provided, however, that the Employee may serve as a director of (subject to increase by the Board) up to two other for-profit corporations and one not-for-profit corporation, and the Employee may make, and assist in, personal investments to the extent that doing so does not conflict with his duties hereunder.

4. Term.

Unless otherwise terminated in accordance with Sections 6 or 7, the Employment Term shall be an initial term of three years from the date of this Agreement (the "Initial Term") and shall automatically continue thereafter for successive one-year renewal terms (each a "Renewal Term") unless the Management

Company or the Employee gives the other party at least 45 days' prior written notice that the then current term shall not be extended.

5. Compensation for Employment.

(a) The basic annual rate of compensation of the Employee for his employment services to the Company, the Management Company and the other Subsidiaries during the Employment Term shall be at least $450,000 or such higher amount as may be approved by the Board at any time during the Employment Term (the "Salary"), which the Management Company shall pay to the Employee in accordance with the Management Company's payroll payment schedule in effect from time to time. The Board shall not decrease the salary at any time during the Employment Term.

(b) In addition to the Salary, during the Employment Term, the Company shall pay to the Employee a bonus (the "Bonus") for the fiscal year that will end December 31, 1999 and for each fiscal year thereafter ending December 31 during the Employment Term (each such year is referred to herein as a "Bonus Year"). The Bonus for 1999 will be $180,000 and will be payable irrespective of the performance of the Company so long as the Employee does not resign voluntarily or is not terminated for Cause prior to December 31, 1999. The Bonus for each year after 1999 (the "Post 1999 Bonus") will be equal to 40% of the Salary in effect for the Bonus Year as to which the Post 1999 Bonus is paid, and will be payable upon achievement of the results specified below in this paragraph (b). Seventy percent of the Post 1999 Bonus will be payable if the Company shall have earnings before interest, taxes, depreciation and amortization ("EBITDA") for the related Bonus Year that is at least equal to the EBITDA specified in the plan for that Bonus Year as approved by the Board. Thirty percent of the Post 1999 Bonus will be payable if the Employee shall have satisfied, in the judgment of the Compensation Committee, the specific goals that the Compensation Committee shall have specified for the Employee with respect to the particular Bonus Year. The Board or the Compensation Committee may award the Employee such additional bonus amounts as it from time to time may deem appropriate.

(c) The Company is issuing the 1999 Option Grant to the Employee in connection with his employment hereunder. In addition, provided the Employee is employed at that time, starting with the year 2000, the Company shall grant to the Employee as part of its annual program of option grants to senior executives in each year of the Employment Term an option to purchase 70,000 shares of Common Stock under the 1998 Plan (or under any similar plan that may be adopted) at a price per share equal to the fair market value on the date of grant, subject to the respective terms generally applicable to options granted to senior executive officers of the Company in the respective years and otherwise subject to the terms and conditions of the 1998 Plan (or any such other plan).

(d) The Company shall pay the Employee $1,000,000 in a single payment within 30 days after a (but not more than one) Change of Control that occurs on or before the later of (i) the second anniversary of the date hereof or (ii) the first date as of which the Employee shall have options that are exercisable to purchase at least 290,000 shares of Common Stock.

(e) The Management Company shall pay all reasonable out-of-pocket expenses incurred by the Employee in connection with his move from Montreal to the Philadelphia area, including (i) expenses of up to $3,000 per month incurred by the Employee in connection with renting a residence in the Philadelphia area for up to one year and (ii) any brokerage commissions, transfer taxes and other costs of the sale (but not including income taxes or recovery of any loss on the sale), and customary legal and accounting costs relating to his move or this Agreement. The Company shall also pay the Employee a tax-offset bonus in order to neutralize the tax impact of any such reimbursements.

(f) The Management Company shall provide the Employee with the following benefits (the "Fringe Benefits") during the Employment Term.

(i) $1,000 per month automobile allowance;

(ii) four weeks of paid vacation;

(iii) initiation fee and customary membership dues at a country club of the Employee's choice in the Philadelphia area;

(iv) such other benefits (other than those related to automobiles and club memberships) that any Company may provide generally to other senior executives of that Company; and

(v) reimbursement of legitimate business expenses incurred on or prior to the date of termination.

6. Termination Without Compensation.

(a) If the Employee becomes Disabled, the Management Company may terminate the Employment Term, and the Companies thereafter shall have no further liability or obligation to the Employee hereunder except as follows: the Employee shall receive (i) any unpaid Salary and Fringe Benefits that have accrued through the date of termination; (ii) whatever benefits that he may be entitled to receive under any then existing disability benefit plans of any Company that may be included in the Fringe Benefits applicable to the Employee; (iii) a proportionate amount of any Bonus that would have been due to the Employee if he were employed for the full Bonus Year during which the Employment Term was terminated (a "Proportionate Bonus"); (iv) reimbursement of legitimate and reasonable business expenses incurred on or prior to the date of termination ("Pre-Termination Expenses") and (v) continuation of health care coverage for the Employee and his

family for the 12-month period following the date of termination. The Management Company shall pay any Proportionate Bonus in the year immediately following the related Bonus Year at the time when it generally pays other bonus payments based on that Bonus Year. In the event of any dispute as to whether the Employee is Disabled, the Employee shall submit to a physical examination by a licensed physician mutually satisfactory to the Management Company and the Employee, the cost of such examination to be paid by the Management Company, and the determination of such physician shall be determinative.

(b) If the Employee dies, the Employment Term shall terminate, and thereafter the Companies shall not have any further liability or obligation to the Employee, his executors, administrators, heirs, assigns or any other person claiming under or through him except that the Employee's estate shall receive any unpaid Salary and Fringe Benefits that have accrued through the date of termination, plus a Proportionate Bonus, and reimbursement of any Pre-Termination Expenses.

(c) The Management Company may terminate the Employment Term for Cause by giving the Employee notice of the termination, and thereafter the Companies shall not have any further liability or obligation to the Employee, except that the Employee shall receive any unpaid Salary and Fringe Benefits that have accrued through the date of termination, net of any liabilities that the Employee may have to any Company, and reimbursement of any Pre-Termination Expenses.

7. Termination With Compensation.

(a) The Management Company shall have the right to terminate the Employment Term without Cause at any time by giving the Employee 45 days' notice of the termination date. Upon any such termination by the Management Company and also upon any termination due to the Management Company's decision not to renew the Initial Term or any Renewal Term under Section 4, for a period of one year following the termination date, the Management Company shall (i) continue to pay the Employee the Salary, provide the Employee with Fringe Benefits and provide the Employee with the customary services of an outplacement firm, (ii) pay the Employee a Proportionate Bonus, and (iii) have no further liability or obligation to the Employee hereunder except that the Employee shall receive any unpaid Salary and Fringe Benefits that have accrued through the date of termination and reimbursement of any Pre-Termination Expenses.

(b) The Employee may terminate the Employment Term if there is a Constructive Termination without Cause, in which case the Management Company and the Employee shall have the same obligations and rights as are specified in paragraph (a) above for a termination by the Management Company.

(c) The Employee shall not be entitled to any compensation under any part of this Section 7 unless the Employee executes and delivers to the Management Company after a notice of termination a release in the form of Exhibit "A" hereto. The parties hereto acknowledge that the payments and Fringe Benefits to be provided under this Section 7 are to be provided in consideration for the above-specified release.

8. Inventions, Designs and Product Developments.

All inventions, innovations, designs, ideas and product developments (collectively, the "Developments"), developed or conceived by the Employee, solely or jointly with others, whether or not patentable or copyrightable, at any time during the Employment Term and that relate to the actual or planned business activities of the Company and all of the Employee's right, title and interest therein, shall be the exclusive property of the Company. The Employee hereby assigns, transfers and conveys to the Company all of his right, title and interest in and to any and all such Developments. At any time and from time to time, upon the request of the Company, the Employee shall execute and deliver to the Company any and all instruments, documents and papers, give evidence and do

any and all other acts that, in the opinion of counsel for the Company, are or may be necessary or desirable to document such transfer or to enable the Company to file and prosecute applications for and to acquire, maintain and enforce any and all patents, trademark registrations or copyrights under United States or foreign law with respect to any such Developments or to obtain any extension, validation, re-issue, continuance or renewal of any such patent, trademark or copyright. The Company will be responsible for the preparation of any such instruments, documents and papers and for the prosecution of any such proceedings and will reimburse the Employee for all reasonable expenses incurred by him in compliance with the provisions of this Section.

9. Confidential Information.

(a) The Employee will have possession of or access to confidential information relating to the business of the Company, including writings, equipment, processes, drawings, reports, manuals, invention records, financial information, business plans, customer lists, the identity of or other facts relating to prospective customers, inventory lists, arrangements with suppliers and customers, computer programs, or other material embodying trade secrets, customer or product information or technical or business information of the Company. All such information, other than any information that is in the public domain through no act or omission of the Employee or which he is authorized to disclose or required to disclose in connection with legal or administrative proceedings, is referred to collectively as the "Company Information." During and after the Employment Term, except in connection with the performance of his duties under this Agreement, the Employee shall not (i) use or exploit in any manner the Company Information for himself or any person, partnership, association, corporation or other entity other than the Company, (ii) remove any Company Information, or any reproduction thereof, from the possession or control of the Company or (iii) treat Company Information otherwise than in a confidential manner.

(b) All Company Information developed, created or maintained by the Employee, alone or with others while employed by the Management Company, and all Company Information maintained by the Employee thereafter, shall remain at all times the exclusive property of the Company. The Employee shall return to the Company all Company Information, and reproductions thereof, whether prepared by him or others, that are in his possession immediately upon request and in any event upon the completion of his employment by the Company.

10. Agreement Not to Compete

During the Restricted Period (defined below), the Employee shall not, at any time within the Territory (defined below), directly or indirectly, engage in, or have any interest on behalf of itself or others in, any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, partner, joint venturer, beneficiary under a trust, investor, consultant or otherwise) that engages within the Territory in any of the business activities in which the Company's shall have been engaged at any time during the one year prior to the termination of the Employment Term (the "Restricted Business"); provided, however, that nothing contained herein shall prevent or prohibit the Employee from owning of record or beneficially up to 1% of the stock or equity of any corporation or other business entity engaged in the Restricted Business if such corporation or other entity is traded on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market. In addition, during the Restricted Period, the Employee shall not directly or indirectly solicit or otherwise encourage any of the Company's employees to terminate their employment with the Company. The "Restricted Period" means the period during which the Company shall be required to pay the Salary to the Employee, whether under Section 5 or Section 7, plus an additional one year after the end of such payments, except that the Restricted Period shall only include such additional one year if the Employment Term shall have been terminated by the Management Company for Cause or by the Employee's resignation under circumstances that do not constitute a Constructive Termination without Cause. The "Territory" means any part of North America in which the Company engages in the Restricted Business during the Restricted Period. If a court determines that the foregoing restrictions are too broad or otherwise unreasonable under applicable law, including with respect to time or space, the court is hereby requested and authorized by the parties hereto to revise the foregoing restriction to include the maximum restrictions allowable under applicable law. The Employee acknowledges, however, that this Section 10 has been negotiated by the parties hereto and that the geographical and time limitations, as well as the limitation on activities, are reasonable in light of the circumstances pertaining to the business of the Company.

11. Remedies.

The Employee expressly acknowledges that the remedy at law for any breach of Sections 8, 9 or 10 will be inadequate and that upon any such breach or threatened breach, the Company shall be entitled as a matter of right to injunctive relief in any court of competent jurisdiction, in equity or otherwise, and to enforce the specific performance of the Employee's obligations under these provisions without the necessity of proving the actual damage to the

Company or the inadequacy of a legal remedy. The rights conferred upon the Company by the preceding sentence shall not be exclusive of, but shall be in addition to, any other rights or remedies which the Company may have at law, in equity or otherwise.

12. Guaranty.

The Company hereby guarantees the Management Company's performance of this Agreement.

13. General.

(a) Governing Law. The terms of this Agreement shall be governed by the laws of the State of Pennsylvania.

(b) Company. For purposes of Sections 8, 9, 10 and 11, the term "Company" shall be deemed to include any Subsidiaries, and to the extent that any of the provisions thereof impose any obligations on a Subsidiary that is not a party hereto, the Company shall cause such Subsidiary to comply with such obligations.

(c) Binding Effect. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit and be enforceable by the respective heirs, representatives, successors (including any successor as a result of a merger or similar reorganization) and assigns of the parties hereto, except that the duties and responsibilities of the Employee hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee.

(d) Notices. All notices required to be given under this Agreement shall be in writing and shall be deemed to have been given when personally delivered or when mailed by registered or certified mail, postage prepaid, return receipt requested, or when sent by Federal Express or other overnight delivery service, addressed as follows:

TO EMPLOYEE:

At the Employee's residence as provided from time to time by the Employee to the Management Company for tax reporting purposes.

TO THE COMPANY:

SunSource Corporate Group, Inc.
3000 One Logan Square
Philadelphia, PA 19103

(e) Entire Agreement; Modification. This Agreement and the option agreements referred to herein constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all prior agreements or understandings of the parties regarding these matters, including any prior agreement between the Employee and the Company or any Subsidiary. Any such prior agreement is hereby terminated as of the date hereof. This Agreement may not be modified or amended in any way except in writing by the parties hereto.

(f) Duration. Notwithstanding the termination of the Employment Term and of the Employee's employment by the Company, this Agreement shall continue to bind the parties for so long as any obligations remain under the terms of this Agreement.

(g) Waiver. No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches. Any waiver must be in writing and signed by the party granting the waiver.

(h) Severability. If any provision of this Agreement or application thereof to anyone under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision in any other jurisdiction.

(i) Interpretation. Unless the context of this Agreement clearly requires otherwise, (a) references to the plural include the singular, the singular the plural, the part the whole, (b) references to any gender include all genders, (c) "including" has the inclusive meaning frequently identified with the phrase "but not limited to" and (d) references to "hereunder" or "herein" relate to this Agreement. The section and other headings contained in this Agreement are

for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect.

(j) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be binding as of the date first written above, and all of which shall constitute one and the same instrument. Each such copy shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

(k) The Employee shall have no duty to mitigate damages by seeking other employment or other compensation in the event of the termination of the Employment Term, and any payments due the Employee hereunder will not be offset in respect of any amount except as expressly provided in this Agreement.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have hereunto duly executed this Agreement as of the day and year first written above.

SUNSOURCE, INC.

By:_____
Name:
Title:

SUNSOURCE CORPORATE GROUP, INC.

By:_____
Name:
Title:

_____
MAURICE ANDRIEN

EXHIBIT A

FORM OF RELEASE

NOTE: YOU SHOULD CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS DOCUMENT.

FULL WAIVER AND RELEASE OF CLAIMS

1. I, Maurice Andrien, in exchange for the compensation provided under Section 7 of the employment agreement among SunSource, Inc., SunSource Corporate Group, Inc. (collectively, the "Companies") and myself dated [INSERT DATE], to which I would not otherwise be entitled in the amount of [INSERT AMOUNT OF CONSIDERATION], less applicable federal, state and local tax deductions, hereby waive any and all Claims (as defined below) which I may have against the Companies, their parents, subsidiaries, affiliated businesses and divisions, or their directors, officers, employees, or agents (hereinafter collectively referred to as "Releasees").

2. This Full Waiver and Release of Claims (hereinafter the "Waiver") applies to any and all past and present claims, suits, damages, liabilities, demands and causes of action, whether known or unknown, existing or contingent, or whether at law or equity, arising out of my employment with the Companies or the termination of that employment but only to the extent that any of such items relates to any of the following:

- age discrimination under the federal Age Discrimination in Employment Act;
- age discrimination under similar state or local laws; and
- discrimination Claims under federal, state or local laws based on race, color, creed, marital status, veteran status, sex, sexual preference, national origin, citizenship,

disability, handicap or religion.

Such released claims, suits, damages, liabilities, demands and causes of action that are specified above in this Section 2 are referred to herein as "Claims."

This Waiver shall not apply to claims for workers' compensation benefits or unemployment compensation benefits.

3. This Waiver also precludes me from bringing a lawsuit, or obtaining relief as a result of any charge, lawsuit, or proceeding brought by me or on my behalf, asserting any Claims against Releasees (or any one of them). In the event I violate this paragraph, I agree that the affected Releasee(s) shall be entitled to dismissal of any such lawsuit and that I will be responsible for the payment of the reasonable attorney's fees and expenses incurred in the Releasee(s)' defense.

EXHIBIT A

4. My last day of work will be _____, and the Companies have no obligation to re-employ me in the future.

5. I may revoke this Waiver for a period of seven (7) days following the day I sign it by submitting written notice of my revocation to [INSERT EMPLOYER REPRESENTATIVE'S NAME AND TITLE] at [INSERT ADDRESS]. This Waiver shall become effective and enforceable upon expiration of this revocation period.

6. I acknowledge that I have been advised in writing to consult with an attorney prior to signing this Waiver and that I have been given twenty-one (21) days to consider this Waiver.

7. This Waiver shall be binding upon me and my heirs, administrators, representatives, executors, and assigns.

I HAVE CAREFULLY READ THIS ENTIRE DOCUMENT. I UNDERSTAND THAT BY SIGNING THIS DOCUMENT, I AM WAIVING ALL CLAIMS RELATING TO MY EMPLOYMENT WITH THE COMPANIES AND THE TERMINATION OF THAT EMPLOYMENT. I HAVE SIGNED THIS WAIVER VOLUNTARILY, INTENDING TO BE LEGALLY BOUND.

In witness whereof, I have signed this Waiver this

_____ day of _____.

Employee Signature:_____

EXHIBIT 21.1

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

      - * 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

* SunSource Integrated Services de Mexico S. A. DE C. V.
  Incorporated in Ciudad de Mexico, Mexico

Exhibit 23.1

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 February 9, 2000, on our audits of the consolidated financial statements and financial statement schedules of SunSource Inc. as of December 31, 1999 and 1998, and for the three years in the period ending December 31,1999, which report is included in this Annual Report on Form 10-K.

Philadelphia, Pennsylvania
March 28, 2000

<TABLE> <S> <C>

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AS OF DECEMBER 31, 1999 AND THE RELATED STATEMENT OF INCOME FOR THE YEAR TO DATE ENDED DECEMBER 31, 1999.
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