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, 2000

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 26, 2001 was $20,255,920. On March 26, 2001 there were 6,882,409 Common Shares outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 2, 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 currently operates through indirect wholly-owned subsidiaries in two business segments which are: (1) The Hillman Group, Inc. ("Hillman" or the "Hillman Group"); and (2) Technology Services, operating as SunSource Technology Services, Inc. ("STS"). 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. Also, the Company has an investment in an affiliate, G-C Sun Holdings, L.P., operating as Kar Products.

In December 2000, the Board of Directors approved a plan to liquidate the Company's Integrated Supply - Mexico business segment (the "Mexican segment"). The Mexican segment has been accounted for as a discontinued operation and,

accordingly, its results of operations were segregated from the results of the Company's ongoing businesses including restatement of prior periods presented. SunSource expects to complete disposal of the Mexican business segment by June 30, 2001.

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"). On October 4, 2000, G-C acquired all of the outstanding stock of Brampton Fastener Co. Limited (d/b/a Brafasco). As a result of this transaction, the Company holds a 44% ownership in G-C. The Company accounts for its investment in G-C in accordance with the equity method. Kar Products distributes maintenance, repair and operating ("MRO") parts and supplies and offers customized inventory management services to commercial and industrial customers of all sizes in the U.S. and Canada.

On April 7, 2000, the Company acquired Axxess Technologies, Inc. ("Axxess" or "Axxess Technologies") of Tempe, Arizona through a stock merger transaction. Axxess is a manufacturer and distributor of key duplication and identification systems. The transaction was structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $87 million in cash and $23 million in subordinated notes. Axxess Technologies' sales aggregated $20.0 million for the three months ended March 31, 2000, and $82.1 million for the year ended December 31, 1999. The results of operations for Axxess are included in the results of the Hillman Group from the date of acquisition.

On April 13, 2000, the Company sold substantially all of the assets of its Harding Glass, Inc. ("Harding") subsidiary to VVP America for a cash purchase price of $30.6 million plus the assumption by the buyer of certain liabilities aggregating $12.6 million, subject to certain post-closing adjustments. Proceeds from the sale of Harding were used to repay the Company's outstanding debt. Harding sales aggregated $28.0 million from January 1, 2000 through April 12, 2000, and $118.3 million for the year ended December 31, 1999.

A plan to dispose of the Company's Harding Glass business was approved by the Board of Directors in December 1999. From December 1999 through the date of sale, Harding was 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.

Hillman Group. The Hillman Group, with pro forma sales of $232 million in 2000, including Axxess Technologies sells to hardware stores, home centers, mass merchants, pet suppliers, and other retail outlets principally in the U.S., Canada, Mexico and South America. Their product line includes thousands of small parts such as fasteners and related hardware items, keys and accessories, and identification items, such as, tags and letters, numbers, and signs. Services offered include design and installation of merchandising systems and maintenance of appropriate in-store inventory levels.

Technology Services (STS). Technology Services, with sales of $225 million in 2000 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 throughout the U.S. and Canada. Technology Services provides 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 previously performed in-house.

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

Subsidiaries:	Principal Location	Year Acquired/ Organized
- The Hillman Group, Inc.	Cincinnati, OH	1982
- SunSource Technology Services, Inc.	Chicago, IL	1976-1991 (1)
- SunSource Corporate Group, Inc.	Philadelphia, PA	1975
Affiliate:		
- G-C Sun Holdings, L.P.	Chicago, IL	2000

(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 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.

The Company's Hillman Group focuses on the retail sector, delivering merchandising systems, point-of-sale displays, product support and sales installation services through its nationwide field service force. Technology Services through its applications engineers and technical support personnel 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.

As a result of the impact of e-commerce, the industrial distribution industry will experience changing channels of distribution. 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, most 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).

Technology Services has experienced a reduction of nearly $100 million in revenues since 1998 principally as a result of implementation problems with its integration plan resulting in a loss of $11.8 million in 1999 and $5.6 million in 2000 from earnings before interest, taxes, depreciation and amortization and non-recurring items.

In June 1999, as a result of existing business conditions in Technology Services, the Company announced additional steps to further reduce STS' workforce, reduce inventories and implement corrective actions.

In December 2000, STS enacted plans to lower its break-even point to a $225 million annual sales level as a result of soft market conditions in the industrial sector in the last six months of 2000 and the expectation of economic instability continuing into 2001.

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

Integration of the Technology Services divisions could have an adverse impact on the Company's ability to restore profitability in STS. 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 Stock, which may be dilutive to the Company's stockholders, or through the incurrence of additional indebtedness. Furthermore, there can be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of acquisitions. The process of integrating acquired businesses into the Company's operations may result in unforeseen difficulties and may require a disproportionate amount of resources and management's attention, and there can be no assurance that the Company will be able to successfully integrate acquired businesses into its operations. The failure to complete or successfully integrate prospective acquisitions may have an adverse impact on the Company's growth strategy.

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

Competition

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

Seasonality and Industry Cycles

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

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

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 accepted by the NYSE in January 2000.

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 to Consolidated Financial Statements for Segment financial data for the three years ended December 31, 2000.

The Hillman Group

The Hillman Group, Inc. or Hillman with annualized sales of $232 million includes Axxess Technologies, which was acquired by the Company on April 7, 2000. The results of Axxess are included in the results of the Hillman Group from the date of acquisition.

Hillman believes that it is the leading provider of fasteners and related small hardware items, including keys and related accessories, and identification items, such as, tags and letters, numbers and signs ("LNS") to retail outlets in North America. Retail outlets served by Hillman are hardware stores, home centers, mass merchants, pet suppliers, grocery stores and drug stores. Through its field sales and service organization, Hillman complements its extensive product selection with value-added services for the retailer.

Sales and service representatives regularly visit retail outlets to review stock levels, reorder items in need of replacement, and interact with the storeowner to offer new product and merchandising ideas. 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 consumer-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 products and package designs with color-coding for ease of shopping by consumers, and also modifies rack designs to improve the attractiveness of individual store displays. In effect, Hillman functions as a merchandising manager for retailers, supporting 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.

As a result of the Axxess acquisition, the Hillman Group also manufactures and markets a value-added mix of high-tech and conventional products in two core product categories: key duplication systems and identification systems. The patent-protected Axxess Precision Key Duplication System(TM) revolutionized the metal key duplication process, allowing key duplication to be transformed into a highly profitable revenue source within Big Box retailers (defined as mass merchants, home centers and large-format grocery/drug centers). This system has been placed in over 10,000 retail locations to date.

In addition, the Axxess acquisition provided a commercialized, innovative, consumer-operated vending system, Quick-Tag(TM), which provides custom engraved specialty items, such as pet identification tags, luggage tags and other engraved identification tags. Axxess initially targeted the pet identification market with its Quick-Tag system, and has facilitated the process of obtaining a pet tag by providing pet owners with a quick and highly convenient means to custom engrave tags while shopping at large format retail stores such as Wal-Mart and PETsMART. Axxess had developed other high impact applications for

its Quick-Tag(TM) interactive engraving technology, including luggage tags, key chains and military-style identification tags. To date, more than 2,800 Quick-Tag(TM) machines have been placed in retail locations which are being supported by the Hillman Group's sales and service representatives.

Products and Suppliers. Hillman buys its products from approximately 1,000 vendors, the largest of which accounted for 13% of the Group's annual purchases and the top five of which accounted for 33% of its purchases. About half of its purchases are from overseas suppliers, with the balance from domestic manufacturers and master distributors. Hillman's fastener 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 among suppliers servicing the hardware retail segment. Non-fastener products feature picture hanging items and accessories, keys and accessories, LNS, rope and chain accessories, and an extensive list of specialty items. To assure quality from its vendors, Hillman conducts periodic on-site evaluations, random sampling of products and communicates results to vendors. Hillman also tracks the performance of its vendors based on delivery time and accuracy of shipments.

Hillman through its Axxess acquisition provides a competitive line of metal key products for major retailers and the automotive sector. It manufactures two metal key duplication systems that are niche-marketed to retail outlets, primarily mass merchants and home centers and a code cutting system for use in automotive dealerships and in vehicle fleet environments.

The Axxess Precision Key Duplication System(TM) creates high quality duplicate keys with the precision of a locksmith while minimizing the technical skill required by operators. The system was developed in response to retailers needs for reducing the miscut rate on keys. Axxess keys provide retailers with nearly ten times more gross profit per square foot than the average of all products sold in grocery and mass merchant channels. Hillman also markets a conventional key cutting system. Key styles marketed include standard brass keys, Color Plus(TM) keys, rubber head keys, and high security vehicle anti-theft key blanks. The conventional system is marketed to retailers who do not experience high employee turnover and therefore do not have the same labor constraints as mass merchants, home centers or grocery and drug retailers.

The key cutting system developed for the automotive industry, PC+ Code Cutter, produces automobile keys using alphanumeric codes based on a vehicles identification number. Utilizing a proprietary computer program, the PC+ Code Cutter identifies and then cuts keys based on the automobiles original key pattern. The PC+ Code Cutter is distributed through Barnes Distribution, a distribution company serving vehicular and industrial markets. Since its introduction in February 1996, more than 5,000 PC+ Code Cutter systems have been sold and/or leased.

The Hillman Group also markets key accessories in conjunction with its key duplication systems. Popular accessories include the Key Light(TM), Valet KeyChain(TM), key identifiers, key coils and key clips. The Key Mates(TM) line of key accessories includes a broad range of products such as key chains, tags, lights, floats, holders, whistles, and a host of other miscellaneous items that complement the use of keys.

Quick-Tag(TM) is a patented, state-of-the-art consumer-operated vending system that custom engraves specialty products such as pet identification tags, military-style I.D. tags, holiday ornaments and luggage tags. Using an interactive touch screen, customers input information such as a pet name and telephone number, and the systems proprietary technology engraves the tag in less than two minutes. The Quick-Tag system does not require incremental labor and generates high levels of customer satisfaction and attractive margins for the retailer. The Quick-Tag custom engraving systems generate retail profit per square foot, over seven times the typical retail average.

Letters, numbers and signs include packaged self-adhesive letters and numbers; mailbox numbers and accessories; house numbers and letters; contractor safety program signs; and driveway markers and reflectors. Typical retailers dedicate eight linear feet of retail space for this product and view it as a significant contributor to their retail offerings.

Hillman purchases a wide variety of materials and components to manufacture the Axxess Key Duplication and Quick-Tag engraving machines, many of which are manufactured to its specifications. Management does not believe that it is overly dependent on any one supplier; the components do not generally require proprietary technology and the Hillman Group has identified or used alternate suppliers for its primary sourcing needs.

Markets and Customers. Hillman services approximately 15,000 franchise and independent ("F&I") retail outlets. These individual dealers are typically members of the larger cooperatives, such as TruServ, Ace and Do-it-Best. They sell directly to the cooperative's retail locations and also supply many

fastener items to the cooperative's central warehouses. These central warehouses distribute to their members that do not have a requirement for Hillman's in-store service. 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 products sold to the F&I dealers typically account for approximately 7% of the retailer's revenues and over 25% of a hardware store's traffic. 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.

In addition, the Hillman Group sells its products to national accounts such as Wal*Mart, Home Depot, Lowes, K*Mart, PETsMART, and PetCo. Axxess' status as a

national supplier of unique, proprietary products to rapidly growing Big Box retailers allowed it to develop a formidable market position and high barriers to entry within its product categories. Management believes that the dynamics, which make its services attractive to hardware retailers, are present with these larger customers as well.

Hillman serves over 21,000 customers, the top five of which accounted for approximately 32% of its annualized sales. Hillman telemarketing activity also sells to approximately 5,000 smaller hardware outlets and over 6,000 non-hardware accounts through its Tele-marketing operation. New business is also being cultivated internationally in such places as Canada, Mexico, South and Central America, and the Caribbean.

Sales and Marketing. Hillman has always been more responsive to the needs of the F&I retailers than its competitors because it employs the largest direct sales organization in the retail home industry. This organization consists of over 230 people, managed by 20 field managers. Each sales representative is responsible for approximately 50 full service accounts that they call on approximately every two weeks. 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.

With the acquisition of Axxess, the respective field service groups were integrated to produce a national sales and service organization, which performs functions consistent with those that have made the respective businesses successful previously. Currently over 200 service people and 15 field managers focus on "Big Box" retailers, pet super stores, large national discount chains and grocery stores. This organization reorders products; details store shelves, and sets up in-store promotions.

Management believes that Hillman provides unmatched product support, customer service and profit opportunities for its retail distribution partners. Hillman believes that a significant source of its competitive advantage rests in its ability to provide a greater level of customer service than its competitors. Hillman products are covered directly by the combined field service organization, which provides service support through field visits. These field visits provide Hillman with critical information relating to consumer buying patterns and retailing trends, and complement their new product development efforts. Field service representatives also help retail customers to improve the efficiency and profitability of Hillman's on-site merchandising systems by consulting with customers in the areas of EDI, product planning, inventory control, systems interface and store operations.

Competition. The principal competitors for Hillman's F&I business are Midwest Fasteners, Serv-A-Lite, Elco and Hyko in the hardware store marketplace. The first two carry mainly fastener products, while the latter is the major competitor in letters numbers and signs. Hillman competes primarily on field service, merchandising, as well as product availability, price and breadth of product line.

Management estimates that Hillman sells to approximately 65% of the full service hardware stores in the F&I marketplace. The hardware outlets that 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 national accounts marketplace for fasteners are Crown-Bolt with an estimated 50% market share, Elco and the Newell Group. Hillman estimates its share of fasteners 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.

The total domestic market for keys is estimated to be 600 million units at the retail level with annual sales of over $900 million. The key duplication market can be segmented into three primary retail categories: hardware stores, locksmiths and Big Box retailers. Hillman maintains the leading market position with an approximate 28% market share on a unit basis in the overall key duplication market, including an estimated 67% market share in the home center/mass merchant retail segment. To displace the Hillman Group's market position, a competitor would have to develop a full range of products with demonstrably better technology without infringing on patents and buyback existing inventory from retailers. Management believes that these substantial competitive barriers help preserve its unique franchise within the key duplication market segment.

Hyko is the primary competitor in LNS in hardware stores, home centers and mass merchants. Management estimates that Hillman has the leading market position in LNS at an approximate 48% market share.

In the engraving market segment, management estimates that the Axxess Quick-Tag engraving system has a 17% market share in the pet tag market. Competitors in this market are specialty retailers, direct mail order and retailers with in-store mail order capability. Through the Axxess acquisition, Hillman has patent protected proprietary technology that is a major barrier to entry and preserves this market segment.

Technology Services

SunSource Technology Services, Inc., or STS, with sales of $225 million in 2000, 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. Technology Services also conducts multiple-day training programs to help customers stay current with evolving technologies relevant to their operations.

Technology Services has benefited 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.

STS has 20 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.

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 23,000 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 37% of its 2000 sales. Because of the fragmented nature of the industry, manufacturers of this type of equipment historically have awarded their franchises on a limited geographical basis. One of Technology Services' larger suppliers is Sauer-Sunstrand, whose products are distributed in most of Technology Services' territories.

In 1999, Technology Services 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 STS. 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 28,000 customers, the top five of which accounted for approximately 15% of its 2000 sales. Approximately 60% of sales are to OEM customers who incorporate the equipment or systems purchased into their final products. The remaining 40% of sales are to the construction industry (5%) and to replacement/maintenance markets (35%).

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 and customer service representatives. 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.

To support the outside sales representatives, Technology Services employs approximately 150 customer service representatives who collectively function to take orders from customers on the telephone, answer questions and solve problems. 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.

Operations. Technology Services has six regional distribution centers with over $30 million of inventory logistically supporting the local needs of its customers. Its Trend computer system provides a common information technology platform for the entire company, promoting more efficient transactional functionality as well as increasing information flow and knowledge sharing within STS and between its customers and its suppliers.

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. STS competes with these companies on price, the strength of its product offering and an extensive range of ancillary technical services. The largest national competitors are: Motion Industries, Sophus Berendsen, and Applied Industrial Technologies.

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, 2000.

Employees

As of December 31, 2000, the Company's total operations employed approximately 2,100 employees, of which approximately 1,015 were sales personnel, approximately 780 were employed as warehouse and delivery personnel, and approximately 305 were administrative positions. In the opinion of management, employee relations are good.

Backlog

The Company's sales backlog on a consolidated basis from ongoing operations was $48.6 million as of December 31, 2000, and $50.1 million as of December 31, 1999, mostly in the Technology Services business segment.

Item 2 - Properties.

The Company currently has approximately forty-eight (48) leased warehouse and stocking facilities located throughout the United States and Canada. Most of these include sales offices. The Company's principal properties are as follows:

Division	Location	Description
Hillman Division	Cincinnati, Ohio	250,000 sq.ft.
Axxess Technologies Division	Tempe, Arizona	161,000 sq.ft.
Technology Services	Addison, Illinois	153,000 sq.ft.

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. 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:

Name	Age	Position
Maurice P. Andrien, Jr.	59	President and Chief Executive Officer ("CEO"), SunSource Inc.; CEO, SunSource Technology Services, Inc.
Joseph M. Corvino	46	Vice President - Finance; Chief Financial Officer; Treasurer and Secretary, SunSource Inc.
Max W. Hillman, Jr.	54	Co-CEO, The Hillman Group, Inc.
Justin M. Jacobi	40	President and Chief Operating Officer ("COO"), SunSource Technology Services, Inc.
Donald T. Marshall	67	Chairman, SunSource Inc.
Stephen W. Miller	55	Co-CEO, The Hillman Group, Inc.

All executive officers serve at the pleasure of 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").

Maurice P. Andrien, Jr. has been President and CEO since April, 1999 and has been CEO of SunSource Technology Services, Inc. since January 2000. Mr. Andrien served as President and COO of Unican Security Systems, Ltd. from June 1998 to April 1999. Mr. Andrien served as CEO of Curtis Industries, Inc. from April 1992 to May 1998.

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 Co-CEO of The Hillman Group, Inc., since April 2000 and CEO from December 1996 to April 2000. Mr. Hillman served as Group Vice President from December 1991 to December 1996.

Justin M. Jacobi has been the President and COO of SunSource Technology Services, Inc. since November 2000. Mr. Jacobi held various positions with Applied Industrial Technologies, Inc., since July 1994 including Unit President of the Fluid Power Products division from February 2000 to November 2000.

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

Stephen W. Miller has been the Co-CEO of The Hillman Group, Inc., since April 2000. Mr. Miller served as President and CEO of Axxess Technologies, Inc., since 1994. Mr. Miller served as President and CEO of Head Sports from 1987 to 1994.

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:

2000	HIGH	LOW
First Quarter	$ 6.2500	$ 4.5000
Second Quarter	5.0625	4.2500
Third Quarter	5.3750	3.7500
Fourth Quarter	3.9375	2.8750
1999		
First Quarter	$18.9375	$13.8750
Second Quarter	16.3125	12.6875
Third Quarter	11.0000	4.8750
Fourth Quarter	7.2500	3.5000

As of March 26, 2001 there were approximately 433 holders of record of the Common Shares. The total number of Common Shares outstanding as of March 26, 2001 was 6,882,409.

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 accepted by the Exchange in January 2000. While the Company will undertake to maintain its NYSE listing, there can be no assurance that the Company will achieve compliance with the required listing standards or that the NYSE will continue to list the Company's common stock.

Dividends

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

Item 6 - Selected Financial Data.

The following table sets forth selected consolidated financial data of the Company and the predecessor partnership (the "Partnership") as of and for the five years ended December 31, 2000. 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.

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

Income Statement Data for Years Ended December 31:	2000	1999	1998	1997	1996 (1)
<S>	<C>	<C>	<C>	<C>	<C>
Continuing Operations					
Net sales	$459,826	$541,250	$600,293	$586,411	$550,004
Gross profit	187,144	226,154	252,168	241,003	223,628
Gain on contribution of subsidiaries	49,115	--	--	--	--
Income (loss) before discontinued operations	27,290	(11,321)	11,517	30,507	16,381
Income (loss) from discontinued operaions	(2,610)	(25,815)	2,300	2,025	2,886
Extraordinary loss	--	(235)	--	(3,392)	--
Net income (loss)	$ 24,680	$(37,371)	$ 13,817	$ 29,140	$ 19,267
Basic and diluted net income (loss) per common share (2):					
Gain on contribution of subsidiaries	$ 7.14	--	--	--	--
Income (loss) before discontinued operations	$ 3.97	$ (1.68)	$ 1.67	n/a	n/a
Income (loss) from discontinued operations	$ (0.38)	$ (3.83)	$ 0.33	n/a	n/a
Extraordinary loss	$ --	$ (0.03)	$ --	n/a	n/a
Net income (loss)	$ 3.59	$ (5.54)	$ 2.00	n/a	n/a
Pro forma net income per common share	n/a	n/a	n/a	$ 1.88	n/a
Dividends declared per common share	--	$ 0.10	$ 0.40	$ 0.10	n/a
Balance Sheet Data at December 31:					
Total assets	$322,141	$321,626	$327,523	$292,945	$253,408
Long-term debt and capitalized lease obligations (3)	$102,790	$126,723	$ 95,842	$ 93,728	$ 75,545

</TABLE>

(1) Prior to the Conversion, the Partnership had Class A and Class B limited partnership interests ("interests"). The earnings per interest for income from continuing operations in 1996 were $1.10 and $0.19 for Class A and Class B interests, respectively. For income from discontinued segments, the earnings per interest were $0.13 for Class B interests in 1996. The Class A interests had no earnings per interest for discontinued segments in 1996. The earnings per interest for net income were $1.10 and $0.32 for Class A and Class B interests, respectively in 1996. The cash distributions declared per interest in 1996 were $1.10 for Class A interests and $0.33 for Class B interests.

(2) All years represent basic and diluted net income (loss) per common share except for 2000 which represents diluted only. The basic income per common

share for gain on contribution of subsidiaries in 2000 was $7.16. For income before discontinued operations, the basic income per common share was $3.98 in 2000. The loss from discontinued operations in 2000 had a loss per common share of $0.38. The basic net income per common share in 2000 was $3.60.

(3) Includes current portion of long-term debt.

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 two business segments which are The Hillman Group, Inc. (the "Hillman Group") and SunSource Technology Services, Inc. ("Technology Services" or "STS"). Also, the Company has an investment in an affiliate, G-C Sun Holdings, L.P., operating as Kar Products.

The Hillman Group provides merchandising services and products, such as, fasteners and related hardware items, keys and accessories and identification items to retail outlets, primarily hardware stores, home centers and mass merchants. Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. Kar Products offers personalized inventory management systems of maintenance, repair and operations products ("MRO") to industrial manufacturing customers and maintenance and repair facilities.

In December 1999, the Board of Directors approved a plan to dispose of the Company's Harding Glass, Inc. ("Harding") subsidiary which was completed through its sale on April 13, 2000. Harding was 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 or $3.53 per common share unadjusted for any potential future tax benefits. In 2000, the Company recorded an additional loss on disposal of the discontinued Harding segment of $5.3 million less an income tax benefit of $7.2 million resulting in income from discontinued operations of $1.9 million or $.27 per common share on a basic and diluted basis. Through December 31, 2000, the Company recorded a loss on the discontinued Harding segment of $22.0 million in the aggregate or $3.20 and $3.19 per basic and diluted common share, respectively, net of tax benefits.

In December 2000, the Board of Directors approved a plan to liquidate the Company's Integrated Supply - Mexico business (the "Mexican Segment"). The Mexican Segment has been accounted for as a discontinued operation and, accordingly, its results of operations were segregated from the results of the Company's ongoing businesses including restatement of prior periods presented. In 2000, the Company recorded an after-tax loss of $0.1 million or $0.02 per common share on a basic and diluted basis from its Mexican operations and an estimated after-tax loss on its expected liquidation of $4.4 million or $0.64 per common share on a basic and diluted basis.

Financing Arrangements

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. On April 7, 2000, the Company amended the credit agreement to reduce the senior secured credit facility to $136.5 million consisting of a $21.5 million term loan and a $115 million revolving credit line. The amended senior debt arrangement expires December 15, 2004. The availability of the revolving credit line is based on the Company's balances in receivables and inventories, evaluated on a monthly basis.

On December 28, 2000, the Company issued $30 million of unsecured subordinated notes (the "Subordinated Debt Issuance"). The cash proceeds generated from this issuance were used to reduce the Company's senior secured term loan and improve the Company's overall credit availability.

As a result of the refinancing on December 15, 1999, the Company incurred an extraordinary loss of $0.2 million (net of $0.1 million in deferred tax benefits)in 1999 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 allowed 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. ceased 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-down key machines at the Hillman Group, and realign corporate overhead expenses (collectively, the "1999 Restructuring Plan"). The Company completed the 1999 Restructuring Plan during the fourth quarter of 1999.

The Technology Services charges and write-downs aggregated $5.4 million including termination benefits of $2.8 million, an inventory write-down of $2.1 million, and other exit costs of $0.5 million. STS terminated 94 employees as a result of the 1999 Restructuring Plan.

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

The Hillman Group's asset write-down was $3.3 million which was primarily the result of the Hillman Group's decision not to seek recovery of key machines from retailers. The write-down represented 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 and Divestitures

On April 22, 1998, the Hillman Group 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, the Hillman Group acquired the assets of the franchise and independent hardware segment of Axxess Technologies, Inc., ("Axxess") 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.

On October 21, 1998, the Hillman Group 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.

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. The Hillman Group integrated the sales force and operations of the acquired businesses with its existing operations.

On July 1, 1999, the Company sold the assets of Integrated Supply's Fastener Business serving original equipment manufacturers ("OEM") for cash consideration, net of expenses, of approximately $9.2 million subject to certain post-closing adjustments plus the assumption of certain liabilities. The Company recorded an after-tax gain on the sale in the amount of $0.4 million. Sales from the OEM Fastener Business aggregated $11.0 million for the six months ended June 30, 1999 and $23.0 million for the year ended December 31, 1998.

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 through repayment of assumed debt by G-C and retained a 49% minority ownership in G-C. SunSource recorded a pre-tax gain on the transaction of approximately $49.1 million in the first quarter of 2000. SunSource accounts for its investment in the partnership under the equity method

On April 7, 2000, the Company acquired Axxess of Tempe, Arizona, a manufacturer of key duplication and identification systems, through a stock merger transaction. The transaction was structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $87 million in cash and $23 million in subordinated notes. Axxess' sales aggregated $20.0 million for the three months ended March 31, 2000, and $82.1 million for the year ended December 31, 1999. Axxess' results of operations are included in the results of the Hillman Group from the date of acquisition.

On April 13, 2000, the Company sold substantially all of the assets of its Harding subsidiary to VVP America for a cash purchase price of $30.6 million plus the assumption by the buyer of certain liabilities aggregating $12.6 million, subject to certain post-closing adjustments. Proceeds from the sale of Harding were used to repay the Company's outstanding debt. Harding sales aggregated $28.0 million from January 1, 2000 through April 12, 2000, and $118.3 million for the year ended December 31, 1999.

On October 4, 2000, SunSource's Kar Products affiliate, through the partnership formed with Glencoe Capital, acquired all of the outstanding stock of Brampton Fastener Co. Limited, d/b/a Brafasco, a supplier of fastener products to industrial customers based in Toronto, Canada. Brafasco had sales of $26.6 million ($CDN) for the year ended December 31, 1999. G-C purchased the outstanding stock of Brafasco for cash and notes. As a result of this transaction, the Company holds a 44% ownership in the Kar Products affiliate.

On November 3, 2000, the Company's Hillman Group purchased inventory and certain other assets of the Sharon-Philstone division of Pawtucket Fasteners, L.P. of Rhode Island, distributors of fasteners to the retail hardware marketplace. The Hillman Group assumed the sales and servicing of the Sharon-Philstone division with current annual sales of approximately $14 million. The purchase price was $1.9 million for inventory and other assets acquired at closing and a commitment to purchase additional inventory in the amount of approximately $3.9 million over the next fourteen months, subject to certain post-closing adjustments.

Results of Operations

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Segment Sales and Profitability from Continuing Operations for each of the Three Years Ended December 31, 2000
(dollars in thousands)

	December 31, 2000		December 31, 1999		December 31, 1998	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Hillman Group (a)	$212,118	48.6%	$151,884	37.9%	$125,830	28.0%
Technology Services	224,538	51.4%	248,367	62.1%	324,075	72.0%
Consolidated net sales - ongoing operations	436,656	100.0%	400,251	100.0%	449,905	100.0%
Expediter Segment (b)	22,122		124,724		124,536	
Integrated Supply - sold business and terminated contracts (c)	1,048		16,275		25,852	
Consolidated Net Sales	$459,826		$541,250		$600,293	

Gross Profit SALES		SALES		SALES	
- ------------		-------		-------	
Hillman Group (a)	$119,779	56.5%	$ 81,045	53.4%	$ 66,485
52.8%					
Technology Services	52,313	23.3%	58,551	23.6%	89,336
27.6%					
Consolidated gross profit - ongoing operations	172,092	39.4%	139,596	34.9%	155,821
34.6%					
Expediter Segment (b)	15,052		86,204		88,175
Integrated Supply - sold business and terminated contracts (c)	-		2,484		8,172
Consolidated Gross Profit before inventory write-down	187,144		228,284		252,168
Inventory write-down	-		(2,130)		
Consolidated Gross Profit	$187,144		$226,154		$252,168
EBITDA (i)					
- -----------					
Hillman Group (a)	$ 34,053	16.1%	$ 15,816	10.4%	$ 13,477
10.7%					
Technology Services (e)	(5,620)	(2.5%)	(11,800)	(4.8%)	15,538
4.8%					
Equity in Earnings of Expediter Segment (d)	2,438		-		-
Corporate expenses (f)	(8,151)	(1.9%)	(9,161)	(2.3%)	(6,740)
(1.5%)					
Consolidated EBITDA - ongoing operations	22,720	5.2%	(5,145)	(1.3%)	22,275
5.0%					
Expediter Segment (b)	2,823		18,965		21,196
Integrated Supply - sold business and terminated contracts (c)	-		(2,125)		1,274
Gain (loss) on curtailment/termination of pension plans (g)	(4,279)		5,608		-
Severance and other termination costs (h)	(1,837)		-		-
Restructuring charges	-		(10,248)		-
Provision for litigation matters - divested operations	-		-		(1,600)
Consolidated EBITDA	$ 19,427		$ 7,055		$ 43,145

</TABLE>

(a) Includes sales, gross profit and EBITDA from Axxess Technologies, Inc. which was acquired on April 7, 2000 through a stock merger transaction.

(b) Represents sales, gross profit and EBITDA from the Company's Kar Products, Inc. and A & H Bolt & Nut Company Limited business (collectively, the "Expediter Segment") which was contributed on March 2, 2000 to a newly formed partnership affiliated with Glencoe Capital L.L.C.

(c) Represents sales, gross profit and EBITDA from the OEM Fastener Business, which was sold on July 1, 1999 and contracts terminated in 1998, 1999 and 2000.

(d) Represents Equity in Earnings from the Contributed Expediter Segment since March 2, 2000.

(e) Excludes $1,032 of nonrecurring charges to realign operations with current sales levels for the twelve months ended December 31, 2000.

(f) Excludes $805 of nonrecurring charges for the twelve months ended December 31, 2000.

(g) In December 1999, the Board of Directors of the Company approved a proposal to freeze the benefit accruals under Technology Services' J. N. Fauver Pension Plan (the "Fauver Plan"). As a result, the Company recorded a curtailment gain of $5,608 in December 1999. In December 2000, the Board of Directors approved a proposal to merge the Fauver Plan with another Company owned plan and terminate the merged plans as of December 31, 2000. As a result the Company recorded a loss on termination of the merged pension plans of $4,279 in December 2000.

(h) As shown in notes (e) and (f).

(i) "EBITDA" is defined as earnings before interest, taxes, depreciation and amortization.

Years Ended December 31, 2000 and 1999

Net sales from ongoing operations increased $36.4 million or 9.1% in 2000 to $436.7 million from $400.3 million in 1999. Sales variances by business segment are as follows:

	Sales Increase (Decrease)	
	Amount	%
	(In thousands)	
Hillman Group	$ 60,234	39.7 %
STS	(23,829)	(9.6)%
Total Company	$ 36,405	9.1 %

The Hillman Group's sales increased $60.2 million or 39.7% in 2000 to $212.1 million from $151.9 million in 1999 primarily due to the acquisition of Axxess in early April 2000. Technology Services' sales decreased $23.8 million or 9.6% in 2000 to $224.5 million from $248.4 million in 1999 primarily as a result of the restructuring of its sales force in early 1999 and soft market conditions experienced in the second half of 2000.

The Company's sales backlog on a consolidated basis was $48.6 million as of December 31, 2000, compared with $50.1 million at December 31, 1999, a decrease of 3.0%, primarily in the Technology Services Group.

The Company's consolidated gross margin from ongoing operations was 39.4% in 2000 compared with 34.9% in 1999 before the inventory write-down in 1999 related to restructuring of $2.1 million. On a comparable basis, excluding Axxess, the consolidated gross margin from ongoing operations was 35.8% for the twelve months ended December 31, 2000. The Hillman Group's gross margin increased 3.1% in the comparison period as a result of higher margin sales of keys, and identification items related to the acquisition of Axxess. Technology Services' gross margin was 23.3% in 2000 compared with 23.6% in 1999 before the aforementioned inventory write-down primarily as a result of a change in sales mix.

The Company recorded non-recurring charges related to ongoing operations which aggregated $6.1 million in 2000. These non-recurring charges were composed of $4.3 million related to the merger and termination of the Company's defined benefit plans, and $1.8 million related to severance and other termination costs incurred in the Company's STS division and its corporate headquarters, of which $1.7 million is reflected in selling, general and administrative expenses ("S,G&A"). In 1999, the Company recorded a $5.6 million gain on curtailment of a defined benefit plan and restructuring charges and asset write-downs of $8.1 million as previously discussed.

The Company's S,G,& A expenses from ongoing operations on a comparable basis (excluding Axxess and the aforementioned charges) decreased $15.1 million from $145.2 million in 1999 to $130.1 million in 2000. Selling expenses on a comparable basis, decreased $6.9 million primarily as a result of reduced sales commissions in the existing Hillman Group's business and cost savings at STS associated with the 1999 Restructuring Plan. Warehouse and delivery expenses, decreased $1.8 million as a result primarily of facility reorganizations at STS. General and administrative expenses on a comparable basis decreased by $6.4 million as a result of headcount reductions associated with the 1999 Restructuring Plan at STS and reduced corporate overhead expenses.

S,G&A expenses from ongoing operations as a percentage of sales excluding Axxess, and the previously mentioned non-recurring items compared with 1999 are as follows:

	Twelve Months ended December 31,	
	2000	1999
Selling Expenses	18.4%	18.9%
Warehouse and Delivery Expenses	7.8%	7.8%
General and Administrative Expenses	8.6%	9.6%
Total S,G&A Expenses	34.8%	36.3%

EBITDA from ongoing operations for the year ended December 31, 2000, before the aforementioned non-recurring charges of $6.1 million was $22.7 million compared with an EBITDA loss from ongoing operations of $5.1 million in 1999 excluding the aforementioned 1999 non-recurring items. See Segment Sales and Profitability schedule for the components of EBITDA from ongoing operations for years 2000 and

1999.

The Company's consolidated operating profit margin (EBITDA as a percentage of sales) from ongoing operations increased to 5.2% in 2000 compared with a 1.3% operating loss in 1999, excluding the aforementioned items. The Hillman Group's operating profit margin increased to 16.1% in 2000 compared with 10.4% in 1999 primarily as a result of the acquisition of Axxess and operational efficiencies. Excluding the Axxess acquisition, the Hillman Group's operating profit margin was 12.0% in 2000. STS had an operating loss of 2.5% in 2000 compared with an operating loss of 4.8% before the 1999 restructuring charges related to integration and consolidation activities in the STS operation.

Interest expense, net increased $1.4 million in 2000 from $9.9 million in 1999 due primarily to the acquisition of Axxess and amortization of deferred financing fees related to the Company's December 1999 refinancing, the April 2000 amendment to the credit agreement and December 2000 Subordinated Debt Issuance.

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, 2000 and 1999, 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.

See Note 6 of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 2000, for income taxes and disclosures related to 2000 and 1999 income tax events.

Years Ended December 31, 1999 and 1998

Net sales from ongoing operations decreased $49.7 million or 11.0% in 1999 to $400.2 million from $449.9 million in 1998. Sales variances by business segment are as follows:

	Sales Increase (Decrease) Amount	%
	(In thousands)	
Hillman Group	$ 26,054	20.7 %
STS	(75,708)	(23.4)%
Total Company	$(49,654)	(11.0)%

The Hillman Group'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. Technology Services sales decreased $75.7 million or 23.4% in 1999 to $248.4 million from $324.1 million in 1998 as a result of the restructuring of the sales force in 1999 as well as the effects of the global economy on OEM end markets.

The Company's consolidated gross margin from ongoing operations was 34.9% in 1999 (before the inventory write-down of $2.1 million related to the 1999 Restructuring Plan) compared with 34.6% in 1998. The Hillman Group'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. Technology Services' gross margin before the aforementioned inventory charge decreased 4.0% 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 changes in sales mix.

The Company's S,G&A expenses from continuing operations, before a gain on curtailment of a defined benefit plan of $5.6 million and restructuring charges of $8.1 million increased by $11.0 million to $145.2 million in 1999 from $134.2 million in 1998. Selling expenses increased $2.4 million primarily as a result of 1998 acquisition activity in the Hillman Group. Warehouse and delivery expenses increased $4.9 million as a result of integration costs for the 1998 acquisitions in the Hillman Group 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 $3.7 million is attributable to the integration of the newly acquired businesses in the Hillman Group in 1998 and increased facilities costs in the Technology Services division offset by cost savings associated with the 1999 Restructuring Plan.

S,G&A expenses from ongoing operations as a percentage of sales compared with 1998 excluding the previously mentioned non-recurring items in 1999 are as follows:

	Twelve Months ended December 31, 1999	1998
Selling Expenses	18.9%	16.3%
Warehouse and Delivery Expenses	7.8%	5.8%
General and Administrative Expenses	9.6%	7.7%
Total S,G&A Expenses	36.3%	29.8%

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 ongoing operations was a loss of $5.1 million for the year ended December 31, 1999 excluding the aforementioned 1999 non-recurring items compared with $22.3 million earned in the prior year. The 1998 period excludes a charge of $1.6 million for outstanding litigation matters related to divested businesses. See Segment Sales and Profitability Schedule for the components of EBITDA from ongoing operations for years 1999 and 1998.

The Company's consolidated operating profit margin (EBITDA from ongoing operations, as a percentage of sales) and before the aforementioned non-recurring items declined to a loss of 1.3% in 1999 compared with an operating profit margin of 5.0% in the prior year. The Hillman Group'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. Technology Services had an operating loss of 4.8% in 1999 compared with an operating profit margin of 4.8% in 1998, primarily reflecting reduced 1999 sales and increased expenses related to the reorganization of sales and administrative functions.

Interest expense, net increased $2.9 million in 1999 from $7.0 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.

See Note 6 of Notes to Consolidated Financial Statements of the Company for the three years ended December 31, 2000, for income taxes and disclosures related to 1999 and 1998 income tax events.

Liquidity and Capital Resources

The Company's cash position of $2.8 million as of December 31, 2000, decreased $2.5 million from the balance at December 31, 1999. Cash was provided during this period primarily from proceeds from the Kar and Harding transactions previously discussed ($105.0 million and $30.6 million, respectively), proceeds from the Subordinated Debt Issuance of $30.0 million, and cash provided by operating activities of $10.3 million. Cash was used during this period predominantly for the acquisition of Axxess Technologies ($87.0 million), repayments under the bank credit agreements (Revolver repayments of $47.7 million; Term Loan repayments of $19.0 million), repayment of a portion of the subordinated notes issued in conjunction with the acquisition of Axxess ($9.6 million), capital expenditures ($8.4 million), financing fees and related debt issuance costs ($3.3), capital lease repayments ($1.0 million) and various items that aggregated a net cash outflow of $2.4 million.

The Company's net interest coverage ratio from continuing operations for 2000 declined to 0.62x (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 0.91x in 1999 as a result of reduced earnings and increased interest expense. However, with the issuance of $30 million in new subordinated notes at year-end 2000, the Company has improved overall liquidity and availability.

The Company's working capital position of $78.1 million at December 31, 2000, represents a decrease of $58.2 million from the December 31, 1999 level of $136.3 million. The Company's current ratio decreased to 1.93x at December 31, 2000 from 2.60x at December 31, 1999.

As of December 31, 2000, the Company had $25.4 million available under its senior secured credit facilities. The Company had $59.1 million of outstanding

long-term debt at December 31, 2000, consisting of a $2.5 million senior secured term loan at 9.50%, bank revolver borrowings totaling $55.1 million at an effective interest rate of 9.50%, and capitalized lease obligations of $1.5 million at various interest rates.

As of December 31, 2000, the Company's total debt (including distributions payable) as a percentage of its consolidated capitalization (total debt, trust preferred securities and stockholders' equity) was 45.0% compared with 56.7% at December 31, 1999. The Company's consolidated capitalization (including distributions payable) as of December 31, 2000, was $231.9 million compared to $226.1 million at December 31, 1999.

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 recorded a pre-tax gain of $49.1 million which has restored the Company's stockholders' equity to a positive position of $12.6 million at December 31, 2000 from its deficit balance of $17.2 million at December 31, 1999. In addition, SunSource's current investment in Kar or 44% ownership interest allows the Company to participate in the capital appreciation of Kar in the future with Glencoe.

On April 7, 2000, the Company acquired Axxess for a purchase price of $110.0 million composed of $87.0 million in cash and $23.0 million in Axxess subordinated notes. In connection with the sale of Harding on April 13, 2000, the Company repaid $9.6 million of these subordinated notes leaving a balance of $13.4 million, as follows: 1) a $2.4 million 15% note due April 7, 2001 and 2) an $11.0 million note which is payable in seven equal quarterly installments commencing the earlier of i) the first calendar quarter after payment in full of the term loan provided by the Company's senior lenders (the "Term Loan") or ii) March 31, 2004. Interest on the $11.0 million subordinated note ranges from prime plus 1% to prime plus 5% with a maximum rate at any time of 15%. Interest is payable upon maturity of the Axxess subordinated notes.

The Company further strengthened its financial position upon consummation of the sale of the Harding Glass business on April 13, 2000. The Company sold substantially all of the assets of Harding for a cash purchase price of $30.6 million plus the assumption of certain liabilities aggregating $12.6 million by the buyer, subject to certain post-closing adjustments. Proceeds from the sale of Harding were used by the Company as follows: 1) a repayment of bank revolver borrowings of $15.8 million (representing primarily Harding's collateral in the borrowing base), 2) a principal repayment of the Term Loan of $4.0 million, 3) a repayment of certain Axxess subordinated notes in the amount of $9.6 million, and 4) a cash reserve of $2.0 million to support the issuance of a stand by letter of credit in the same amount provided to the purchaser of Harding.

On December 28, 2000, the Company issued $30.0 million of unsecured subordinated notes maturing December 28, 2006. Interest on the Subordinated Debt Issuance is 12.5%, and interest payments are required quarterly commencing January 1, 2001. The Company issued the holder of the subordinated notes the right to purchase 285,000 shares of the Company's Common Stock at a nominal value. The cash proceeds from the Subordinated Debt Issuance were used to reduce the Company's senior credit facilities as follows: 1) a $19.7 million repayment to the Revolver which improves the Company's undrawn availability and 2) a $9.0 million repayment to the Term Loan.

The Company spent $8.4 million for capital expenditures in 2000, primarily for the building of key machines and related replacement components, plant equipment and 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.

The Company has deferred tax assets aggregating $29.6 million and deferred tax liabilities of $2.2 million as of December 31, 2000, as determined in accordance with Statement of Financial Accounting Standards ("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 and customers did not experience any material year 2000 compliance-related problems of which the Company is aware.

All operating divisions continued 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 adequate. In addition, the Company did not incur any significant expenses related to the Year 2000 compliance issue during 2000.

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.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("the FASB") issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities, and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. In June 1999, the FASB issued SFAS 137, which defers the implementation of SFAS 133. The Company will be required to implement SFAS 133 in fiscal year 2001. Management has determined that SFAS 133 will not have any material impact on the Company's financial statements.

On June 26, 2000 the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101B which extended the implementation date of SAB 101, "Revenue Recognition" to the three-month period ending December 31, 2000. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. The adoption of SAB 101 has not had a material impact on the Company's financial position and results of operations.

Forward Looking Statements

Certain disclosures related to the New York Stock Exchange listing, acquisitions and divestitures, the 1999 Restructuring Plan, the financing arrangements 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, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ending December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. 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 of America 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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 8, 2001

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

<TABLE>
<CAPTION>

ASSETS	December 31, 2000	December 31, 1999
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 2,811	$ 5,275
Restricted cash	10,955	-
Accounts receivable, net of allowance for doubtful accounts of $1,400 and $2,064, respectively	46,912	63,319
Inventories	78,658	90,113
Deferred income taxes	14,483	9,706
Net assets held for sale and liquidation	1,767	37,079
Income taxes receivable	27	11,022
Other current assets	6,167	5,123
Total current assets	161,780	221,637
Property and equipment, net	58,314	17,199
Goodwill and other intangibles (net of accumulated amortization of $14,228 and $19,786, respectively)	77,949	52,154
Deferred financing fees	5,835	3,493
Deferred income taxes	15,118	5,865
Cash surrender value of life insurance policies	-	14,190
Other assets	3,145	7,088
Total assets	$322,141	$321,626

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 39,785	$ 42,531
Notes payable	624	376
Current portion of capitalized lease obligations	915	923
Dividends / distributions payable	1,019	1,019
Deferred tax liability	594	-
Current portion of unsecured subordinated notes	2,677	-
Current portion of long term senior bank debt	375	3,750
Accrued expenses:		
Salaries and wages	4,307	5,337
Income and other taxes	6,605	4,891
Accrued liabilities on discontinued operations	2,407	2,703
Other accrued expenses	25,520	23,740
Total current liabilities	84,828	85,270
Long term unsecured subordinated notes	40,960	-
Long term senior bank debt	2,125	17,750

Bank revolving credit	55,111	102,791
Capitalized lease obligations	627	1,509
Deferred compensation	7,868	14,173
Deferred tax liability	1,629	-
Other liabilities	1,541	2,148
Total liabilities	194,689	223,641
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	114,848	115,200
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, 7,352,137 issued and 6,873,037 outstanding at December 31, 2000, 7,228,556 issued and 6,749,456 outstanding at December 31, 1999,	74	72
Additional paid-in capital	22,808	21,342
Accumulated deficit	(617)	(25,297)
Unearned compensation	(428)	(283)
Accumulated other comprehensive loss	(528)	(4,344)
Treasury stock, at cost, 479,100 shares	(8,705)	(8,705)
Total stockholders' equity (deficit)	12,604	(17,215)
Total liabilities and stockholders' equity (deficit)	$322,141	$321,626

</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>

	2000	1999	1998
<S>	<C>	<C>	<C>
Net sales	$ 459,826	$ 541,250	$ 600,293
Cost of sales	272,682	312,966	348,125
Cost of sales - Inventory write-down related to restructuring (Note 1)	-	2,130	-
Gross profit	187,144	226,154	

252,168

Operating expenses:		
Selling, general and administrative expenses	166,057	217,271
207,628		
Depreciation	9,455	4,244
4,169		
Amortization	3,369	1,840
1,669		
Total operating expenses	178,881	223,355
213,466		
Restructuring charges and asset write-down (Note 1)	-	8,118
-		
Gain (loss) on curtailment/termination of defined benefit pension plan (Note 16)	(5,204)	5,608
-		
Contribution to defined contribution plan (Note 16)	925	-
-		
Provision for litigation matters - divested operations	-	-
1,600		
Other income	181	682
205		
Income from operations	4,165	971
37,307		
Interest expense, net	11,286	9,875
6,981		
Distributions on guaranteed preferred beneficial interests	12,232	12,232
12,232		
Gain on contributions of subsidiaries (Note 4)	49,115	-
-		
Equity in earnings of affiliate (Note 4)	2,438	-
-		
Income (loss) from continuing operations before provision (benefit) for income taxes	32,200	(21,136)
18,094		
Provision (benefit) for income taxes	4,910	(9,815)
6,577		
Income (loss) from continuing operations	27,290	(11,321)
11,517		

</TABLE>

<TABLE>
<CAPTION>
<S> <C>

Discontinued operations (Note 1)		
Income (loss) from operations of discontinued segments, less applicable income taxes of ($110), ($873) and $2,172, respectively	(109)	(1,981)
2,300		
Loss on disposal of discontinued segments, less applicable income taxes of ($7,393) in 2000	(2,501)	(23,834)
-		
Income (loss) from discontinued operations	(2,610)	(25,815)
2,300		
Income (loss) before extraordinary item	24,680	(37,136)

13,817				
Extraordinary loss from early extinguishment of debt, less applicable income taxes of ($126) (Note 7)		-		(235)
-				
		----------		----------

Net income (loss)	$	24,680	$	(37,371)
$ 13,817				
		==========		==========
==========				
Income (loss) per common share - basic:				
Income (loss) from continuing operations	$	3.98	$	(1.68)
$ 1.67				
Income (loss) from operations of discontinued segments, net of taxes		(0.02)		(0.30)
0.33				
Loss on disposal of discontinued segments, net of taxes		(0.36)		(3.53)
-				
		----------		----------

Income (loss) before extraordinary item		3.60		(5.51)
2.00				
Extraordinary loss from early extinguishment of debt, net of taxes		-		(0.03)
-				
		----------		----------

Net income (loss) per common share - basic	$	3.60	$	(5.54)
$ 2.00				
		==========		==========
==========				
Weighted average number of outstanding common shares (Note 15)		6,856,549		6,747,142
6,907,318				
Income (loss) per common share - assuming dilution:				
Income (loss) from continuing operations	$	3.97	$	(1.68)
$ 1.67				
Income (loss) from operations of discontinued segments, net of taxes		(0.02)		(0.30)
0.33				
Loss on disposal of discontinued segments, net of taxes		(0.36)		(3.53)
-				
		----------		----------

Income (loss) before extraordinary item		3.59		(5.51)
2.00				
Extraordinary loss from early extinguishment of debt, net of taxes		-		(0.03)
-				
		----------		----------

Net income (loss) per common share - assuming dilution	$	3.59	$	(5.54)
$ 2.00				
		==========		==========
==========				
Weighted average number of outstanding common shares for purposes of computing dilution (Note 15)		6,880,613		6,747,142
6,907,318				

</TABLE>

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)

<TABLE>
<CAPTION>

	2000	1999

1998			
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$ 24,680	$ (37,371)	$ 13,817
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	12,824	6,084	5,838
Restructuring charges and asset write-down	-	10,248	-
Extraordinary loss	-	235	-
Loss (income) from discontinued operations before taxes	10,113	26,688	(4,472)
Gain on contribution from subsidiaries	(49,115)	-	-
Gain on sale of division	-	(365)	-
Deferred income tax (benefit) provision	(8,938)	(2,759)	1,025
Loss (gain) on termination/curtailment of pension plans	5,204	(5,608)	-
Gain on termination of pension plan contributed to defined contribution plan	(925)	-	-
Equity in earnings of affiliate	(2,438)	-	-
Changes in current operating items:			
Decrease (increase) in accounts receivable	8,455	9,599	(4,155)
Decrease (increase) in inventories	5,225	1,791	(9,569)
Decrease (increase) in income taxes receivable	10,995	(11,022)	-
Decrease (increase) in other current assets	2,222	(720)	(932)
(Decrease) increase in accounts payable	(4,866)	(6,701)	8,168
(Decrease) increase in other accrued liabilities	(4,507)	730	3,386
Other items, net	1,340	(777)	(2,180)
Net cash provided by (used for) operating activities	10,269	(9,948)	10,926
Cash flows from investing activities:			
Proceeds from contribution of subsidiaries	105,000	-	-
Costs associated with contribution of subsidiaries	(655)	-	-
Proceeds from sale of discontinued operations	30,592	-	-
Costs associated with sale of discontinued operations	(2,023)	-	-
Proceeds from sale of property and equipment	1,523	5,064	69
Proceeds from sale of division	-	8,827	-
Increase in net assets held for sale and liquidation	(949)	(17,459)	(5,248)
Payments for acquired businesses, net of cash	(87,000)	-	(10,839)
Capital expenditures	(8,445)	(4,730)	(6,200)
Investment in life insurance policies	-	(1,300)	(903)
Other investing activities, net	(467)	(1,349)	163
Net cash provided by (used for) investing activities	37,576	(10,947)	(22,958)

Cash flows from financing activities:		
Proceeds from issuance of unsecured subordinated notes	30,000	-
Proceeds from issuance of long term debt	-	25,000
-		
Net proceeds from issuance of common stock	-	-
20,813		
Borrowings (repayments) under bank credit agreements, net	(47,680)	67,791
2,000		
Repayment of long term debt	(19,000)	(63,500)
-		
Repayment of subordinated notes	(9,600)	-
-		
Purchase of treasury stock at cost	-	(325)
(8,380)		
Cash distributions / dividends to investors	-	(1,350)
(4,848)		
Borrowimgs (repayments) under other credit facilities, net	248	(420)
(185)		
Principal payments under capitalized lease obligations	(974)	(300)
(210)		
Other financing activities	(3,303)	(3,522)
-		
----------	----------	----------
Net cash (used for) provided by financing activities	(50,309)	23,374
9,190		
----------	----------	----------
Net (decrease) increase in cash and cash equivalents	(2,464)	2,479
(2,842)		
Cash and cash equivalents at beginning of period	5,275	2,796
5,638		
----------	----------	----------
Cash and cash equivalents at end of period	$ 2,811	$ 5,275
$ 2,796		
==========	==========	==========

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 2000

(dollars in thousands)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit) (2)	Unearned Compensation	Accumulated Other Comprehensive Loss (1)	
<S>	<C>	<C>	<C>	<C>		<C>
Beginning Balance - December 31, 1998	$ 72	$ 21,099	$ 12,748	$ (229)	$	(4,596)
Net loss			(37,371)			
Change in cumulative foreign translation adjustment						252
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		(124)	
Amortization of stock option discount					70
Ending Balance - December 31, 1999	72	21,342	(25,297)	(283)	(4,344)
Net income			24,680		
Change in cumulative foreign translation adjustment					(396)
Contribution of subsidiaries					1,495
Write-off for discontinued operations					2,717
Comprehensive income					
Issuance of 23,581 shares of common stock to certain non-employee directors	1	105			
Grant of 100,000 shares of restricted stock	1	464		(465)	
Grant of warrants on financing agreement		897			
Amortization of stock option discount					80
Amortization of vested portion of restricted stock					240
Ending Balance - December 31, 2000	$ 74	$ 22,808	$ (617)	$ (428)	$ (528)

<TABLE>
<CAPTION>

	Treasury Stock	Total Stockholders' (Deficit) Equity
<S>	<C>	<C>
Beginning Balance - December 31, 1998	$ (8,380)	$ 20,714
Net loss		(37,371)
Change in cumulative foreign translation adjustment		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		-
Amortization of stock option discount		70
Ending Balance - December 31, 1999	(8,705)	(17,215)
Net income		24,680

(dollars in thousands, except per share amounts)

Change in cumulative foreign translation adjustment		(396)
Contribution of subsidiaries		1,495
Write-off for discontinued operations		2,717
Comprehensive income		28,496
Issuance of 23,581 shares of common stock to certain non-employee directors		106
Grant of 100,000 shares of restricted stock		-
Grant of warrants on financing agreement		897
Amortization of stock option discount		80
Amortization of vested portion of restricted stock		240
Ending Balance - December 31, 2000	$ (8,705)	$ 12,604

</TABLE>

(1) Cumulative foreign translation adjustment represents the only item of other comprehensive income.

(2) Accumulated deficit in 2000 includes $709 in undistributed earnings related to the Company's investment in G-C Sun Holdings, L.P. which the Company accounts for under the equity mehtod.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of SunSource Inc. (the "Company" or "SunSource") and its indirect wholly-owned subsidiaries including The Hillman Group, Inc. (the "Hillman Group"), SunSource Technology Services, Inc. ("Technology Services"or "STS"), SunSub C, formerly Harding Glass, Inc. ("Harding") and SunSource Capital Trust (the "Trust"). For 1998 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 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 10 and 11).

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 currently operates through two segments: (1) the Hillman Group and (2) Technology Services. The Company also has an investment in an affiliate, G-C Sun Holdings, L.P., operating as Kar Products.

The Hillman Group provides small hardware-related products, keys and accessories and identification items including merchandising services to retail outlets, primarily hardware stores, home centers, lumberyards and mass merchants. STS provides engineering, repair and fabrication services as well as parts and equipment to manufacturers throughout the U.S. and Canada. Kar Products distributes maintenance and repair parts and offers customized inventory management services to commercial and industrial customers of all sizes in the U.S. and Canada.

The Hillman Group and STS accounted for 49%, and 51% respectively, of the Company's consolidated 2000 net sales from ongoing operations. On a consolidated basis, the Company has over 50,000 customers, the largest of which accounted for less than 10% of net sales. The Company's foreign sales in Canada accounted for

(dollars in thousands, except per share amounts)

less than 5% of its consolidated 2000 net sales. The average single sale was less than four 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. In December 2000, the Company's Board of Directors also approved management's plan to liquidate the Company's Integrated Supply - Mexico business (the "Mexican segment"). Accordingly, Harding and the Mexican segment have been accounted for as discontinued operations with results of operations segregated from results of the Company's

1. Basis of Presentation, continued:

Discontinued Operations, continued:

ongoing businesses including restatement of the prior periods presented. On April 13, 2000, the Company consummated the sale of Harding. SunSource expects to complete the liquidation of the Mexican Segment by June 30, 2001. See Note 4, Acquisitions and Divestitures.

For the year ended December 31, 1999, the Company recorded an after-tax loss of $2,188 from Harding's operations and an estimated loss on its expected disposal of $23,834 unadjusted for any potential future tax benefits. For the year ended December 31, 2000, the Company recorded an additional loss on disposal of the discontinued Harding segment of $5,322 less an income tax benefit of $7,191. Through December 31, 2000, the Company has recorded a loss on disposal of the discontinued Harding segment of $21,965 in the aggregate, net of tax benefits.

The estimated loss recorded during the year ended December 31, 2000 on the liquidation of the Mexican segment was $4,370 net of an income tax benefit of $202.

1. Basis of Presentation, continued:

Discontinued Operations, continued:

Following is summary financial information for the Company's discontinued Harding and Mexican operations:

<TABLE>
<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Net Sales:			
Harding	$27,966	$ 118,282	$ 94,952
Mexican segment	16,889	14,402	17,225
Consolidated net sales	$44,855	$ 132,684	$ 112,177
Income (loss) from Discontinued operations:			
Before income taxes			
Harding	$ --	$ (3,268)	$ 3,522
Mexican segment	(219)	414	950
Total income (loss) from discontinued operations before income taxes	$ (219)	$ (2,854)	$ 4,472
Income tax benefit (expense):			
Harding	--	1,080	(1,562)
Mexican segment	110	(207)	(610)
Total income tax benefit (expense)	$ 110	$ 873	$ (2,172)

(dollars in thousands, except per share amounts)

Net income (loss) from discontinued operations:			
Harding	$ --	$ (2,188)	$ 1,960
Mexican segment	(109)	207	340
Total net income (loss) from discontinued operations	$ (109)	$ (1,981)	$ 2,300
Loss on disposal:			
Harding	$(5,322)	$ (23,834)	$ --
Mexican segment	(4,572)	--	--
Total loss on disposal	$(9,894)	$ (23,834)	$ --
Income tax benefit on disposal:			
Harding	$ 7,191	$ --	$ --
Mexican segment	202	--	--
Total tax benefit on disposal	$ 7,393	$ --	$ --
Total income (loss) from Discontinued operations:			
Harding	$ 1,869	$ (26,022)	$ 1,960
Mexican segment	(4,479)	207	340
Total income (loss) from discontinued operations	$(2,610)	$ (25,815)	$ 2,300

</TABLE>

1. Basis of Presentation, continued:

Discontinued Operations, continued:

As of December 31, 2000 and 1999, the Company had net assets held for sale of the discontinued operations of $1,767 and $37,079, respectively, consisting of receivables, inventories, prepaid assets, and property and equipment, and accrued liabilities of $2,407 and $2,703, respectively, reserved for the loss on disposal of the discontinued segments.

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"). 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.

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 impaired assets at the Hillman Group, and realign corporate overhead expenses. As a result of this plan, the Company recorded a restructuring charge of $10,248.

The Technology Services charge and write-downs aggregated $5,392 including 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 covered approximately 94 employees. The other exit costs and write-down of unamortized leasehold improvements were 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 was the result of a reduction in vendor lines resulting principally from the facility consolidation process.

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

(dollars in thousands, except per share amounts)

The Hillman Group's asset write-down was $3,300 and was primarily the result of the Hillman Group's decision not to seek recovery of key machines from retailers. The write-down represented 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 aggregated $536 comprised of other exit costs of $434 and termination benefits of $102 for two employees. The other exit costs included lease termination costs of $101 and unamortized leasehold improvements of $333 on certain assets.

1. Basis of Presentation, continued:

1999 Restructuring Charges and Asset Write-downs, continued:

The following table summarizes the restructuring costs and asset write-downs charged, the balance sheet classification, and payments or adjustments made during 2000.

	Termination Benefits	Other Exit Costs	Total
Opening Balance January 1, 2000:			
Current - other accrued expense	$ 1,722	$ 111	1,833
Long-term - other liabilities	494	--	494
Totals	$ 2,216	$ 111	$ 2,327
Payments/charges during year-ended December 31, 2000:			
Current-other accrued expense payments	$(1,921)	$(111)	$(2,032)
Ending Balance Dec. 31, 2000:			
Current - other accrued expense	$ 295	$ --	$ 295
Long-term - other liabilities	--	--	--
Totals	$ 295	$ --	$ 295

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. The remaining $295 in other accrued expense at December 31, 2000, is primarily associated with termination benefits.

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.

Restricted Cash:

Restricted cash represents cash received as a result of the surrender of life insurance policies by the Company on December 29, 2000 and held in a Rabbi Trust to fund deferred compensation liabilities due to the Company's employees. (See Note 13.)

2. Summary of Significant Accounting Policies, continued:

Inventories:

Inventories consisting predominantly of finished goods 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 thirty 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 in the acquisition of Axxess Technologies, Inc. ("Axxess") and the purchase of inventory and other assets of the Sharon-Philstone division of Pawtucket Fasteners, L.P. ("Sharon-Philstone") discussed in Note 4 is amortized on a straight-line basis over twenty-five years. All other goodwill related to the excess of acquisition cost over the fair value of net assets acquired 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 the Hillman Group's key machines.

Income Taxes:

Deferred income taxes are computed using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities (temporary differences) and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Summary of Significant Accounting Policies, continued:

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.

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 and risks of ownership 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 11. The fair value of the Trust Preferred Securities is disclosed in Note 14.

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, 2000.

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. Recent Accounting Pronouncements:

In June 1998, the Financial Accounting Standards Board ("the FASB") issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities, and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. In June 1999, the FASB issued SFAS 137, which defers the implementation of SFAS 133. The Company will be required to implement SFAS 133 in fiscal year 2001. The adoption of SFAS 133 has not had a material impact on the Company's financial statements.

On June 26, 2000 the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101B which extended the implementation date of SAB 101, "Revenue Recognition" to the three-month period ending December 31, 2000. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. Management has determined that the adoption of SAB 101 has not had a material impact on the Company's financial position and results of operations.

4. Acquisitions and Divestitures:

During 1998, Hillman acquired the assets of three companies that 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.

On July 1, 1999, the Company sold the assets of Industrial Services' Fastener Business serving original equipment manufacturers ("OEM") for a cash consideration, net of expenses, of approximately $9,160 (subject to certain post-closing adjustments) plus the assumption of certain liabilities. The Company recorded an after-tax gain on the sale in the amount of $365 or $0.05 per common share. Sales from the OEM Fastener Business aggregated $10,954 for the six months ended June 30, 1999 and $23,006 for the year ended December 31, 1998.

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" or "Kar Products" 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 $105,000 in cash proceeds from the transaction through repayment of assumed debt by G-C and retained a 49% minority ownership in G-C. Affiliates of Glencoe hold a controlling interest in G-C. SunSource recorded a pre-tax gain on the transaction of approximately $49,115 in the first quarter of 2000. Sales from Kar aggregated $22,122 from January 1, 2000 to March 2, 2000, and $124,724 for the year ended December 31, 1999. The Company accounts for its investment in the partnership under the equity method. As of December 31, 2000, SunSource's consolidated balance sheet includes $1,030 in other assets which represents the Company's investment in G-C.

4. Acquisitions and Divestitures, continued:

(dollars in thousands, except per share amounts)

On April 7, 2000, the Company acquired Axxess Technologies, Inc. ("Axxess" or "Axxess Technologies") of Tempe, Arizona through a stock merger transaction. Axxess is a manufacturer of key duplication and identification systems. The transaction was structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $87,000 in cash and $23,000 in subordinated notes. In connection with the sale of Harding on April 13, 2000, the Company repaid $9,600 of these subordinated notes leaving a balance of $13,400 comprised as follows: 1) a $2,400 15% note due April 7, 2001 and 2) an $11,000 note which is payable in seven equal quarterly installments commencing the earlier of i) the first calendar quarter after payment in full of the Term Loan extended by the Company's senior lenders or ii) March 31, 2004. Interest on the $11,000 subordinated note ranges from prime plus 1% to prime plus 5% with a maximum rate at any time of 15%. The aggregate consideration for the transaction was $111,537, including $87,000 in cash, $23,000 in subordinated notes and transaction costs of $1,537, plus the assumption of certain liabilities aggregating $13,924. Axxess recorded goodwill and other intangible assets of $48,085 related to this acquisition. Axxess sales aggregated $20,012 for the three months ended March 31, 2000, and $82,132 for the year ended December 31, 1999. Axxess' results of operations are included in the results of the Hillman Group from the date of acquisition.

On April l3, 2000, the Company sold substantially all of the assets of Harding for a cash purchase price of $30,592 plus the assumption by the buyer of certain liabilities aggregating $12,693, subject to certain post-closing adjustments.

On October 4, 2000, the Company's Kar Products affiliate through the partnership formed with Glencoe Capital acquired all of the outstanding stock of Brampton Fastener Co. Limited, d/b/a Brafasco, based in Toronto, Canada. G-C purchased the outstanding stock of Brafasco for cash and notes. Brafasco is a supplier of maintenance and repair products serving primarily industrial customers. Brafasco had sales of $26,623 ($CDN) for the year ended December 31, 1999. As a result of this transaction, the Company holds a 44% ownership in the Kar Products affiliate.

On November 3, 2000, the Company's Hillman Group subsidiary purchased inventory and other assets of the Sharon-Philstone division of Pawtucket Fasteners, L.P. of Rhode Island. The Hillman Group assumed the sales and servicing of the Sharon-Philstone division, distributors of fasteners to the retail hardware marketplace with current annual sales of approximately $14,000. The purchase price was $1,870 for inventory and other assets acquired at closing and a commitment to purchase additional inventory and other assets in the amount of approximately $3,928 over the next fourteen months, subject to certain post-closing adjustments.

In December 2000, the Board approved a plan to liquidate the Mexican segment which provided comprehensive inventory management services of maintenance, repair and operating materials to large manufacturing plants in Mexico. The Company recorded a pre-tax loss on liquidation of approximately $4.6 million representing non-cash charges for accumulated translation losses, the write-down of inventories and other assets, and other liquidation costs. The Company expects to complete the liquidation process during the first half of 2001.

4. Acquisitions and Divestitures, continued:

The following disclosures indicate the Company's estimate of financial results had the 2000 acquisitions been consummated on January 1, 1999:

	Pro forma	
	2000	1999
Net sales	$479,838	$623,382
Income (loss) before discontinued operations and extraordinary loss	27,736	(13,185)
Net income (loss)	25,126	(39,235)
Basic earnings per share:		
Before discontinued operations and extraordinary loss	$ 4.04	($1.95)
Net income (loss)	$ 3.66	($5.82)
Diluted earnings per share:		
Before discontinued operations and extraordinary loss	$ 4.03	($1.95)
Net income (loss)	$ 3.65	($5.82)

5. Related Party Transactions:

From January 1, 1997 through September 30, 1998, a former member of the

(dollars in thousands, except per share amounts)

Company's Board of Directors was a partner in a law firm which represented the Company in various matters. Payments to this law firm were $389 in 1998. Amounts payable to this law firm were $109 at December 31, 1998.

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.

6. Income Taxes:

The total income tax provision (benefit) was allocated for the three years ended December 31, of 2000 as follows:

	2000	1999	1998
Continuing operations	$ 4,910	$ (9,815)	$ 6,577
Discontinued operations	(7,503)	(873)	2,172
Extraordinary item--early extinguishment of debt	--	(126)	--
Total tax provision (benefit)	$ (2,593)	$(10,814)	$ 8,749

6. Income Taxes, continued:

The components of the Company's provision (benefit) for income taxes from continuing operations are as follows for the three years ended December 31, 2000:

	2000	1999	1998
Current:			
Federal & State	$ 2,522	$(6,826)	$ 3,799
Foreign	(159)	206	1,121
Total current	2,363	(6,620)	4,920
Deferred:			
Federal & State	317	(3,404)	1,822
Foreign	--	209	(165)
Total deferred	317	(3,195)	1,657
Valuation allowance	2,230	--	--
Provision (benefit) for income taxes	$ 4,910	$(9,815)	$ 6,577

The Company has U.S. federal net operating loss ("NOL") carryforwards for tax purposes, totaling $29,600 as of December 31, 2000, that are available to offset future taxable income. These carryforwards expire in 2019.

The Company has state net operating loss carryforwards with an aggregate tax benefit of $6,317 which expire from 2001 to 2018. A valuation allowance of $6,140 has been established for these deferred tax assets.

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.

6. Income Taxes, continued:

(dollars in thousands, except per share amounts)

The table below reflects the significant components of the Company's net deferred tax assets and liabilities at December 31, 2000 and 1999:

<TABLE>
<CAPTION>

	2000		1999	
	Current	Non current	Current	Non current
<S>	<C>	<C>	<C>	<C>
Deferred Tax Assets:				
Inventory	$ 6,254	--	$ 5,441	--
Bad debt reserve	1,018	--	757	--
Deferred Compensation	2,407	$ 2,433	--	$ 3,494
Federal net operating loss	--	10,064	3,108	--
State net operating loss	--	6,317	--	--
Tax credit carryforwards	--	986	--	--
Transaction costs	--	882	--	706
Property, Plant and equipment	--	--	--	1,030
Federal Capital loss carryforwards	--	--	6,857	--
Miscellaneous	4,804	575	1,923	1,846
Total gross deferred assets	14,483	21,258	18,086	7,076
Valuation Allowance for deferred tax assets	--	(6,140)	(8,380)	(1,211)
Net deferred tax asset	$ 14,483	$ 15,118	$ 9,706	$ 5,865
Deferred Tax liability:				
Property, Plant and equipment	--	$ 1,376	--	--
All other	$ 594	253	--	--
	$ 594	$ 1,629	$ --	$ --

</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 assets will be realized. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

6. Income Taxes, continued:

Below is a reconciliation of statutory federal income tax rates to the effective tax rates for the twelve months ended December 31, 2000, December 31, 1999 and December 31, 1998:

	12 Months Ended 12/31/00	12 Months Ended 12/31/99	12 Months Ended 12/31/98
Statutory federal income tax rate	34.0%	35.0%	35.0%
Foreign income tax rates in excess of U.S. federal income tax rates	(0.7%)	0.9%	1.7%
State and local income taxes, net of U.S. federal income tax benefit	2.7%	(1.7%)	4.0%
Non-deductible expenses	13.3%	(10.6%)	5.3%
Tax benefits associated with the conversion, net	--	--	(9.7%)
Non taxable income - Kar transaction	(34.1%)	--	--
Effective income tax rate	15.2%	(46.4%)	36.3%

7. Extraordinary Losses:

In 1999, in connection with the early extinguishment of debt, the Company

(dollars in thousands, except per share amounts)

expensed capitalized financing costs of $361 and recorded an extraordinary loss of $235 (net of deferred tax benefits of $126). (See Note 10.)

8. Property and Equipment:

Property and equipment consist of the following at December 31, 2000 and 1999:

	Estimated Useful Life (Years)	December 31, 2000	December 31, 1999
Land	N/A	$ --	$ 853
Buildings and leasehold improvements	10-30(1)	6,394	7,406
Machinery and equipment	3-10	65,368	21,784
Furniture and fixtures	3-5	8,731	9,955
		80,493	39,998
Less accumulated depreciation		22,179	22,799
		$58,314	$17,199

(1) Buildings owned in 1999 were sold in 2000.

9. Notes Payable:

Notes payable consisted of casualty insurance financing of $624 at December 31, 2000 and $376 at December 31, 1999. The interest rate on the outstanding notes payable borrowings at December 31, 2000 and 1999 was 7.47% and 6.18%, respectively.

On April 7, 2000, in connection with the acquisition of Axxess, the Company issued a $12,000 unsecured subordinated note. In connection with the sale of Harding on April 13, 2000, the Company repaid $9,600 of this unsecured subordinated note leaving a balance of $2,400. The note is payable on April 7, 2001. Interest on the unsecured subordinated note is payable upon maturity at 15% and compounds quarterly. As of December 31, 2000, the Company's consolidated balance sheet included $2,677 in the current portion of unsecured subordinated notes related to the Axxess acquisition of which $277 represents accrued interest.

10. 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 11). 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 provided 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 debt covenants 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. On April 7, 2000, the Company amended the Credit Agreement to reduce the Revolver to $115,000. On December 28, 2000, the Company further amended the Credit Agreement in connection with the Subordinated Debt Issuance (see Note 11) and as a result the LIBOR Margin on the Revolver was amended to between 2.25% and 3.25% in accordance with the Company's fixed charge coverage ratio.

As of December 31, 2000, the Company's Borrowing Base was $80,451 consisting of receivables and inventory balances totaling $87,301 less letter of credit commitments outstanding of $6,850. The Revolver balance was $55,111 as reflected on the Company's consolidated balance sheet at December 31, 2000. As of December 31, 2000, the Company had $26,344 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, the sale of assets and dividends on the Company's common stock. 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

(dollars in thousands, except per share amounts)

applied first to the outstanding principal installments of the Term Loan (see Note 11) and second, to the remaining advances in such order as the lenders may determine.

As of December 31, 2000, the LIBOR rate was 6.57%, the LIBOR Margin was 2.75% and the prime rate was 9.50%. The Company's weighted-average interest rate for borrowings under its revolving credit facilities was 9.23%, 7.11%, and 7.05% for the years ended December 31, 2000, 1999, and 1998, respectively.

11. 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 10). 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. During 2000, the Company repaid $19,000 of the Term Loan, reducing the balance to $2,500 of which $375 is reflected in the current portion of long-term senior bank debt and $2,125 is reflected in long-term senior bank debt on the Company's consolidated balance sheet at December 31, 2000.

11. Long-Term Debt, continued:

On April 7, 2000, in connection with the acquisition of Axxess, the Company issued an $11,000 unsecured subordinated note. The note is payable in seven equal quarterly installments commencing the earlier of i) the first calendar quarter after payment in full of the Term Loan or ii) March 31, 2004. Interest on the subordinated note ranges from prime plus 1% to prime plus 5% with a maximum rate at any time of 15%. Interest is payable upon maturity and compounds annually. The Company can repay interest and principal on this note at any time. As of December 31, 2000, the Company's consolidated balance sheet included $11,857 in long term unsecured subordinated notes related to the Axxess acquisition of which $857 represents accrued interest.

On December 28, 2000, the Company issued $30,000 of unsecured subordinated notes (the "Subordinated Debt Issuance") which matures December 28, 2006. Interest on the Subordinated Debt Issuance is 12.5%, and interest payments are required quarterly commencing January 1, 2001. The Company issued the holder of the subordinated notes the right to purchase 285,000 shares of the Company's common stock at a nominal value. In accordance with APB 14 - Accounting for Convertible Debt and Debt Issued with Stock Purchased Warrants, the Company recorded the Subordinated Debt Issuance and stock purchase rights issued to the holders at a fair market value of $29,103 which is included in long term unsecured subordinated notes as of December 31, 2000. The fair market value of the Subordinated Debt Issuance reflects a discount of $897 from its face value which will be amortized over the six-year life of the issuance.

As of December 31, 2000, the Company's weighted-average interest rate for the Term Loan was 9.50%. Interest is required to be paid monthly on the daily outstanding principal of the Term Loan. Principal payments of $125 are required to be paid quarterly commencing on April 1, 2001, 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.

As of December 31, 2000, the estimated fair value of the Company's Term Loan is approximately $2,179 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.

12. 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, 2000:

	Capital	Operating

	Leases	Leases
2001	$1,043	$ 8,363
2002	448	6,744
2003	197	5,320
2004	50	4,624
2005	16	4,369
Later years	--	9,919
Total minimum lease payments	$1,754	$39,339
Less amounts representing interest	(212)	
Present value of Net Minimum Lease payments (including $923 currently payable)	$1,542	

Total rental expense for all operating leases from continuing operations amounted to $11,407 in 2000, $12,562 in 1999, and $11,035 in 1998. Certain leases are subject to terms of renewal, and escalation clauses.

13. Deferred Compensation Plans:

SunSource maintains a deferred compensation plan for key employees (the "Nonqualified Deferred Compensation Plan") which allows for deferral of cash compensation from salary and annual bonuses. The Nonqualified Deferred Compensation Plan also includes awards that were made under previous long-term incentive plans of the Company. Executive deferrals can grow at mutual fund investment rates.

The Company had established a Rabbi Trust (the "Rabbi Trust") which held insurance policies to assist in funding the liabilities of the deferred compensation plan. On December 29, 2000, the Company surrendered the insurance policies and switched all investments to mutual fund investment accounts. Upon termination of the insurance policies, the Company incurred a cash surrender charge of $506 in December 2000. The insurance policies had a net cash surrender value which aggregated $11,530 at December 29, 2000. As of December 31, 2000, the Company's consolidated balance sheet included $10,955 of the cash surrender value of the insurance policies in restricted cash and $575 in other current assets.

Except for the cash surrender charge in December 2000, there were no other amounts charged to income under the Company's deferred compensation plans in 2000, 1999 and 1998. During the three years ended December 31, 2000, distributions from the deferred compensation plans aggregated $2,714 in 2000, $252 in 1999, and $26 in 1998. The Company's deferred compensation liabilities amounted to $12,411 as of December 31, 2000 and $14,728 as of December 31, 1999. The current portion of these deferred compensation liabilities were $4,543 and $555 as of December 31, 2000 and 1999, respectively, and were included in other accrued expenses on the consolidated balance sheets.

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

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

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

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

The Trust Preferred Securities have equity characteristics but creditor's rights and are therefore classified between liabilities and stockholders' equity (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, 2000 was $62,739, based on the closing price on the New York Stock Exchange of $14.875 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.

15. 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, 2000, at an average cost of $18.17 per common share.

15. Stockholders' Equity (Deficit), continued:

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 23,581 and 11,293 Common Shares for the years ended December 31, 2000 and 1999, 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 upon the market price of the Common Shares, the number of directors receiving shares, and the percentage of their annual retainer that each director elects to receive in Common Shares. The Company recognized an expense of $105 and $119 with respect to the issuance of common shares to non-employee directors in 2000 and 1999, 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 number 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 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 were 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

(dollars in thousands, except per share amounts)

options become fully vested within 3 to 5 years from the date of grant, depending on performance.

15. Stockholders' Equity (Deficit), continued:

Stock Options, continued:

A summary of the Company's stock option plan for the twelve months ended December 31, 2000 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
Granted	356,000	$4.29	161,567	$12.58
Exercised	--	--	--	--
Expired/Canceled	198,995	$15.77	--	--
Outstanding at December 31, 2000	926,500	$11.60	161,567	$12.58

</TABLE>

As of December 31, 2000, the 926,500 options outstanding under the Plan have exercise prices between $3.00 and $18.88 and a weighted-average remaining contractual life of 8.56 years.

During 2000, 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 $4.50, $15.79 and $18.82 and the average fair market value was $4.50, $16.00 and $18.84 in 2000, 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 $3.83, $12.75 and $15.99 and the average fair market value was $4.50, $15.00 and $18.81 in 2000, 1999 and 1998, respectively.

Compensation expense of approximately $393 is being recognized over vesting periods for certain options which were granted at below fair market value in 2000, 1999 and 1998 of which $79 was recognized in 2000, $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

(dollars in thousands, except per share amounts)

Company's net income and net income per Common Share would have been:

<TABLE>
<CAPTION>

		2000	1999	1998
<S>		<C>	<C>	<C>
Net Income (Loss)	As reported	$24,680	$(37,371)	$ 13,817
	Pro forma	$24,265	$(38,013)	$ 13,769
Basic net income per common share	As reported	$ 3.60	$ (5.54)	$ 2.00
	Pro forma	$ 3.54	$ (5.63)	$ 1.99
Diluted net income per common share	As reported	$ 3.59	$ (5.54)	$ 2.00
	Pro forma	$ 3.53	$ (5.63)	$ 1.99

</TABLE>

15. Stockholders' Equity (Deficit), continued:

Stock Options, continued:

Such pro forma disclosures may not be representative of future compensation expense because options vest over several years and additional grants are made each year.

The estimated weighted-average grant-date fair value of the options granted during the year ended December 31, 2000 was $4.33 and the weighted-average remaining contractual life of options outstanding at December 31, 2000 was 8.56 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 2000, 1999 and 1998: expected volatility of 22.0% for 2000, 23.1% for 1999 and 28.7% for 1998; risk free interest rates of 5.1% to 6.5% 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 options from 150,000 to 50,000 and issued a grant of 100,000 shares of restricted stock. One-third of the restricted shares vested 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. The Company incurred a compensation charge of $240 in 2000 in connection with the issuance of the restricted stock.

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 926,500 options through December 31, 2000 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, 2000, 1999 and 1998.

The number of outstanding Common Shares as of December 31, 2000 was 6,873,037. The weighted average number of Common Shares outstanding for the twelve months ended December 31, 2000 was 6,856,549 for purposes of computing basic net income (loss) per share and 6,880,613 for purposes of computing diluted net income (loss) per share, including shares issued to non-employee directors, net of the 479,100 shares repurchased and held in treasury.

15. Stockholders' Equity (Deficit), continued:

Earnings Per Share, continued:

Following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income (loss) per share, in thousands (except share and per share amounts):

Basic Net Income (Loss) Per Share	2000	1999	1998
Net income (loss) applicable to common shareholders	$ 24,680	$ (37,371)	$ 13,817
Weighted average common shares outstanding	6,856,549	6,747,142	6,907,318
Basic net income (loss) per share	$3.60	($5.54)	$2.00

Dilutive Net Income (Loss) Per Share			
Income (loss) for purposes of computing diluted net income (loss) per share	$ 24,680	$ (37,371)	$ 13,817
Weighted average common shares outstanding	6,856,549	6,747,142	6,907,318
Dilutive stock options and warrants	24,064	--	--
Weighted average common shares outstanding for purposes of computing diluted net income per share	6,880,613	6,747,142	6,907,318
Diluted net income (loss) per share	$3.59	($5.54)	$2.00

In 2000 and 1998, the Company applied the if-converted method to compute dilutive stock options, warrants and convertible debentures. The stock options, warrants and convertible debentures were assumed to have been converted at the beginning of the period, and the resulting common shares were included in the calculation, as long as the effects were not anti-dilutive. The weighted average diluted common shares outstanding for 2000 and 1998 excludes the dilutive effect of approximately 904,833 and 211,495 options, respectively, since such options have an exercise price in excess of the average market value of the Company's common stock during the year.

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.

16. Retirement Benefits:

Certain employees of STS and the Company's divested operations are covered by defined benefit pension plans and post-retirement benefit plans. 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 (the "STS 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.

In December 2000, the Board of Directors approved a proposal to merge the STS Plan with another Company owned plan which was held for certain divested operations, and terminate the merged plans as of December 31, 2000. As a result,

16. Retirement Benefits, continued:

the Company recorded a pre-tax loss on termination of the merged pension plans of $4,279 in December 2000.

The $4,279 loss on termination of the defined benefit pension plans represents an estimated surplus upon termination of the defined benefit pension plans of $3,700, less a write-off of a prepaid pension asset of $7,424, and a charge for estimated excise taxes of $555. The approved proposal also provides for a contribution of 25% or $925 of the $3,700 estimated surplus upon termination to the STS deferred contribution plan. During 2000, the Company recorded a net periodic benefit of $1,500 related to expected investment returns on the surplus assets of the STS Plan. As of December 31, 2000, the Company's consolidated balance sheet included a prepaid pension asset of $3,700 of which $2,775 was included in other current assets and $925 was in other assets. The Company expects the termination process to be completed during the second half of 2001.

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the Company's post-retirement benefit plan in the STS division:

	Post-retirement Benefits

(dollars in thousands, except per share amounts)

Benefit Obligation:	2000	1999
Benefit obligation - beginning of year	$ 879	$ 951
Service cost	--	--
Interest cost	69	65
Plan participant contributions	--	--
Amendments	--	--
Curtailment Gain	--	--
Actuarial (gain) loss	20	(46)
Benefits paid	(84)	(90)
Benefit obligation - end of year	$ 884	$ 880
Fair Value of Plan Assets:		
Fair value of plan assets - beginning of year	$ --	$ --
Actual return on plan assets	--	--
Expenses	--	--
Employer contributions	84	90
Plan participant contributions	--	--
Benefits paid	(84)	(90)
Fair value of plan assets - end of year	$ --	$ --
Funded Status of Plans:		
Funded status of the plans	$ (884)	$ (880)
Unrecognized actuarial (gain) loss	(7)	(27)
Unrecognized prior service cost	324	357
Unrecognized net transition asset	419	454
Accrued benefit cost recognized in the balance sheet	$ (148)	$ (96)

16. Retirement Benefits, continued:

Net post-retirement costs include the following components:

Net Periodic Post-retirement Cost:	2000	1999	1998
Service cost	$ --	$ --	$ --
Interest Cost	69	65	66
Amortization of Transition obligation	35	35	35
Amortization of prior service cost	32	32	32
Net post-retirement cost	$ 136	$ 132	$ 133

Assumptions:	2000	1999	1998
Discount rate	8.00%	8.00%	7.00%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
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 4.5% by 2010.

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

	Trend +1%	Trend -1%
December 31, 2000 projected benefit obligation	$ 72	$ (65)
2000 service and interest cost	$ 5	$ (5)

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

	2000	1999	1998
Defined contribution plans	$ 1,787	$ 2,154	$3,052
Defined benefit plans	2,293	(6,818)	(181)
Total	$ 4,080	$(4,664)	$2,871

(dollars in thousands, except per share amounts)

	=======	=======	======

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, 2000, the Company had outstanding letters of credit in the aggregate amount of $3,800 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.

17. Commitments and Contingencies, continued:

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, 2000, 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.

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:

	2000	1999	1998
Cash paid (refunded)during the period for:			
Interest	$ 9,186	$ 9,694	$ 7,695
Income taxes	$ (4,174)	$ 1,687	$ 8,266
Non-cash operating activities:			
Issuance of shares of common stock to certain non-employee directors	$ 105	$ 119	$ 39
Non-cash investing activities:			
Acquisitions (see Note 4):			
Fair value of assets acquired, including goodwill	$125,461	$ --	$ 11,971
Less unsecured subordinated notes issued	23,000	--	--
Less liabilities assumed	15,461	--	1,132
Cash paid for acquired businesses	$ 87,000	$ --	$ 10,839
Non-cash financing activities:			
Accrued and unpaid distributions on trust preferred securities and common shares	$ 1,019	$ 1,019	$ 676

(dollars in thousands, except per share amounts)

19. Quarterly Data (unaudited):

2000	Fourth	Third	Second	First
Net sales (1)	$102,043	$115,524	$123,857	$118,402
Gross profit (1)	40,348	48,189	49,773	48,834
Income (loss) from continuing operations (1)	(12,948)	(470)	(909)	41,617
Income (loss) from discontinued operations (1)	(4,962)	(478)	(77)	2,907
Net income (loss)	(17,910)	(948)	(986)	44,524
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (1.88)	$ (0.07)	$ (0.13)	$ 6.09
Income(loss) from discontinued operations	$ (0.72)	$ (0.07)	$ (0.01)	$ 0.43
Net income (loss)	$ (2.60)	$ (0.14)	$ (0.14)	$ 6.52
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (1.87)	$ (0.07)	$ (0.13)	$ 6.09
Income(loss) from discontinued operations	$ (0.71)	$ (0.07)	$ (0.01)	$ 0.43
Net income (loss)	$ (2.58)	$ (0.14)	$ (0.14)	$ 6.52

1999	Fourth	Third	Second	First
Net sales (1)	$119,579	$134,452	$145,142	$142,077
Gross profit (1)	48,770	58,373	57,610	61,401
Income (loss) from continuing operations (1)	(2,496)	(25)	(9,937)	1,137
Income (loss) from discontinued operations (1)	(25,916)	101	232	(232)
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	$ (0.37)	$ 0.00	$ (1.47)	$ 0.17
Income(loss) from discontinued operations	$ (3.84)	$ 0.01	$ 0.03	$ (0.04)
Extraordinary loss	$ (0.03)	$ --	$ --	$ --
Net income (loss)	$ (4.24)	$ 0.01	$ (1.44)	$ 0.13

(1) Differences from amounts reported in Quarterly Reports on Form 10-Q filed in 2000 and the Annual Report on Form 10-K filed in 1999 are primarily the result of accounting for the results of the Mexican segment as a discontinued operation. Also includes certain amounts reclassified in 1999 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.

Concentration of credit risk with respect to purchases and trade payables are limited due to the large number of vendors comprising the Company's vendor base,

(dollars in thousands, except per share amounts)

with dispersion across many different industries and geographic areas. One vendor accounted for 16% of the Company's total purchases and 9% of the Company's total trade payables on December 31, 2000. No other vendors accounted for more than 10% of the Company's total purchases in 2000.

21. Segment Information:

The Company has two 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:

	Year Ended December 31,		
	2000	1999	1998
Net Sales			
Technology Services (STS)	$ 224,538	$ 248,367	$ 324,075
Hillman Group	212,118	151,884	125,830
Segment net sales	$ 436,656	$ 400,251	$ 449,905
Gross Profit			
Technology Services (STS)	$ 52,313	$ 56,421	$ 89,336
Hillman Group	119,779	81,045	66,485
Segment gross profit	$ 172,092	$ 137,466	$ 155,821
EBITDA			
Technology Services (STS)	$ (5,620)	$ (11,800)	$ 15,538
Hillman Group	34,053	15,816	13,477
Segment EBITDA	$ 28,433	$ 4,016	$ 29,015
Tangible Assets			
Technology Services (STS)	$ 62,132	$ 81,812	$ 85,731
Hillman Group	128,198	56,963	59,487
Segment tangible assets	$ 190,300	$ 138,775	$ 145,218

21. Segment Information, continued:

	Year Ended December 31,		
	2000	1999	1998
Capital Expenditures			
Technology Services (STS)	$ 937	$ 1,097	$ 2,067
Hillman Group	7,476	2,271	2,072
Segment capital expenditures	$ 8,413	$ 3,368	$ 4,139
Depreciation			
Technology Services (STS)	$ 2,070	$ 1,607	$ 1,603
Hillman Group	7,161	1,408	1,347
Segment depreciation	$ 9,231	$ 3,015	$ 2,950
Geographic Segment Data:			
Net Sales			
United States	$ 441,024	$ 508,835	$ 567,325
Canada	18,802	32,415	32,968
Consolidated net sales	$ 459,826	$ 541,250	$ 600,293

(dollars in thousands, except per share amounts)

Reconciliation of Segment Net Sales to Total Net Sales:			
Segment net sales	$ 436,656	$ 400,251	$ 449,905
Net sales from contributed subsidiaries, sold businesses and terminated contracts	23,170	140,999	150,388
Total net sales	$ 459,826	$ 541,250	$ 600,293
Reconciliation of Segment Gross Profit to Total Gross Profit:			
Segment gross profit	$ 172,092	$ 137,466	$ 155,821
Gross profit from contributed subsidiaries, sold businesses and terminated contracts	15,052	88,688	96,347
Total gross profit	$ 187,144	$ 226,154	$ 252,168

21. Segment Information, continued:

	Year Ended December 31,		
	2000	1999	1998
Reconciliation of Segment Profit to Income (loss) from continuing operations Before Income Taxes and Extraordinary Loss:			
Segment profit - EBITDA	$ 28,433	$ 4,016	$ 29,015
EBITDA from contributed subsidiaries, sold businesses and terminated contracts	2,823	16,840	22,470
Depreciation	(9,455)	(4,244)	(4,169)
Amortization	(3,369)	(1,840)	(1,669)
Corporate expenses	(8,151)	(9,161)	(6,740)
Income before non-recurring charges	10,281	5,611	38,907
Non-recurring charges:			
Gain on curtailment/termination of pension plan	(4,279)	5,608	--
Severance and other termination costs	(1,837)	--	--
Restructuring charges and asset write-off	--	(10,248)	--
Provision for litigation matters - divested operations	--	--	(1,600)
Income from operations	4,165	971	37,307
Equity in earnings of affiliate	2,438	--	--
Interest expense, net	(11,286)	(9,875)	(6,981)
Distribution on guaranteed preferred beneficial interests	(12,232)	(12,232)	(12,232)
Gain on contribution of subsidiaries	49,115	--	--
Income(loss)from continuing operations before income taxes and extraordinary loss	$ 32,200	$ (21,136)	$ 18,094
Reconciliation of Segment Tangible Assets to Total Assets:			
Segment tangible assets	$ 190,330	$ 138,775	$ 145,218
Tangible assets from contributed subsidiaries, sold businesses and terminated contracts	--	46,428	53,814
Goodwill	63,914	51,392	54,997
Other intangible assets	14,035	762	960
Deferred income taxes	29,601	15,571	12,812
Cash value of life insurance	--	14,190	10,262
Assets held for sale	1,767	37,079	42,592
Other corporate assets	22,494	17,429	6,868
Total assets	$ 322,141	$ 321,626	$ 327,523

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

21. Segment Information, continued:

	Year Ended December 31,		
	2000	1999	1998
Reconciliation of Segment Capital Expenditures to Total Capital Expenditures:			
Segment capital expenditures	$ 8,413	$ 3,368	$ 4,139
Capital expenditures from contributed subsidiaries, sold businesses and terminated contracts	27	1,179	1,865
Corporate capital expenditures	5	183	196
Total capital expenditures	$ 8,445	$ 4,730	$ 6,200
Reconciliation of Segment Depreciation to Total Depreciation:			
Segment depreciation	$ 9,231	$ 3,015	$ 2,950
Depreciation from contributed subsidiaries, sold businesses And terminated contracts	181	1,127	1,116
Corporate depreciation	43	102	103
Total depreciation	$ 9,455	$ 4,244	$ 4,169

22. Sale Leaseback Transaction:

On September 30, 1999, the Company sold certain real property of its Kar Products business for $5,025 which were leased back from the same purchaser under two separate lease agreements over periods of five and seven years, respectively. The related leases were being accounted for as operating leases, and the resulting gains aggregating $2,132 were being amortized over the respective lives of the leases. As of December 31, 1999, the Company had outstanding $2,027 of deferred gains relating to the sale leaseback transaction of which $372 was included in other accrued expenses and $1,655 was included in other liabilities. On March 2, 2000, the Company contributed the interests in its Kar Products business to a newly-formed partnership affiliated with Glencoe. (See Footnote 4 - Acquisitions and Divestitures).

SUNSOURCE INC. AND SUBSIDIARIES

Schedule II - VALUATION ACCOUNTS

(dollars in thousands)

<TABLE>
<CAPTION>

	Deducted From Assets in Balance Sheet		
	Allowance for Doubtful Accounts	Allowance for Obsolete Inventories	Accumulated Amortization of Goodwill and Intangibles
<S>	<C>	<C>	<C>
Balance, December 31, 1997	1,814	3,616	17,153
32			
Additions charged to cost			

	Accumulated Amortization of Deferred Financing Fees
<S>	<C>
-	

and expenses	1,557	1,143	1,669
129			
Deductions	1,219(A)	1,360(A)	-
-			
	-------	-------	--------

Balance, December 31, 1998	2,152	3,399	18,822
161			
Additions charged to cost and expenses	1,453	4,938	1,840
153			
Deductions due to:			
Sale of division	209	429	876
-			
Others	1,332(A)	1,140(A)	-
285(B)			
	-------	-------	--------

Balance, December 31, 1999	2,064	6,768	19,786
29			
Additions charged to cost and expenses	756	2,132	3,369
961			
Additions for Axxess acquisition	212	1,201	-
-			
Deductions due to:			
Contribution of subsidiaries	368	657	8,927
-			
Others	1,264(A)	3,086(A)	-
-			
	-------	-------	--------

Balance, December 31, 2000	$ 1,400	$ 6,358	$ 14,228
$ 990			
	=======	=======	========
=====			

</TABLE>

Notes:

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

(B) Write-off of deferred financing fee as a result of early extinguishment of debt related to the Company's bank revolving credit.

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 2, 2001 (the "2001 Annual Proxy Statement") is incorporated by reference herein.

Item 11 - Executive Compensation

Information under the heading "Executive Compensation" in the 2001 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 2001 Annual Proxy Statement is incorporated by reference herein.

Item 13 - Certain Relationships and Related Transactions.

Information under the heading "Certain Transactions" in the 2001 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. Reports on Form 8-K.

The Company did not file a report on Form 8-K during the quarter ended December 31, 2000.

4. 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.

2.1 Amended and Restated Agreement and Plan of Merger dated as of April 7, 2000 among SunSource Inc., The Hillman Group, Inc., the Hillman Group Acquisition Corp., Axxess Technologies, Inc., and certain security holders of Axxess (10) (Exhibit 2.1)

2.2 Asset Purchase Agreement dated as of April 12, 2000, among VVP America, Inc., VVP America Acquisition, L.L.C., SunSource Inc., SunSource Investment Company, Inc., Harding Glass, Inc., and SunSub A Inc. (10) (Exhibit 2.2)

2.3 Financial Statements of Axxess Technologies, Inc., as of December 31, 1999 and 1998. (11) (Item 7)

2.4 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)

2.5 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)

2.6 Asset Purchase Agreement by and among Lawson Products, Inc., ACS/SIMCO, Inc. and SunSource Inc. and certain subsidiaries dated as of July 1, 1999. (12) (Exhibit 2.3)

2.7 Transitional Services and Supply Agreement dated as of July 1, 1999. (12) (Exhibit 2.4)

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

3.1** Amended Bylaws of the Company

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

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 (8) (Exhibit 10.2)

10.1 * Sunsource Inc. Nonqualified Deferred Compensation Plan dated as of August 1, 2000.

10.2** Joinder, Consent and Amendment No. 1 to the Revolving Credit, Term Loan, Guaranty and Security Agreement entered into as of February 23, 2000 by and among SunSource Inc., SunSource Technology Services, Inc., the Hillman Group, Inc., Harding Glass, Inc., Kar Products, Inc., 1394066 Ontario Inc. and PNC Bank, National Association as agent for lenders.

10.3** Joinder, Consent and Amendment No. 2 to the Revolving Credit, Term Loan, Guaranty and Security Agreement entered into as of April 7, 2000, by and among SunSource Inc., SunSource Technology Services, Inc., The Hillman Group, Inc., Harding Glass, Inc., Axxess Technologies, Inc., and PNC Bank, National Association as agent for lenders.

10.4 * Employment Agreement between Axxess Technologies, Inc., and Stephen W. Miller dated as of April 7, 2000.

10.5 * Severance Agreement between SunSource Technology Services, Inc., and SunSource Inc. and Justin Jacobi dated as of November 1, 2000.

10.6 * Severance Agreement between SunSource Inc., and Joseph M. Corvino dated as of November 22, 2000.

10.7** Amendment No. 4 to the Revolving Credit, Term Loan, Guaranty and Security Agreement entered into as of December 28, 2000 by and among SunSource Inc., SunSource Technology Services, Inc., The Hillman Group, Inc., Axxess Technologies, Inc., and PNC Bank, National Association as agent for lenders.

10.8** Investment Agreement entered into as of December 28, 2000 by and among SunSource Technology Services, Inc., SunSource Investment Company, Inc., SunSub A, Inc., the Hillman Group, Inc., Axxess Technologies, Inc., SunSource Corporate Group, Inc., SunSource Industrial Services, Inc., SunSource inventory Management Company, Inc., A&H Holding Co., SunSub C, Inc., SunSub Holdings, L.L.C. and Allied Capital Corporation.

10.9 1998 Equity Compensation Plan-Amendment to Nonqualified Stock Option Grant dated as of January 26, 2000. (12)(Exhibit 10.1)

10.10 1998 Equity Compensation Plan - Restricted Stock Grant dated as of January 26, 2000. (12) (Exhibit 10.2)

10.11 Note and Pledge Agreement between Maurice P. Andrien, Jr., and SunSource Inc. dated as of February 24, 2000. (12)(Exhibit 10.3)

10.12 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. (12)(Exhibit 10.4)

10.13 Employment Agreement between SunSource Inc. and Donald T. Marshall dated as of April 28, 1999. (12) (Exhibit 10.5)

10.14 Employment Agreement between SunSource Inc. and SunSource Corporate Group, Inc. and Maurice P. Andrien, Jr. (12) (Exhibit 10.6)

10.15 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)

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

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

10.18* SunSource Inc. Stock Compensation Plan for Non-Employee Directors (3) Exhibit 10.2

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

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

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

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

10.23* 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

- ------------------------

(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.

(10) Filed on April 24, 2000 as an exhibit to Current Report on Form 8-K.

(11) Filed on May 11, 2000 as Item 7 to Current Report on Amendment No. 1 to Form 8-K originally filed on April 24, 2000.

(12) Filed on March 30, 2000 as an exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.

(13) Filed on February 26, 2001 as an exhibit to Current Report on Form S-8. (14) (Exhibit 4)

* 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 2.4 and 2.5 hereto)

A Current Report on Form 8-K was filed on April 24, 2000 reporting on acquisitions and a disposition under Item 2 of Form 8-K (See exhibits 2.1 and 2.2 hereto)

A Current Report on Amendment No. 1 to Form 8-K originally filed on April 24, 2000, was filed on May 11, 2000 under Item 7 of Form 8-A including the December 31, 1999 audited financial statements of Axxess Technologies, Inc. (See exhibit 2.3 hereto).

A Current Report on Form S-8 was filed on February 26, 2001, to submit the SunSource Inc. Nonqualified Deferred Compensation Plan under Item 8 of Form S-8. (See exhibit 10.1 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, 2001

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, 2001
/s/ Joseph M. Corvino Joseph M. Corvino	Principal Financial Officer	March 28, 2001
/s/ Edward L. Tofani Edward L. Tofani	Principal Accounting Officer	March 28, 2001
/s/ Stewart A. Bliss Stewart A. Bliss	Director	March 28, 2001

/s/ O. Gordon Brewer, Jr. - ---------- O. Gordon Brewer, Jr.	Director	March 28, 2001
/s/ Norman V. Edmonson - ---------- Norman V. Edmonson	Director	March 28, 2001
/s/ Arnold S. Hoffman - ---------- Arnold S. Hoffman	Director	March 28, 2001
/s/ Robert E. Keith, Jr. - ---------- Robert E. Keith, Jr.	Director	March 28, 2001
/s/ Donald T. Marshall - ---------- Donald T. Marshall	Director	March 28, 2001
/s/ Geoffrey C. Shepard - ---------- Geoffrey C. Shepard	Director	March 28, 2001
/s/ Francis G. Ziegler - ---------- Francis G. Ziegler	Director	March 28, 2001

AMENDMENT NO.1 TO
BYLAWS OF SUNSOURCE INC.

Section 3.030 Special Meetings. Special meetings of the Stockholders of the corporation may be called at any time only by the Chairman or a majority of the Board of Directors.

AMENDMENT NO. 2 TO
BYLAWS OF SUNSOURCE INC.

The Bylaws (the "Bylaws") of SunSource Inc., a Delaware corporation (the "Company"), are amended in accordance with Section 8.06 of the Bylaws as follows:

1. Section 4.02 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 4.02. Number, Classified Board and Term of Office.--The board of directors shall consist of such number of directors as may be determined from time to time by resolution of the board of directors. The directors shall be divided into three classes, Class I, Class II and Class III, with respect to their terms of office. All classes shall be as nearly equal in number as reasonably possible. Subject to such limitations, when the number of directors is changed, any newly-created directorship or any decrease in directorships shall be apportioned among the classes by action of the board of directors. The terms of office of the directors shall be as follows:

(1) Class I shall expire at the annual meeting of stockholders to be held in 2000;

(2) Class II shall expire at the annual meeting of stockholders to be held in 2001; and

(3) Class III shall expire at the annual meeting of stockholders to be held in 2002;

At each annual meeting of stockholders, commencing with the annual meeting to be held in 2000, the successors of the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year of their elections.

(This amendment and restatement of Section 4.02 was adopted in accordance with Section 141(d) of the Delaware General Corporation Law by the stockholders of the Company on April 27, 1999.)

2. Section 4.05 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 4.05. Removal.--Any director classified pursuant to Section 4.02, or all such directors, may be removed from office at any time, but only for cause.

3. Section 8.06 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 8.06. Amendment of Bylaws.--Subject to Section 4.12 hereof, these bylaws may be altered, amended or repealed or new bylaws may be adopted either (a) by vote of the stockholders at a duly organized annual or special meeting of stockholders (or by their written consent), or (b) by vote of a majority of the board of directors at any regular or special meeting of directors if such power is conferred upon the board of directors by the certificate of incorporation. Notwithstanding the foregoing, Section 4.02, Section 4.05 and this Section 8.06 may be altered, amended or repealed only (a) by the affirmative vote of the holders of at least 75% the voting power of all of the then outstanding shares entitled to vote generally in the election of directors, voting together as a single class, or (b) by the affirmative vote of a majority of the members of the board of directors at any regular or special meeting of directors if such power is conferred upon the board of directors by the certificate of incorporation.

AMENDMENT NO. 3 TO
BYLAWS OF SUNSOURCE INC.

The Bylaws (the "Bylaws") of SunSource Inc., a Delaware corporation (the "Company"), are amended in accordance with Section 8.06 of the Bylaws as follows pursuant to a resolution adopted by unanimous consent of the Company's Board of Directors on June _, 1999:

1. Section 3.03 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 3.03. Special Meetings.--Special meetings of the stockholders of the corporation may be called at any time only by the chairman, the chief executive officer or a majority of the board of directors.

2. Section 3.05 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 3.05. Organization.--At every meeting of the stockholders, the chairman, if there be one, or in the case of a vacancy in the office or absence of the chairman, one of the following persons present in the order stated: the vice chairman, if one has been appointed, the chief executive officer, the president, the vice presidents in their order of rank or seniority, a chairman designated by the board of directors or a chairman chosen by the stockholders entitled to cast a majority of the votes which all stockholders present in person or by proxy are entitled to cast, shall act as chairman, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, a person appointed by the chairman, shall act as secretary.

3. Section 4.06 of the Bylaws is amended and restated in its entirety to read as follows:

SECTION 4.06. Organization.--At every meeting of the board of directors, the chairman, if there be one, or, in the case of a vacancy in the office or absence of the chairman, one of the following officers present in the order stated: the vice chairman, if there be one, the chief executive officer, the president, the vice presidents in their order of rank and seniority, or a chairman chosen by a majority of the directors present, shall preside, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary.

4. Article V of the Bylaws is amended and restated in its entirety to read as follows:

Officers

SECTION 5.01. Number, Qualifications and Designation.--The officers of the corporation shall be chosen by the board of directors and shall be a chairman, a chief executive officer, a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of section 5.03 of this Article. Any number of offices may be held by the same person. Officers may, but need not, be directors or stockholders of the corporation.

SECTION 5.02. Election and Term of Office.--The officers of the corporation, except those elected by delegated authority pursuant to section 5.03 of this Article, shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor is elected and qualified, or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation.

SECTION 5.03. Subordinate Officers, Committees and Agents.--The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as it deems necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. The Chairman.--The chairman of the board shall preside at all meetings of the stockholders and of the board of directors, and shall perform such other duties as may from time to time be assigned by the board of directors, including any duties that may be assigned pursuant to an employment agreement with the chairman that may be approved by the board of directors.

SECTION 5.05. The Chief Executive Officer.-- The chief executive officer shall be responsible for the general management of the affairs of the corporation, shall be the most senior executive officer of the corporation and shall perform all duties incidental to such office which may be required by law and all such other duties incidental to such office. Except where by law the signature of the president is required, the chief executive officer shall possess the same power as the president to sign all contracts, certificates and other instruments of the corporation which may be authorized by the board of directors. During the absence or disability of the chairman of the board or of the president, the chief executive officer shall exercise all the powers and discharge all the duties of such officer. The chief executive officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned by the board of directors.

SECTION 5.06. The President.--The president shall act in a general executive capacity and shall assist the chief executive officer in the administration and operation of the corporation's business and general supervision of its policies and affairs and shall perform such other duties as from time to time may be assigned by the board of directors or the chief executive officer. The president may sign, alone or with the secretary or any other authorized officer of the corporation, all contracts, certificates and other instruments of the corporation which may be authorized by the board of directors.

SECTION 5.07. The Vice Presidents.--The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors, the chief executive officer or by the president.

SECTION 5.08. The Secretary.--The secretary, or an assistant secretary, shall attend all meetings of the stockholders and of the board of directors and shall record the proceedings of the stockholders and of the directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors, the chief executive officer or the president.

SECTION 5.09. The Treasurer.--The treasurer, or an assistant treasurer, shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; whenever so required by the board of directors, shall render an account showing his or her transactions as treasurer and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors, the chief executive officer or the president.

SECTION 5.10. Officers' Bonds.--No officer of the corporation need provide a bond to guarantee the faithful discharge of the officer's duties unless the board of directors shall by resolution so require a bond in which event such officer shall give the corporation a bond (which shall be renewed if and as required) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of office.

SECTION 5.11. Salaries.--The salaries of the officers and agents of the corporation elected by the board of directors shall be fixed from time to time by the board of directors.

B Y L A W S

OF

SUNSOURCE INC.

(a Delaware Corporation)

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ARTICLE I

Offices and Fiscal Year

SECTION 1.01. Registered Office.--The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware until otherwise established by resolution of the board of directors, and a certificate certifying the change is filed in the manner provided by statute.

SECTION 1.02. Other Offices.--The corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine or the business of the corporation requires.

SECTION 1.03. Fiscal Year.--The fiscal year of the corporation shall end on the 31st of December in each year.

ARTICLE II

Notice - Waivers - Meetings

SECTION 2.01. Notice, What Constitutes.--Whenever, under the provisions of the Delaware General Corporation Law ("GCL") or the certificate of incorporation or these bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by facsimile transmission to the address (or to the telex, TWX, facsimile or telephone number) of the person appearing on the books of the corporation, or in the case of directors, supplied to the corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to be given when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched, or in the case of facsimile transmission, when received.

SECTION 2.02. Notice of Meetings of Board of Directors.--Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, telex, TWX or facsimile transmission) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

SECTION 2.03. Notice of Meetings of Stockholders.--Written notice of the place, date and hour of every meeting of the stockholders, whether annual or special, shall be given to each stockholder of record entitled to vote at the meeting not less than ten nor more than 60 days before the date of the meeting. Every notice of a special meeting shall state the purpose or purposes thereof. If the notice is sent by mail, it shall be deemed to have been given when deposited in the United States mail, postage prepaid, directed to the stockholder at the address of the stockholder as it appears on the records of the corporation.

SECTION 2.04. Waivers of Notice.

(a) Written Waiver.--Whenever notice is required to be given under any provisions of the GCL or the certificate of incorporation or these bylaws, a written waiver, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice of such meeting.

(b) Waiver by Attendance.--Attendance of a person at a meeting, either in person or by proxy, shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 2.05. Exception to Requirements of Notice.

(a) General Rule.--Whenever notice is required to be given, under any provision of the GCL or the certificate of incorporation or these bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given.

(b) Stockholders Without Forwarding Addresses.--Whenever notice is required to be given, under any provision of the GCL or the certificate of incorporation or these bylaws, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a 12 month period, have been mailed addressed to such person at the person's address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the corporation a written notice setting forth the person's then current address, the requirement that notice be given to such person shall be reinstated.

SECTION 2.06. Conference Telephone Meetings.--One or more directors may participate in a meeting of the board, or of a committee of the board, by means of conference telephone or similar communications equipment by means of which

all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE III

Meetings of Stockholders

SECTION 3.01. Place of Meeting.--All meetings of the stockholders of the corporation shall be held at the registered office of the corporation, or at such other place within or without the State of Delaware as shall be designated by the board of directors in the notice of such meeting.

SECTION 3.02. Annual Meeting.--The board of directors may fix and designate the date and time of the annual meeting of the stockholders, but if no such date and time is fixed and designated by the board, the meeting for any calendar year shall be held on the fourth Tuesday in April in such year, if not a legal holiday under the laws of Delaware, and, if a legal holiday, then on the next succeeding business day, not a Saturday, at 10 o'clock A.M., and at said meeting the stockholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting.

SECTION 3.03. Special Meetings.--Special meetings of the stockholders of the corporation may be called at any time by the chairman or a majority of the board of directors, or at the request, in writing, of stockholders entitled to cast 25% of the votes that all stockholders are entitled to cast at the particular meeting. At any time, upon the written request of any person or persons who have duly called a special meeting, which written

request shall state the purpose or purposes of the meeting, it shall be the duty of the secretary to fix the date of the meeting which shall be held at such date and time as the secretary may fix, not less than ten nor more than 60 days after the receipt of the request, and to give due notice thereof. If the secretary shall neglect or refuse to fix the time and date of such meeting and give notice thereof, the person or persons calling the meeting may do so.

SECTION 3.04. Quorum, Manner of Acting and Adjournment.

(a) Quorum.--The holders of a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by the GCL, by the certificate of incorporation or by these bylaws. If a quorum is not present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At any such adjourned meeting at which a quorum is present or represented, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

(b) Manner of Acting.--Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. In all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote thereon shall be the act of the stockholders, unless the question is one upon which, by express provision of the applicable statute, the certificate of incorporation or these bylaws, a different vote is required in which case such express provision shall govern and control the decision of the question. The stockholders present in person or by proxy at a duly organized meeting can continue to do business until adjournment, notwithstanding withdrawal of enough stockholders to leave less than a quorum.

SECTION 3.05. Organization.--At every meeting of the stockholders, the chairman, if there be one, or in the case of a vacancy in the office or absence of the chairman, one of the following persons present in the order stated: the vice chairman, if one has been appointed, the president, the vice presidents in their order of rank or seniority, a chairman designated by the board of directors or a chairman chosen by the stockholders entitled to cast a majority of the votes which all stockholders present in person or by proxy are entitled to cast, shall act as chairman, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, a person appointed by the chairman, shall act as secretary.

SECTION 3.06. Voting.

(a) General Rule.--Unless otherwise provided in the certificate of

incorporation, each stockholder shall be entitled to one vote, in person or by proxy, for each share of capital stock having voting power held by such stockholder.

(b) Voting and Other Action by Proxy.--

(i) A stockholder may execute a writing authorizing another person or persons to act for the stockholder as proxy. Such execution may be accomplished by the stockholder or the authorized officer, director, employee or agent of the stockholder signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature. A stockholder may authorize another person or persons to act for the stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission if such telegram, cablegram or other means of electronic transmission sets forth or is submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder.

(ii) No proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(iii) A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only so long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

SECTION 3.07. Consent of Stockholders in Lieu of Meeting.--Any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to

therein unless, within 60 days of the earliest dated consent delivered in the manner required in this section to the corporation, written consents signed by a sufficient number of holders to take action are delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

SECTION 3.08. Voting Lists.--The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting. The list shall be arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 3.09. Inspectors of Election.

(a) Appointment.--All elections of directors shall be by written ballot, unless otherwise provided in the certificate of incorporation; the vote upon any other matter need not be by ballot. In advance of any meeting of stockholders the board of directors may appoint inspectors, who need not be stockholders, to act at the meeting. If inspectors are not so appointed, the chairman of the meeting may, and upon the demand of any stockholder or his proxy at the meeting and before voting begins shall, appoint inspectors. The number of inspectors shall be either one or three, as determined, in the case of judges appointed upon demand of a stockholder, by stockholders present entitled to cast a majority of the votes which all stockholders present are entitled to cast thereon. No person who is a candidate for office shall act as an inspector. In

case any person appointed as an inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting, or at the meeting by the chairman of the meeting.

(b) Duties.--If inspectors are appointed, they shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies, shall receive votes or ballots, shall hear and determine all challenges and questions in any way arising in connection with the right to vote, shall count and tabulate all votes, shall determine the

result, and shall do such acts as may be proper to conduct the election or vote with fairness to all stockholders. If there be three inspectors of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(c) Report.--On request of the chairman of the meeting or of any stockholder or his proxy, the inspectors shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them.

SECTION 3.10. Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders.

(i) Nominations of persons for election to the board of directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (A) pursuant to the corporation's notice of meeting, (B) by or at the direction of the board of directors or (C) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in this bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this bylaw.

(ii) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of paragraph (a)(i) of this bylaw, the stockholder must have given timely notice thereof in writing to the secretary of the corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the l0th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description

of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (ii) the class or series and number of shares of the corporation which are owned of record and beneficially by such stockholder and such beneficial owner.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this bylaw shall also be considered timely, but only with respect to nominees for any new positions

created by such increase, if it shall be delivered to the secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(b) Special Meetings of Stockholders.--Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to a proper notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to a proper notice of meeting (i) by or at the direction of the board of directors or (ii) by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this bylaw. In the event a special meeting of stockholders is called for the purpose of electing one or more directors to the board of directors, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in a proper notice of meeting, if the stockholder's notice required by paragraph (a)(ii) of this bylaw shall be delivered to the Secretary at the principal executive offices of the corporation not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors or other stockholders to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(c) General.

(i) Only such persons who are nominated in accordance with the procedures set forth in this bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this bylaw. Except as otherwise provided by law, the certificate of incorporation, or these bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this bylaw and, if any proposed nomination or business is not in compliance with this bylaw, to declare that such defective proposal or nomination shall be disregarded.

(ii) For purposes of this bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this bylaw. Nothing in this bylaw shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

ARTICLE IV

Board of Directors

SECTION 4.01. Powers.--All powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

SECTION 4.02. Number and Term of Office.--The board of directors shall consist of such number of directors as may be determined from time to time by resolution of the board of directors. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor shall have been elected and qualified or until his or her earlier death, resignation or removal. Directors need not be residents of Delaware or stockholders of the corporation.

SECTION 4.03. Vacancies.--Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having a right to vote as a single class may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until their successors are elected and qualified or until their earlier death, resignation or removal. If there are no directors in office, then an election of directors may be held in the manner provided by statute. Whenever the holders of

any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office.

SECTION 4.04. Resignations.--Any director may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation and, unless otherwise specified in the notice, the acceptance of the resignation shall not be necessary to make it effective.

SECTION 4.05. Removal.--Any director or the entire board of directors may be removed, with or without cause, by the holders of shares entitled to cast a majority of the votes which all stockholders are entitled to cast at an election of directors.

SECTION 4.06. Organization.--At every meeting of the board of directors, the chairman, if there be one, or, in the case of a vacancy in the office or absence of the chairman, one of the following officers present in the order stated: the vice chairman, if there be one, the president, the vice presidents in their order of rank and seniority, or a chairman chosen by a majority of the directors present, shall preside, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary.

SECTION 4.07. Place of Meeting.--Meetings of the board of directors shall be held at such place within or without the State of Delaware as the board of directors may from time to time determine, or as may be designated in the notice of the meeting.

SECTION 4.08. Regular Meetings.--Regular meetings of the board of directors shall be held without notice at such time and place as shall be designated from time to time by resolution of the board of directors.

SECTION 4.09. Special Meetings.--Special meetings of the board of directors shall be held whenever called by the chairman or by two or more of the directors.

SECTION 4.10. Quorum, Manner of Acting and Adjournment.

(a) General Rule.--At all meetings of the board a majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by the GCL or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

(b) Unanimous Written Consent.--Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors may be taken without a meeting, if all members of the board consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board.

SECTION 4.11. Executive and Other Committees.

(a) Establishment.--The board of directors may, by resolution adopted by a majority of the whole board, establish an Executive Committee and one or more other committees, each committee to consist of one or more directors. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee and the alternate or alternates, if any, designated for such member, the member or members of the committee present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

(b) Powers.--The Executive Committee, if established, and any such other committee to the extent provided in the resolution establishing such

committee shall have and may exercise all the power and authority of the board of directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a)

of the GCL, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of shares of any series), adopting an agreement of merger or consolidation under Section 251 or 252 of the GCL, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation. The Executive Committee shall have the power or authority to declare a dividend, to authorize the issuance of stock and to adopt a certificate of ownership and merger pursuant to Section 253 of the GCL. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee so formed shall keep regular minutes of its meetings and report the same to the board of directors when required.

(c) Committee Procedures.--The term "board of directors" or "board," when used in any provision of these bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to the Executive Committee or other committee of the board.

SECTION 4.12. Approval of Independent Directors for Certain Actions.--(a) Prior to _____ 2000, the approval of at least a majority of the corporation's Independent Directors (as defined below) shall be required to approve (i) any amendment to the certificate of incorporation or bylaws of the corporation or any stockholder rights plan of the corporation (including the redemption of the rights thereunder or waiver of any provision thereof) or any waiver of, or "opt-out" from, the benefit or effect of any provision thereof) or other provision applicable to the corporation (including section 203 of the GCL); or (ii) any agreement binding the corporation in respect of the sale, in a single transaction or a series of related transactions, of all or a Substantial Part of the corporation (as defined below), whether by liquidation, consolidation, dissolution, sale of capital stock or assets, tender or exchange offer, merger or other business combination.

(b) The approval of at least a majority of the corporation's Independent Directors shall be required to approve and authorize (i) any transaction or series of related transactions between the corporation or any of its subsidiaries, on the one hand, and any Stockholder (as defined below) or any affiliate of a Stockholder, on the other hand, so long as any of such entities and its affiliates own, in the aggregate, at least 10% of the outstanding Common Stock, (ii) any amendment to, or waiver of, any provisions of the Stockholders Agreement, dated as of May __ , 1997, among the corporation and certain of its stockholders, or (iii) notwithstanding the terms of the preceding paragraph (a), any amendment to the certificate of incorporation or bylaws of the corporation which would

amend, repeal, waive, contravene or otherwise alter this paragraph (b), including amendments of the defined terms used herein.

For purposes of the foregoing:

"Independent Director" means a director of the corporation who is not (apart from such directorship) (i) an officer, director, affiliate, employee, principal stockholder, consultant or partner of a Stockholder or any affiliate of a Stockholder or of any entity that was dependent upon a Stockholder or any affiliate of a Stockholder for more than 5% of its revenues or earnings in its most recent fiscal year, or (ii) an officer, employee, consultant or partner of the corporation or any affiliate of the corporation or an officer, employee, principal stockholder, consultant or partner of an entity that was dependent upon the corporation or any affiliate of the corporation for more than 5% of its revenues or earnings in its most recent fiscal year;

"Stockholder" means SDI Partners I, L.P., Lehman Brothers Capital Partners I, L.P., Lehman LTD I, Inc., LB1 Group, Inc., Lehman/SDI, Inc., Lehman Brothers Inc., and their respective affiliates or successors; and

"Substantial Part of the corporation" means, as of any date, thirty percent (30%) or more of (i) the outstanding capital stock of the corporation

(measured by economic interest or voting power), or (ii) the book value of the consolidated tangible assets of the corporation and its subsidiaries, taken as a whole (without regard to any liabilities of the corporation or any of its subsidiaries), as of the end of its most recent fiscal quarter ending prior to the time the determination is made.

SECTION 4.13. Compensation of Directors.--Unless otherwise restricted by the certificate of incorporation, the board of directors shall have the authority to fix the compensation of directors.

ARTICLE V

Officers

SECTION 5.01. Number, Qualifications and Designation.--The officers of the corporation shall be chosen by the board of directors and shall be a chairman, a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of section 5.03 of this Article. Any number of offices may be held by the same person. Officers may, but need not, be directors or stockholders of the corporation.

SECTION 5.02. Election and Term of Office.--The officers of the corporation, except those elected by delegated authority pursuant to section 5.03 of this Article, shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor is elected and qualified, or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation.

SECTION 5.03. Subordinate Officers, Committees and Agents.--The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as it deems necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. The Chairman.--The chairman shall be the chief executive officer of the corporation, shall preside at all meetings of the stockholders and of the board of directors, and shall perform such other duties as may from time to time be assigned by the board of directors.

SECTION 5.05. The President.--The president shall be the chief operating officer of the corporation and shall perform such other duties as from time to time may be assigned by the board of directors and the chairman.

SECTION 5.06. The Vice Presidents.--The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors or by the president.

SECTION 5.07. The Secretary.--The secretary, or an assistant secretary, shall attend all meetings of the stockholders and of the board of directors and shall record the proceedings of the stockholders and of the directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors or the president.

SECTION 5.08. The Treasurer.--The treasurer, or an assistant treasurer, shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner

due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; whenever so required by the board of directors, shall render an account showing his or her transactions as treasurer and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors or the president.

SECTION 5.09. Officers' Bonds.--No officer of the corporation need provide a bond to guarantee the faithful discharge of the officer's duties unless the board of directors shall by resolution so require a bond in which event such officer shall give the corporation a bond (which shall be renewed if

and as required) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of office.

SECTION 5.10. Salaries.--The salaries of the officers and agents of the corporation elected by the board of directors shall be fixed from time to time by the board of directors.

ARTICLE VI

Certificates of Stock, Transfer, Etc.

SECTION 6.01. Form and Issuance.

(a) Issuance.--The shares of the corporation shall be represented by certificates unless the board of directors shall by resolution provide that some or all of any class or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation. Notwithstanding the adoption of any resolution providing for uncertificated shares, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman, or the president or vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, representing the number of shares registered in certificate form.

(b) Form and Records.--Stock certificates of the corporation shall be in such form as approved by the board of directors. The stock record books and the blank stock certificate books shall be kept by the secretary or by any agency designated by the board of directors for that purpose. The stock certificates of the corporation shall be numbered and registered in the stock ledger and transfer books of the corporation as they are issued.

(c) Signatures.--Any of or all the signatures upon the stock certificates of the corporation may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer,

transfer agent or registrar, before the certificate is issued, it may be issued with the same effect as if the signatory were such officer, transfer agent or registrar at the date of its issue.

SECTION 6.02. Transfer.--Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made which would be inconsistent with the provisions of Article 8, Title 6 of the Delaware Uniform Commercial Code-Investment Securities.

SECTION 6.03. Lost, Stolen, Destroyed or Mutilated Certificates.--The board of directors may direct a new certificate of stock or uncertificated shares to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or the legal representative of the owner, to give the corporation a bond sufficient to indemnify against any claim that may be made against the corporation on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate or uncertificated shares.

SECTION 6.04. Record Holder of Shares.--The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

SECTION 6.05. Determination of Stockholders of Record.

(a) Meetings of Stockholders.--In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than 60 nor less than ten days before the date of such meeting.

If no record date is fixed by the board of directors, the record date

for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on

the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting.

(b) Consent of Stockholders.--In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the secretary, request the board of directors to fix a record date. The board of directors shall promptly, but in all events within 10 days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the board of directors within 10 days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by the GCL, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by the GCL, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

(c) Dividends.--In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights of the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

ARTICLE VII

Indemnification of Directors, Officers and Other Authorized Representatives

SECTION 7.01. Indemnification of Authorized Representatives in Third Party Proceedings.--The corporation shall indemnify, to the fullest extent permitted by law, any person who was or is an authorized representative of the corporation, and who was or is a party, or is threatened to be made a party to any third party proceeding, by reason of the fact that such person was or is an authorized representative of the corporation, against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such third party proceeding if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal third party proceeding, had no reasonable cause to believe such conduct was unlawful. The termination of any third party proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the authorized representative did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to, the best interests of the corporation, and, with respect to any criminal third party proceeding, had reasonable cause to believe that such conduct was unlawful.

SECTION 7.02. Indemnification of Authorized Representatives in Corporate Proceedings.--The corporation shall indemnify, to the fullest extent permitted by law, any person who was or is an authorized representative of the corporation and who was or is a party or is threatened to be made a party to any corporate proceeding, by reason of the fact that such person was or is an authorized representative of the corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such corporate proceeding if such person acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the

corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such corporate proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such authorized representative is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 7.03. Mandatory Indemnification of Authorized Representatives.--To the extent that an authorized representative or other employee or agent of the corporation has been successful on the merits or otherwise in defense of any third party or corporate proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified, to the fullest extent permitted by law, against expenses actually and reasonably incurred by such person in connection therewith.

SECTION 7.04. Determination of Entitlement to Indemnification.--Any indemnification under section 7.01, 7.02 or 7.03 of this Article (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the authorized representative or other employee or agent is proper in the circumstances because such person has either met the applicable standard of conduct set forth in section 7.01 or 7.02 or has been successful on the merits or otherwise as set forth in section 7.03 and that the amount requested has been actually and reasonably incurred. Such determination shall be made:

(a) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such third party or corporate proceeding; or

(b) if such a quorum is not obtainable, or even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or

(c) by the stockholders.

SECTION 7.05. Advancing Expenses.--Expenses actually and reasonably incurred in defending a third party or corporate proceeding shall be paid on behalf of an authorized representative by the corporation in advance of the final disposition of such third party or corporate proceeding upon receipt of an undertaking by or on behalf of the authorized representative to repay such amount if it shall ultimately be determined that the authorized representative is not entitled to be indemnified by the corporation as authorized in this Article. The financial ability of any authorized representative to make a repayment contemplated by this section shall not be a prerequisite to the making of an advance. Expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

SECTION 7.06. Definitions.--For purposes of this Article:

(a) "authorized representative" shall mean any and all directors and officers of the corporation and any person designated as an authorized representative by the board of directors of the corporation (which may, but need not, include any person serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise);

(b) "corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or

was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued;

(c) "corporate proceeding" shall mean any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor or investigative proceeding by the corporation;

(d) "criminal third party proceeding" shall include any action or investigation which could or does lead to a criminal third party proceeding;

(e) "expenses" shall include attorneys' fees and disbursements;

(f) "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan;

(g) "not opposed to the best interests of the corporation" shall include actions taken in good faith and in a manner the authorized representative reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan;

(h) "other enterprises" shall include employee benefit plans;

(i) "party" shall include the giving of testimony or similar involvement;

(j) "serving at the request of the corporation" shall include any service as a director, officer or employee of the corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants, or beneficiaries; and

(k) "third party proceeding" shall mean any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, other than an action by or in the right of the corporation.

SECTION 7.07. Insurance.--The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against the person and incurred by the person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article.

SECTION 7.08. Scope of Article.--The indemnification of authorized representatives and advancement of expenses, as authorized by the preceding provisions of this Article, shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The indemnification and advancement of expenses provided by or granted pursuant to this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be an authorized representative and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7.09. Reliance on Provisions.--Each person who shall act as an authorized representative of the corporation shall be deemed to be doing so in reliance upon rights of indemnification provided by this Article.

ARTICLE VIII

General Provisions

SECTION 8.01. Dividends.--Subject to the restrictions contained in the GCL and any restrictions contained in the certificate of incorporation, the board of directors may declare and pay dividends upon the shares of capital stock of the corporation.

SECTION 8.02. Contracts.--Except as otherwise provided in these bylaws, the board of directors may authorize any officer or officers, or any agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the corporation and such authority may be general or confined to specific instances.

SECTION 8.03. Corporate Seal.--The corporation shall have a corporate seal, which shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

SECTION 8.04. Deposits.--All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the board of directors shall from time to time determine.

SECTION 8.05. Corporate Records.

(a) Examination by Stockholders.--Every stockholder shall, upon written demand under oath stating the purpose thereof, have a right to examine, in

person or by agent or attorney, during the usual hours for business, for any proper purpose, the stock ledger, list of stockholders, books or records of account, and records of the proceedings of the stockholders and directors of the corporation, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business. Where the stockholder seeks to inspect the books and records of the corporation, other than its stock ledger or list of stockholders, the stockholder shall first establish (i) that the stockholder has complied with the provisions of this section respecting the form and manner of making demand for inspection of such documents; and (ii) that the inspection sought is for a proper purpose. Where the stockholder seeks to inspect the stock ledger or list of stockholders of the corporation and has complied with the provisions of this section respecting the form and manner of making demand for inspection of such documents, the burden of proof shall be upon the corporation to establish that the inspection sought is for an improper purpose.

(b) Examination by Directors.--Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to the person's position as a director.

SECTION 8.06. Amendment of Bylaws.--Subject to Section 4.12 hereof, these bylaws may be altered, amended or repealed or new bylaws may be adopted either (a) by vote of the stockholders at a duly organized annual or special meeting of stockholders (or by their written consent), or (b) by vote of a majority of the board of directors at any regular or special meeting of directors if such power is conferred upon the board of directors by the certificate of incorporation.

JOINDER, CONSENT AND AMENDMENT NO. 1

TO

REVOLVING CREDIT, TERM LOAN, GUARANTY
AND SECURITY AGREEMENT

THIS JOINDER, CONSENT AND AMENDMENT NO. 1 ("Amendment") is entered into as of February 23, 2000 by and among SUNSOURCE INC., a corporation organized under the laws of the State of Delaware ("SunSource"), SUNSOURCE TECHNOLOGY SERVICES INC., a corporation organized under the laws of the State of Delaware ("STSI"), THE HILLMAN GROUP, INC., a corporation organized under the laws of the State of Delaware ("Hillman"), HARDING GLASS, INC., a corporation organized under the laws of the State of Delaware ("Harding"), KAR PRODUCTS INC., a corporation organized under the laws of the State of Delaware ("KAR") (SunSource, STSI, Hillman, Harding and KAR, each a "Borrower" and collectively "Borrowers"), 1394066 Ontario Inc., a corporation organized under the laws of the Province of Ontario ("Ontario Inc."), the other Credit Parties (as defined in the Loan Agreement (as defined herein)) named therein or which hereafter become a party thereto, the financial institutions which are now or which hereafter become a party thereto (collectively, the "Lenders" and individually a "Lender") and PNC BANK, NATIONAL ASSOCIATION, a national banking association ("PNC"), as Agent for Lenders (PNC, in such capacity, the "Agent").

BACKGROUND

Borrowers, the other Credit Parties, Lenders and Agent are parties to that certain Revolving Credit, Term Loan, Guaranty and Security Agreement dated as of December 15, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Agent and Lenders provide Borrowers with certain financial accommodations.

Borrowers have requested that Agent and Lenders amend the Loan Agreement and allow for the transfer of certain assets as provided for in that certain Contribution Agreement dated as of February 10, 2000 by and among SunSource, SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC., a corporation organized under the laws of the State of Delaware ("SISC"), KAR, A & H HOLDING COMPANY, INC., a corporation organized under the laws of the State of Michigan ("A & H Holding"), SUNSOURCE CANADA INVESTMENT COMPANY, an unlimited liability company organized under the laws of the Province of Nova Scotia ("SunSource Canada"), A. & H. BOLT & NUT COMPANY LTD., a company organized under the laws of the Province of Ontario ("A & H Bolt") and GC-SUN HOLDINGS, L.P., a Delaware limited partnership ("Partnership")(as amended, supplemented, modified or restated from time to time, the "Contribution Agreement"), and Agent and Lenders are willing to do so on the terms and conditions hereafter set forth.

Borrowers have informed Agent that SISC and A & H Holding will own forty-nine percent (49%) of all of the Units (as defined in the Amended and Restated Agreement of Limited Partnership of GC-Sun Holdings, L.P. dated as of March 2, 2000 among GC-Limited, Inc., a Delaware corporation ("Glencoe Corp."), SISC, A & H Holding, and GC-Sun G.P., Inc. a Delaware corporation ("GC-SUN")(the "Partnership Agreement").

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Agent and Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Joinder Agreement.

(a) Ontario Inc. is hereby added as an additional Guarantor under the Loan Agreement, and all references to "Guarantor" or "Guarantors" thereunder and under all of the Other Documents shall hereafter be deemed to include Ontario Inc.

(b) Ontario Inc. hereby adopts the Loan Agreement and each of the Other Documents and assumes in full, and acknowledges that it is jointly and severally liable for, the payment, discharge, satisfaction and performance of all Obligations under the Loan Agreement and the Other Documents. Ontario Inc. hereby acknowledges and confirms that Ontario Inc. hereby grants to Agent for its benefit and for the ratable benefit of Lenders a continuing lien and security interest in all presently existing and hereafter arising Collateral which Ontario Inc. now or hereafter owns or has an interest in, wherever located, to secure prompt repayment of any and all Obligations owed to Agent and Lenders and to secure prompt performance by Borrowers of each and all of their covenants and obligations under the Loan Agreement, this Amendment and the Other Documents. Agent's lien and security interest in the Collateral shall attach to all Collateral without further act on the part of Agent, Ontario Inc.

3. Consent. Subject to satisfaction of the conditions precedent set forth in Section 5 below, Agent and Lenders hereby (a) consent to the transactions contemplated by the Contribution Agreement entered into by KAR, SunSource, SISC, A & H Bolt, A & H Holding, Ontario Inc. and SunSource Canada provided that no Credit Party shall make any contribution or distribution of any kind or nature to the Partnership including, without limitation, satisfying a capital call made by the Partnership without the prior written consent of Agent and Required Lenders and (b) release (i) all Liens which Agent may have upon the assets of KAR, A & H Bolt and SunSource Canada and any stock of such entities which was pledged to Agent as security for the Obligations, and Agent further agrees, at Borrowers' expense, to deliver to SunSource such UCC-3 termination statements and mortgage satisfactions as may be reasonably requested by Borrowers in connection with the above described release of the Agent's Lien on such items of Collateral and (ii) KAR, A & H Bolt and SunSource Canada as Credit Parties under the Loan Agreement.

4. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 5 below, the Loan Agreement is hereby amended as follows:

(a) Section 1.2 is amended as follows:

(i) the following defined terms are amended in their entirety to provide as follows:

"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 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 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.

"Guarantor" shall mean A & H Holding, J.N. Fauver, Ontario Inc., 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.

"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 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.

"Mortgage" shall mean 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 property located in Arlington, Texas.

"Operating Division" shall mean as applicable, the Harding Division, Hillman Division or SunSource Division.

"Pledge Agreement" shall mean, collectively, (a) the Pledge Agreements each dated as of the Closing Date made by each of SunSource, SunSource Investment, SunSub A and SunSource Industrial in favor of Agent and (b) the Pledge Agreements each dated as of the Joinder, Consent and Amendment No. 1 Effective Date made by each of SunSource Industrial, A&H Holding and Ontario Inc. in favor of Agent, as each of the foregoing may be amended, restated, modified and/or supplemented from time to time.

"Purchasing Lender" shall have meaning set forth in Section 17.3 hereof.

"Transferee" shall have the meaning set forth in Section 17.3(b)

hereof

(ii) The last paragraph of "Eligible Receivables" is hereby amended by deleting the paragraph in its entirety and replacing in its stead the following:

"Receivables of 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 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.

(iii) by deleting the following defined term in its entirety:

"Kar Division"

(iv) by adding the following defined term in its appropriate alphabetical order:

"Axxess Technologies" shall mean Axxess Technologies, Inc., a corporation organized under the laws of the State of Delaware.

"Joinder, Consent and Amendment No. 1 Effective Date" shall mean March 2, 2000.

"Ontario Inc." shall mean 1394066 Ontario Inc., a corporation organized under the laws of the Province of Ontario

"Term Loan Reserve" shall mean $15,000,000. The Term Loan Reserve shall remain in place until the earlier of (a) the date the Harding Divestiture is consummated or (b) the date the $110,000,000 acquisition of the stock of Axxess Technologies by SunSource or Hillman is consummated.

(b) Clause (iv) of Section 2.1(a) is amended in its entirety to provide as follows:

"Such reserves including, without limitation, the Term Loan Reserve, as Agent may reasonably deem proper and necessary from time to time."

(c) The first paragraph of Section 17.2(b) is amended in its entirety to provide as follows:

"(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 or 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.

(viii) permit any Credit Party or any Subsidiary of any Credit Party to (x) enter into any merger, amalgamation, consolidation or other reorganization with or into Axxess Technologies or (y) acquire all or a substantial portion of the assets or stock of Axxess Technologies."

(d) Section 17.6 is amended in its entirety to provide as follows:

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, request, demand, direction or other communication (for purposes of this Section 17.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a "Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 17.6) in accordance with this Section 17.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 17.6 hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 17.6. Any Notice shall be effective:

(a) In the case of hand-delivery, when delivered;

(b) If given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);

(d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(e) In the case of electronic transmission, when actually received;

(f) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such site) by another means set forth in this Section 17.6; and

(g) If given by any other means (including by overnight courier), when actually received.

Any Lender giving a Notice to Credit Party shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Lenders of its receipt of such 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

(e) All of the Schedules to the Loan Agreement are hereby amended in their entirety by the Schedules attached hereto.

5. Conditions of Effectiveness. This Amendment shall become effective upon satisfaction of the following conditions precedent:

(i) Agent shall have received four (4) copies of this Amendment executed by all Credit Parties and Lenders.

(ii) Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Amendment or under law or reasonably requested by 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 owned by Ontario Inc. shall have been delivered to Agent;

(iii) Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of (A) Ontario Inc. authorizing (1) the execution, delivery and performance of this Amendment and the pledge agreement executed by Ontario Inc. in favor of Agent in connection herewith, and (2) the granting by Ontario Inc. of the continuing security interest upon the Collateral, certified by the Secretary or an Assistant Secretary of Ontario Inc., as of the date of this Amendment; (B) SISC authorizing the execution, delivery and performance of the amendment to the pledge agreement with respect to the pledge of the stock of J.N. Fauver and the pledge agreement executed by SISC in favor of Agent in connection with the pledge of the Units; and (C) A & H Holding authorizing the execution, delivery and performance of the pledge agreements executed by A & H Holding in favor of Agent in connection with the pledge of the Units and pledge of the stock of Ontario Inc. and, each such certificate shall state that the resolutions thereby certified and have not been amended, modified, revoked or rescinded as of the date of such certificate;

(iv) Agent shall have received a certificate of the Secretary or an Assistant Secretary of Ontario Inc., dated the Joinder, Consent and Amendment No. 1 Agreement Effective Date, as to the incumbency and signature of the officers of Ontario Inc. executing this Amendment, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(v) Agent shall have received a copy of the Articles or Certificate of Incorporation of Ontario Inc., 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 Ontario Inc. and all agreements of Ontario Inc.'s shareholders certified as accurate and complete by the Secretary of Ontario Inc.;

(vi) Agent shall have received good standing certificates for Ontario Inc. dated not more than 30 days prior to the Joinder, Consent and Amendment No. 1 Agreement Effective Date, issued by the Secretary of State or other appropriate official of Ontario Inc.'s jurisdiction of incorporation and each jurisdiction where the conduct of Ontario Inc.'s business activities or the ownership of its properties necessitates qualification;

(vii) Agent shall have received in form and substance satisfactory to Agent, certified copies of Ontario Inc.'s liability insurance policies, together with endorsements naming Agent as a co-insured;

(viii) Agent shall have received the executed opinions of counsel from the law firm of Morgan, Lewis & Bockius and Latham & Watkins in form and substance satisfactory to Agent, which shall cover such matters incident to the transactions contemplated by this Amendment and the Contribution Agreement;

(ix) Agent shall have received an agreement from the Partnership subordinating the pledge of the Partnership Units to the pledge of such Units in favor of Agent and such other certificates, instruments, documents and agreements as may reasonably be required by Agent or its counsel, including but not limited to the Contribution Agreement, the Amended and Restated Agreement of

Limited Partnership of GC-SUN Holdings, L.P., subordinated pledge agreements, intercompany transaction documents, Management Agreements, fee agreements, Registration Rights Agreement and payment direction letter by SISC to the Partnership re: payment of intercompany indebtedness, each of which shall be in form and substance satisfactory to Agent and its counsel;

(x) Agent shall have received payment in the amount of at least $105,000,000 (the "Proceeds") to be applied against the Revolving Advances;

(xi) Agent shall have received (i) fully executed Pledge Agreements: (t) by SISC and A&H Holding, in favor of Agent pledging each of SISC's and A&H Holdings' Units in the Partnership to Agent, (y) by A & H Holding in favor of Agent pledging the common stock of Ontario Inc. to Agent and (z) by Ontario Inc. in favor of Agent pledging the common stock of J.N. Fauver (Canada) Limited to Agent and (ii) a fully executed amendment to the Pledge Agreement by SISC in favor of Agent which provides for the pledging the stock of A & H Holding; and

(xii) Agent shall have received a fully executed Collateral Assignment of the rights of SunSource, A & H Holding, SunSource Corporate and SISC under the Contribution Agreement, the Management Agreement between GC-Sun Holdings II, L.P. ("Holdings II") and SunSource Corporate and the Transaction Fee Letter among Holdings II, the Partnership and SunSource (the "Collateral Assignment"), in form and substance satisfactory to Agent.

6. Application of Proceeds. Notwithstanding anything contained in Section 2.14(a) of the Loan Agreement to the contrary, the Proceeds received by Agent from the transactions contemplated in the Contribution Agreement shall be applied first to the Revolving Advances in such order as Agent may determine, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof and second, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof.

7. Representations and Warranties. Each Credit Party (including, without limitation, Ontario Inc.) hereby represents and warrants as follows:

(a) This Amendment and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of such Credit Party and are enforceable against such Credit Party in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment, such Credit Party hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment except (i) to the extent of changes resulting from transactions contemplated by this Amendment and (ii) to the extent that such representations or warranties related expressly to an earlier date.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment.

(d) Such Credit Party has no defense, counterclaim or offset with respect to the Loan Agreement.

(e) Ontario Inc. has full power, authority and legal right to enter into this Amendment and to perform all its respective obligations hereunder. The execution, delivery and performance by Ontario Inc. of this Amendment (i) is within Ontario Inc.'s corporate powers, has been duly authorized, is not in contravention of law or the terms of Ontario Inc.'s By-Laws, Articles of Incorporation or other applicable documents relating to Ontario Inc.'s formation or to the conduct of Ontario Inc.'s business or of any material agreement or undertaking to which Ontario Inc. is a party or by which Ontario Inc. is bound, and (ii) 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 Ontario Inc. under the provisions of any agreement, charter document, instrument, by-law, of other instrument to which Ontario Inc. or its property is party or by which it may be bound.

(f) Ontario Inc. is duly formed and in good standing under the laws of the Province of Ontario and is qualified to do business and is in good standing in such jurisdictions which constitute all jurisdictions in which qualification and good standing are necessary for Ontario Inc. to conduct its business and own its property and where the failure to so qualify would have a material adverse effect on Ontario Inc. or its business. Ontario Inc. has previously delivered to Agent true and complete copies

of its Articles of Incorporation, By-Laws and for all other documents relating to Ontario Inc.'s formation, and will promptly notify Agent of any amendments or changes thereto.

8. Effect on the Loan Agreement.

(a) Upon the effectiveness of Section 5 hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(b) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(c) Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

9. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

10. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

11. Counterparts. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party via facsimile shall be deemed an original signature hereto.

12. Release. For and in consideration of Agent's and Lenders' agreements contained herein, KAR, A & H Bolt and SunSource Canada each hereby release Agent and Lenders and each of their respective officers, directors, representatives, employees, agents, attorneys-in-fact and affiliates from all claims, demands, suits, actions, debts, promises, obligations, liabilities, damages, costs or expenses relating to the Loan Agreement or the Other Documents or any of the transactions relating to the Loan Agreement or the Other Documents, of any kind whatsoever, whether in law or equity, known or unknown, that KAR, A & H Bolt and SunSource Canada at any time had or arising as of a result of the Loan Agreement or the Other Documents that KAR, A & H Bolt or SunSource Canada or their successors and assigns hereafter can or may have against Agent or Lenders by reason of any acts, cause, matter or thing whatsoever up to and including the effective date of this Amendment arising out of or relating to the Loan Agreement or the Other Documents and hereby agree to indemnify Agent and Lenders from, and hold Agent and Lenders harmless against, the same.

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IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first written above.

<TABLE>
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<S> <C>

SUNSOURCE INC., as a Borrower
SUNSOURCE TECHNOLOGY SERVICES INC., as a Borrower
THE HILLMAN GROUP, INC., as a Borrower
HARDING GLASS, INC., as a Borrower
KAR PRODUCTS 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: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President of each of the foregoing corporations

J. N. FAUVER (CANADA) LIMITED
SUNSOURCE CANADA INVESTMENT COMPANY, as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: President of each of the foregoing corporations

A. & H. BOLT & NUT COMPANY LIMITED, as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Assistant Secretary

</TABLE>

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

<TABLE>
<CAPTION>
<S> <C>

1394066 ONTARIO INC., as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: President

PNC BANK, NATIONAL ASSOCIATION, as Agent and as Lender

By: /s/ Ryan Peak

Name: Ryan Peak
Title: Vice President

BANK OF AMERICA BUSINESS CREDIT, as Co-Agent and Lender

By: /s/ Richard Levenson

Name: Richard Levenson
Title: Senior Vice President

FIRSTAR BANK, N.A., as Co-Agent and Lender

By: /s/ Suzanne E. Geiger

Name: Suzanne E. Geiger
Title: Vice President

</TABLE>

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

<TABLE>
<CAPTION>
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FIFTH THIRD BANK, as Lender

By: /s/ Anthony M. Buehler

Name: Anthony M. Buehler
Title: Assistant Vice President

CITIZENS BUSINESS CREDIT, as Lender

By: /s/ Vincent P. O'Leary

Name: Vincent P. O'Leary
Title: Senior Vice President

GMAC COMMERCIAL CREDIT LLC, as Lender

By: /s/ Daniel J. Mussay

Name: Daniel J. Mussay
Title: Senior Vice President

COMERICA BANK, as Lender

By: /s/ Ronald Pagoto

Name: Ronald Pagoto
Title: Vice President

</TABLE>

Schedules

(See Attached)

JOINDER, CONSENT AND AMENDMENT NO. 2

TO

REVOLVING CREDIT, TERM LOAN, GUARANTY
AND SECURITY AGREEMENT

THIS JOINDER, CONSENT AND AMENDMENT NO. 2 ("Amendment") is entered into as of April __, 2000 by and among SUNSOURCE INC., a corporation organized under the laws of the State of Delaware ("SunSource"), SUNSOURCE TECHNOLOGY SERVICES INC., a corporation organized under the laws of the State of Delaware ("STSI"), THE HILLMAN GROUP, INC., a corporation organized under the laws of the State of Delaware ("Hillman"), HARDING GLASS, INC., a corporation organized under the laws of the State of Delaware ("Harding"), AXXESS TECHNOLOGIES, INC., a corporation organized under the laws of the State of Delaware ("Axxess Technologies") (SunSource, STSI, Hillman, Harding and Axxess Technologies, each a "Borrower" and collectively "Borrowers"), the other Credit Parties (as defined in the Loan Agreement (as defined herein)) named in the Loan Agreement or which hereafter become a party thereto, the financial institutions which are now or which hereafter become a party thereto (collectively, the "Lenders" and individually a "Lender") and PNC BANK, NATIONAL ASSOCIATION, a national banking association ("PNC"), as Agent for Lenders (PNC, in such capacity, the "Agent").

BACKGROUND

Borrowers, the other Credit Parties, Lenders and Agent are parties to that certain Revolving Credit, Term Loan, Guaranty and Security Agreement dated as of December 15, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Agent and Lenders provide Borrowers with certain financial accommodations.

Borrowers have requested that Agent and Lenders permit the merger of Axxess Technologies and THE HILLMAN GROUP ACQUISITION CORP., a corporation organized under the laws of the State of Delaware ("Acquisition Corp.") pursuant to the Amended and Restated Agreement and Plan of Merger dated as of April __, 2000 by and among SunSource, Hillman, Acquisition Corp., Axxess Technologies and the Persons listed on the signature page of such agreement ("Stockholders") (as amended, restated, supplemented or otherwise modified from time to time, the "Merger Agreement") and amend the Loan Agreement to, inter alia, join Axxess Technologies as a Borrower and permit certain subordinated indebtedness issued by Axxess in connection with Merger Agreement; Agent and Lenders are willing to do so on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Agent and Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Joinder Agreement.

(a) Axxess Technologies is hereby added as an additional Borrower under the Loan Agreement, and all references to "Borrower" or "Borrowers" thereunder and under all of the Other Documents shall hereafter be deemed to include Axxess Technologies

(b) Axxess Technologies hereby adopts the Loan Agreement and each of the Other Documents and assumes in full, and acknowledges that it is jointly and severally liable for, the payment, discharge, satisfaction and performance of all Obligations under the Loan Agreement and the Other Documents. Axxess Technologies hereby acknowledges and confirms that Axxess Technologies hereby grants to Agent for its benefit and for the ratable benefit of Lenders a continuing lien and security interest in all presently existing and hereafter arising Collateral which Axxess Technologies now or hereafter owns or has an interest in, wherever located, to secure prompt repayment of any and all Obligations owed to Agent and Lenders and to secure prompt performance by Borrowers of each and all of their covenants and obligations under the Loan Agreement, this Amendment and the Other Documents. Agent's lien and security interest in the Collateral shall attach to all Collateral without further act on the part of Agent or Axxess Technologies.

3. Consent. Subject to satisfaction of the conditions precedent set forth in Section 5 below, Agent and Lenders hereby consent to the transactions contemplated by the Merger Agreement entered into by and among SunSource,

Hillman, Acquisition Corp., Axxess Technologies and Stockholders.

4. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 5 below, the Loan Agreement is hereby amended as follows:

(a) Section 1.2 is amended as follows:

(i) by adding the following defined terms in their appropriate alphabetical order:

"Acquisition Corp." shall mean The Hillman Group Acquisition Corp., a corporation organized under the laws of the State of Delaware.

"Applicable Percentage" shall mean 3.00% initially; provided, such percentage may be reduced by .25% upon the timely receipt by Agent of the financial statements referred to in Section 9.7 hereof evidencing a Fixed Charge Coverage Ratio not less than 1.35 to 1.00 for the fiscal year ended (x) December 31, 2000 and/or (y) December 31, 2001.

"Axxess Merger" shall mean the merger of Acquisition Corp. with and into Axxess Technologies.

"Axxess Long Term Subordinated Note" shall have the meaning given to the term "Long Term Subordinated Note" in the Axxess Subordination Agreement.

"Axxess Subordination Agreement" shall mean that certain Subordination Agreement dated as of the Joinder, Consent and Amendment No. 2 Effective Date by and among Agent and the Axxess Subordinated Lenders

"Axxess Subordinated Lenders" shall mean, collectively, (a) Warburg, Pincus Investors, L.P., (b) Stephen Miller, (c) George Heredia, (d) David Richards, (e) Brad Lines, (f) Mike Mueller, (g) Mark Yeary, (h) Steve Polodniak, (i) Deborah Camper, (j) Jim Perkins, (k) Lynn Hagen, (l) Bill Neitzke, (m) Donna Kern, and (n) Adrian Gluck.

"Axxess Subordinated Notes" shall have the meaning given to the term "Subordinated Note" in the Axxess Subordination Agreement.

"Joinder, Consent and Amendment No. 2 Effective Date" shall mean April ___, 2000.

"SunSource Long Term Subordinated Guaranty" shall have the meaning given to the term "Long Term Subordinated Guaranty" in the Axxess Subordination Agreement.

"SunSource Subordinated Guaranties" shall have the meaning given to the term "Subordinated Guaranty" in the Axxess Subordination Agreement.

(ii) the following defined terms are amended in their entirety to provide as follows:

"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 expensed, plus (iv) loss on the Harding Divestiture net of any tax benefit from such loss minus (v) all credits to income of Borrowers on a consolidated basis for such period for federal, state and local taxes credited and minus (vi) gain on contribution of Kar and A & H Bolt.

"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 plus (iv) non cash charges for such period related to the write-off of inventory step-up as a result of the application of Accounting Principles Board #16, Accounting for Business Combinations, to the acquisition of Axxess Technologies and the contribution of Kar and A & H Bolt.

"Hillman Division" shall mean Hillman and Axxess Technologies.

"Individual Maximum Revolving Advance Amount" shall mean $20,000,000 with respect to the Harding Division, $50,000,000 with respect to the Hillman Division and $50,000,000 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.

"LIBOR Margin" shall mean the Applicable Percentage.

"Maximum Loan Amount" shall mean $136,500,000 (subject to adjustment pursuant to Section 2.14(c)) less repayments of the Term Loan.

"Maximum Revolving Advance Amount" shall mean $115,000,000 (subject to adjustment pursuant to Section 2.14(c)).

"Note" shall mean collectively, the Term Note and the Revolving Credit Note.

"Pledge Agreement" shall mean, collectively, (a) the Pledge Agreements each dated as of the Closing Date made by each of SunSource, SunSource Investment, SunSub A and SunSource Industrial in favor of Agent, (b) the Pledge Agreements each dated as of the Joinder, Consent and Amendment No. 1 Effective Date made by each of SunSource Industrial, A&H Holding and Ontario Inc. in favor of Agent and (c) the Pledge Agreement dated as of the Joinder, Consent and Amendment No. 2 Effective Date made by Hillman in favor of Agent, as each of the foregoing may be amended, restated, modified and/or supplemented from time to time.

"Subordinated Debt Payments" shall mean and include all cash actually expended to make payments of principal and interest on the Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties.

"Tax Refund" shall mean any federal income tax refund received by SunSource or any of its Subsidiaries.

"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.

(b) Sections 2.4, 6.7, 6.8, 6.12, 7.3, 7.6, 7.8, 7.11, 7.18, 7.19, 9.5, 9.7, 9.10 and 10.12 are hereby amended in their entirety to provide as follows:

"2.4 On December 15, 1999, Lenders, severally and jointly, made a term loan to Borrowers in the original principal amount of $25,000,000 (the "Original Term Loan") of which $20,250,000 is outstanding as of the Joinder, Consent and Amendment No.2 Effective Date. Subject to the terms and conditions set forth herein, on the Joinder, Consent and Amendment No. 2 Effective Date, Lender shall make an additional term loan to Borrowers in the original principal amount of the product of such Lender's Commitment Percentage of $1,250,000 (the "Additional Term Loan"). On the Joinder, Consent and Amendment No. 2 Effective Date, the Additional Term Loan shall be consolidated into the Original Term Loan, constituting an aggregate consolidated term loan in the principal amount of $21,500,000 (as so consolidated, the "Term Loan"). The Term Loan 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 July 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."

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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties.

6.8 Deferred Interest. In the event (a) at the end of any calendar month, Undrawn Availability with respect to Borrowers on a consolidated basis is less than $8,000,000 or (b) the

Fixed Charge Coverage Ratio for the (i) three (3) month period ending on June 30, 2000 is less than 1.10 to 1.00, (ii) six (6) month period ending on September 30, 2000 is less than 1.10 to 1.00, (iii) nine (9) month period ending on December 31, 2000 is less than 1.10 to 1.00, (iv) four (4) fiscal quarter period ending on March 31, 2001 is less than 1.15 to 1.00, (v) four (4) fiscal quarter period ending June 30, 2001 is less than 1.20 to 1.00 or (vi) four (4) fiscal quarter period ending on September 30, 2001 or on the last day of each fiscal quarter thereafter, tested on a rolling four (4) quarter basis, is less than 1.25 to 1.00, 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.

6.12 Harding Mortgages. If the Harding Divestiture is not consummated on or before April 30, 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.

7.3 Guaranties. 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 (i) guaranty, in the ordinary course of business, obligations of any other Credit Party under such Credit Party's real property leases and (ii) make and deliver to the Axxess Subordinated Lenders, the SunSource Subordinated Guaranties and SunSource Long Term Subordinated Guaranty as each is in effect on the Joinder, Consent and Amendment No. 2 Effective Date.

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 $14,000,000 inclusive of Harding and $13,000,000 excluding Harding.

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, (iv) Indebtedness set forth in the financial statements delivered pursuant to Section 5.5 hereof and (v) Indebtedness due under the Axxess Subordinated Notes and Axxess Long Term Subordinated Note as each is in effect on the Joinder, Consent and Amendment No. 2 Effective Date.

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 in any one fiscal year exceed $18,500,000 inclusive of Harding and $14,000,000 excluding Harding in the aggregate for all Credit Parties.

7.18 Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties. 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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty or the SunSource Subordinated Guaranties, except for (a) payments of interest (subject to Sections 6.7 and 6.8 hereof) required by the terms of the Junior Subordinated Debentures as in effect on the Closing Date and (b) payments expressly permitted by the Axxess Subordination Agreement on the Axxess Subordinated Notes and the SunSource Subordinated Guaranties (subject to Section 6.7 hereof).

7.19 Other Agreements. Enter into any material

amendment, waiver or modification of the Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty or the SunSource Subordinated Guaranties, or any related agreements.

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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty or the SunSource Subordinated Guaranties; (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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty or the SunSource Subordinated Guaranties; (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.

9.7 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, 6.8, 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, 6.8, 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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties.

10.12 an event of default has occurred and been declared under the Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource

Long Term Subordinated Guaranty or the SunSource Subordinated Guaranties which default shall not have been cured or waived within any applicable grace period;"

(c) A new Section 2.14(d) is hereby added immediately following Section 2.14(c) and provides as follows:

" (d) Upon the receipt of the Tax Refund, the Borrowers shall repay the Advances in an amount equal to the Tax Refund. Such repayments shall be made within one (1) Business Day of receipt of such Tax Refund, and until paid, such proceeds shall be held in trust for Agent. The first $3,000,000 of such repayments shall be applied to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and the portion of such repayments in excess of $3,000,000 shall be applied 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."

(d) A new Section 5.25 is hereby added immediately following Section 5.25 and provides as follows:

"5.25 Delivery of Axxess Subordinated Notes and SunSource Subordinated Guaranties. Agent has received complete copies of the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties (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."

(e) Sections 6.5 and 6.13 are hereby amended in their entirety to provide "INTENTIONALLY OMITTED."

(f) All of the Schedules to the Loan Agreement are hereby amended in their entirety by the Schedules attached hereto.

5. Conditions of Effectiveness. This Amendment shall become effective upon satisfaction, in a manner reasonably satisfactory to Agent, of the following conditions precedent:

(i) Agent shall have received ten (10) copies of this Amendment executed by all Credit Parties and Lenders;

(ii) Agent shall have received (i) Second Amended and Restated Revolving Credit Notes duly executed and delivered by an authorized officer of each Borrower in favor of (x) Bank of America, N.A., (y) Firstar Bank, N.A. and (z) Fifth Third Bank, (ii) Third Amended and Restated Revolving Credit Note duly executed by an authorized officer of each Borrower in favor of PNC, (iii) Second Amended and Restated Term Notes duly executed and delivered by an authorized officer of each Borrower in favor of (x) Bank of America, N.A., (y) Firstar Bank, N.A. and (z) Fifth Third Bank and (iv) Third Amended and Restated Term Note duly executed and delivered by an authorized officer of each Borrower in favor of PNC each of which shall be in form and substance reasonably satisfactory to Agent;

(iii) Agent shall have received a duly executed Accountant's Access Letter dated as of the date hereof;

(iv) Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Amendment, any related agreement or under law or reasonably requested by 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;

(v) Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of (1) Axxess Technologies authorizing (i) the execution, delivery and performance of this Amendment and the Merger Agreement and (ii) the granting by Axxess Technologies of the continuing security interest upon the Collateral, certified by the Secretary or an Assistant Secretary of Axxess Technologies, as of the date of this Amendment and (2) Acquisition Corp. authorizing the

execution, delivery and performance of the Merger Agreement;

(vi) Agent shall have received (1) a certificate of the Secretary or an Assistant Secretary of Axxess Technologies, dated the Joinder, Consent and Amendment No. 2 Effective Date, as to the incumbency and signature of the officers of Axxess Technologies executing this Amendment, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary; and (2) a Certificate of the Secretary or an Assistant Secretary of Acquisition Corp., dated the Joinder, Consent and Amendment No. 2 Effective Date as of the incumbency and signature of the officers of Acquisition Corp. executing the Merger Agreement, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary of Assistant Secretary;

(vii) Agent shall have received (1) a copy of the Articles or Certificate of Incorporation of Axxess Technologies, 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 Axxess Technologies and all agreements of Axxess Technologies' shareholders certified as accurate and complete by the Secretary of Axxess Technologies and (2) a copy of the Articles or Certificate of Incorporation of Acquisition Corp., 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 Acquisition Corp. and all agreements of Acquisition Corp.'s shareholders certified as accurate and complete by the Secretary of Acquisition Corp.;

(viii) Agent shall have received (1) good standing certificates for Axxess Technologies dated not more than 30 days prior to the Joinder, Consent and Amendment No. 2 Effective Date, issued by the Secretary of State or other appropriate official of Axxess Technologies' jurisdiction of incorporation and each jurisdiction where the conduct of Axxess Technologies' business activities or the ownership of its properties necessitates qualification and (2) good standing certificates for Acquisition Corp. dated not more than 30 days prior to the Joinder, Consent and Amendment No. 2 Effective Date, issued by the Secretary of State or other appropriate official of Acquisition Corp.'s jurisdiction of incorporation and each jurisdiction where the conduct of Acquisition Corp.'s business activities or the ownership of its properties necessitates qualifications;

(ix) Agent shall have received the executed opinions of counsel from the law firms of Morgan, Lewis & Bockius, Mariscal, Weeks, McIntyre & Friedlander, P.A. and Willkie Farr & Gallagher in form and substance satisfactory to Agent, which shall cover such matters incident to the transactions contemplated by this Amendment and the Merger Agreement;

(x) Agent shall have received a fully executed Pledge Agreement by Hillman in favor of Agent, pledging the stock of Axxess Technologies to Agent in form and substance satisfactory to Agent;

(xi) Agent shall have received a duly executed Collateral Assignment of the rights of SunSource and Hillman under the Merger Agreement in form and substance satisfactory to Agent;

(xii) 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 Axxess Technologies;

(xiii) (i) No litigation, investigation or proceeding before or by any arbitration or Governmental Body shall be continuing or threatened against Axxess Technologies or against the officers or directors of Axxess Technologies (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; and (ii) no injunction, writ, restructuring order or other order of any nature materially adverse to Axxess Technologies or the conduct of its business shall have been issued by any Governmental Body;

(xiv) Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of Receivables, Inventory, General Intangibles, Real Property and Equipment of Axxess Technologies and all books and records in connection therewith;

(xv) Agent shall have received duly executed copies of a Trademark Collateral Security Agreement, Trademark Assignment of Security, Patent Collateral Security Agreement, Patent Assignment of Security and Copyright

Mortgage, each of which shall be (x) made by Axxess Technologies in favor of Agent and (y) in form and substance satisfactory to Agent;

(xvi) Agent shall have received (or waived the requirement for) executed landlord, mortgagee or warehouseman agreements satisfactory to Agent with respect to all premises leased by Axxess Technologies at which Equipment, Inventory and/or records of Axxess Technologies is located;

(xvii) Agent shall have received any and all Consents necessary to permit the effectuation of the transactions contemplated by this Amendment and the Merger Agreement; 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;

(xviii) Agent shall have received a duly executed copies of the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties, each of which shall be in form and substance satisfactory to Agent;

(xix) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Merger Agreement shall be satisfactory in form and substance to Agent and its counsel;

(xx) Agent shall have received a duly executed fee letter made by Credit Parties in favor of Agent which shall be in form and substance satisfactory to Agent;

(xxi) Agent shall have received a copy of the Pro Forma Financial Statements which shall be satisfactory in all respects to Agent;

(xxii) Agent shall have received final executed copies of the Merger Agreement and all related agreements, documents and instruments as in effect on the Joinder, Consent and Amendment No. 2 Effective Date and the transactions contemplated by such documentation shall have been consummated including, without limitation, (a) the receipt by Borrowers of the proceeds of (x) the Axxess Subordinated Notes in the sum of $12,000,000 and (y) the Axxess Long Term Subordinated Note in the sum of $11,000,000 and (b) the consummation of the Axxess Merger in accordance with the laws of the State of Delaware;

(xxiii) Agent shall have entered into the Axxess Subordination Agreement which shall set forth the basis upon which the Axxess Subordinated Lenders may receive, and Borrowers may make, payments under the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty and the SunSource Subordinated Guaranties, which basis shall be satisfactory in form and substance to Lenders in their sole discretion;

(xxiv) Agent shall have received in form and substance satisfactory to Agent, certified copies of Axxess Technologies' 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 Axxess Technologies' liability insurance policies, together with endorsements naming Agent as a co-insured;

(xxv) 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 of Axxess Technologies and proceeds of the Collateral;

(xxvi) (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 and (ii) no representations made or information supplied to Lenders shall have been proven to be inaccurate or misleading in any material respect;

(xxvii) Agent shall have reviewed all material contracts of Axxess Technologies 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;

(xxviii) after giving effect to the transactions contemplated by this Amendment, Borrowers on a consolidated basis shall have at least $15,000,000 of Undrawn Availability which will be evidenced by a Borrowing Base Certificate, in form and substance satisfactory to Agent, delivered by Borrowers to Agent; and

(xxix) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Amendment shall be satisfactory in form and substance to

Agent and its counsel.

6. Representations and Warranties. Each Credit Party (including, without limitation, Axxess Technologies) hereby represents and warrants as follows:

(a) This Amendment and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of such Credit Party and are enforceable against such Credit Party in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment, such Credit Party hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment except (i) to the extent of changes resulting from transactions contemplated by this Amendment and (ii) to the extent that such representations or warranties related expressly to an earlier date.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment.

(d) Such Credit Party has no defense, counterclaim or offset with respect to the Loan Agreement.

(e) Axxess Technologies has full power, authority and legal right to enter into this Amendment and to perform all its respective obligations hereunder. The execution, delivery and performance by Axxess Technologies of this Amendment (i) is within Axxess Technologies' corporate powers, has been duly authorized, is not in contravention of law or the terms of Axxess Technologies' By-Laws, Articles of Incorporation or other applicable documents relating to Axxess Technologies' formation or to the conduct of Axxess Technologies' business or of any material agreement or undertaking to which Axxess Technologies is a party or by which Axxess Technologies is bound, and (ii) 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 Axxess Technologies under the provisions of any agreement, charter document, instrument, by-law, of other instrument to which Axxess Technologies or its property is party or by which it may be bound.

(f) Axxess Technologies is duly formed and in good standing under the laws of the State of Delaware and is qualified to do business and is in good standing in such jurisdictions which constitute all jurisdictions in which qualification and good standing are necessary for Axxess Technologies to conduct its business and own its property and where the failure to so qualify would have a material adverse effect on Axxess Technologies or its business. Axxess Technologies has previously delivered to Agent true and complete copies of its Articles of Incorporation, By-Laws and for all other documents relating to Axxess Technologies' formation, and will promptly notify Agent of any amendments or changes thereto.

7. Effect on the Loan Agreement.

(a) Upon the effectiveness of Section 5 hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(b) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(c) Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

8. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

9. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

10. Counterparts. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any

signature delivered by a party via facsimile shall be deemed an original signature hereto.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURES TO FOLLOW]

(Signature Page to Joinder)

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first written above.

SUNSOURCE INC., as a Borrower
SUNSOURCE TECHNOLOGY SERVICES INC., as a Borrower
THE HILLMAN GROUP, INC., as a Borrower
HARDING GLASS, INC., as a Borrower
AXXESS TECHNOLOGIES, 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: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President of each of the foregoing corporations

1394066 ONTARIO INC., as a
Guarantor

J. N. FAUVER (CANADA) LIMITED, as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: President of each of the foregoing corporations

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

(Signature Page to Joinder)

PNC BANK, NATIONAL ASSOCIATION, as
Agent and as Lender

By: /s/ Ryan Peak

Name: Ryan Peak
Title: Vice President

BANK OF AMERICA, N.A., as
Co-Agent and Lender

By: /s/ Richard Levenson

Name: Richard Levenson
Title: Senior Vice President

FIRSTAR BANK, N.A., as
Co-Agent and Lender

By: /s/ Michael A. Gasser

Name: Michael A. Gasser
Title: Vice President

FIFTH THIRD BANK, as Lender

By: /s/ David C. Gordley

Name: David C. Gordley
Title: Vice President

Schedules
(See Attached)

EMPLOYMENT AGREEMENT

This Agreement is made as of the 7th day of April, 2000 between Axxess Technologies, Inc., a Delaware corporation (the "Company") and Stephen W. Miller (the "Employee").

BACKGROUND

The Company desires to continue to employ the Employee, and the Employee desires to continue to be employed by the Company, upon the terms and conditions hereinafter set forth.

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) "Affiliated Company" means any incorporated entity which the Parent Company, directly or indirectly, owns at least 50% of the then outstanding securities entitled to vote generally in an election of such company's directors, or any unincorporated entity of which the Parent Company, directly or indirectly, owns at least 50% of the profits or capital interests.

(b) "Board" means the Board of Directors of the Company.

(c) "Cause" means, except to the extent specified otherwise by the Board, that the Employee has: (i) breached any material provision of this Agreement or willfully failed to follow the reasonable directions of the Board and does not remedy such breach or cure such failure within 30 days after receiving written notice specifying the details thereof; (ii) engaged in fraud, embezzlement or theft, or committed a felony, been proven dishonest in the course of his employment or service or to have deliberately caused injury to the Company, the Parent Company or any Affiliated Company; or (iii) disclosed any material Confidential Information in violation of Section 8.

(d) "Company" for purposes of Sections 7, 8, 9 and 10 of this Agreement shall be deemed to mean Axxess Technologies, Inc. its Parent Company and all Affiliated Companies and to the extent that any of the provisions thereof impose any obligations on the Parent Company or any Affiliated Company that is not a party hereto, Axxess Technologies shall use its best efforts to cause the Parent Company or Affiliated Company with such obligations.

(e) "Compensation Committee" means the Compensation Committee of the Board of Directors of the Parent Company.

(f) "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 Employee's Salary or a material change in the bonus arrangements described in Section 4 that is adverse to the Employee; (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 required geographical relocation of the Employee out of the greater Tempe, Arizona area; (4) 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. A Constructive Termination Without Cause will not take effect unless: (1) the Employee has delivered written notice to the Board within 60 days after acquiring knowledge of one of the events described in this paragraph (f) that provides a basis for Constructive Termination Without Cause, stating which one of these events has occurred; and (2) 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. The failure of the Employee to effect a Constructive Termination Without Cause as to any one event described in this paragraph (f) shall not affect the Employee's right to effect a Constructive Termination Without Cause as to any other such event.

(g) "Disabled" means that the Employee becomes permanently and totally

disabled within the meaning of section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(h) "Parent Company" means SunSource, Inc., a Delaware Corporation, and any successor thereto.

2. Employment.

The Company hereby agrees to continue to employ the Employee, and the Employee hereby accepts continued employment by the 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 the Company and shall perform such duties as are customarily performed by the most senior executive officer of a corporation, subject to the supervision and control of the Board. The Employee shall also be a member of the Board during the Employment Term. The Employee shall devote his entire working time and attention to the performance of his duties hereunder.

3. Term.

Unless otherwise terminated in accordance with Sections 5 or 6, the Employment Term shall be a term of three years from the date of this Agreement (the "Term").

4. Compensation for Employment.

(a) The initial basic annual rate of compensation of the Employee for his employment services to the Company shall be $324,000 and such basic annual rate of compensation shall be increased to $350,000, effective January 1, 2000 (the "Salary"). The Employee's Salary shall be subject to annual review by the Board and may be increased, as determined by the Board, effective January 1, 2001 and each January 1 thereafter during the Employment Term. Nothing herein shall preclude the Board from increasing the Employee's Salary at any other time during the Employment Term. The Employee's Salary shall be paid in accordance with the Company's payroll payment schedule in effect from time to time.

(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 during the Employment Term (each such year is referred to herein as a "Bonus Year"). The Bonus for each Bonus Year after shall be a percentage of the Salary in effect for the Bonus Year as referenced in Appendix 1 hereto and shall be payable if the Employee meets the specific financial and non-financial goals that the Compensation Committee shall have specified for the Employee for that Bonus Year, in accordance with the annual incentive plan for executives of the Parent Company and Affiliated Companies. 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 Employee shall be awarded each fiscal year pursuant to the Parent Company's Equity Compensation Plan, stock options to purchase 25,000 shares of common stock of the Parent Company at fair market value as of the date of grant, which stock options shall become exercisable in accordance with Appendix 2 and otherwise shall be subject to the terms and conditions of the Equity Compensation Plan.

(d) The Company shall provide the Employee with the same fringe benefits during the Employment Term that are provided generally to other senior executives of the Affiliated Companies.

5. Termination Without Compensation.

(a) If the Employee becomes Disabled, the Company may terminate the Employee's employment, and the Company thereafter shall have no further liability or obligation to the Employee hereunder except as follows: the Employee shall receive any unpaid Salary and fringe benefits that have accrued through the date of termination and to which the Employee has become

entitled under the terms of the applicable plan or policy, including any benefits that he may be entitled to receive under any then existing disability benefits plans of the Company applicable to the Employee. 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 Company and the Employee, the cost of such examination to be paid by the Company. The determination of such physician shall be final and binding on the parties.

(b) If the Employee dies, his employment shall terminate, and

thereafter the Company shall have no 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 and to which the Employee has become entitled under the terms of the applicable plan or policy, including any benefits payable under any then existing life insurance or death benefit plans of the Company covering the Employee.

(c) If the Employee voluntary terminates his employment with the Company for reasons other than a Constrictive Termination Without Cause or if the Company terminates his employment for Cause, the Company shall have no 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 and to which the Employee has become entitled under the terms of the applicable plan or policy, net of any liabilities that the Employee may have to the Company, the Parent Company or any Affiliated Company.

6. Termination With Compensation.

(a) If the Company terminates the Employee's employment without Cause, or if the Employee terminates his employment under circumstances constituting a Constructive Termination Without Cause, the Company shall (i) continue to pay the Employee the Salary he was receiving at the time of the termination and provide the Employee with applicable fringe benefits for the remainder of the Employment Term, (ii) pay the Employee 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 his employment was terminated (a "Proportionate Bonus"), at the same time it generally pays bonuses, and (iii) have no further liability or obligation to the Employee hereunder.

(b) The Employee shall not be entitled to any compensation under any part of this Section 6 unless the Employee executes and delivers to the Company after a notice of termination a general release in a form prescribed by the Company. The parties hereto acknowledge that the payments to be provided under this Section 6 are to be provided in consideration for the above- specified release.

7. 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 shall be responsible for the preparation of any such instruments, documents and papers and for the prosecution of any such proceedings and shall reimburse the Employee for all reasonable expenses incurred by him in complying with the provisions of this Section.

8. 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 "Confidential Information." During or 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 Confidential Information for himself or any person, partnership, association, corporation or other entity other than the Company, (ii) remove any Confidential Information, or any reproduction thereof, from the possession or control of Company or (iii) treat Confidential Information other than in a

confidential manner.

(b) All Confidential Information developed, created or maintained by the Employee, alone or with others while employed by the Company, and all Confidential 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 Confidential Information, and reproductions thereof, whether prepared by him or others, that are in his possession immediately upon request and in any event upon the termination of his employment with the Company.

9. 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 himself or others in, any 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 shall have been engaged at any time during the one year prior to the termination of the Employee's employment (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 4 or Section 6, 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 Employee's employment shall have been terminated by the Company for Cause or by the Employee's voluntary termination 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 9 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.

10. Remedies.

The Employee expressly acknowledges that the remedy at law for any breach of Sections 7, 8 or 9 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 having to prove 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.

11. General.

(a) Governing Law. The terms of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

(b) 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.

(c) 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 Company for tax reporting purposes.

TO THE COMPANY:

Axxess Technologies, Inc.
9185 South Farmer Avenue
Tempe, AZ 85284

WITH A COPY TO:

SunSource, Inc.
3000 One Logan Square
Philadelphia, PA 19103

(d) Entire Agreement; Modification. This Agreement constitutes 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, the Parent Company or any Affiliated Company. 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 a writing signed by the parties hereto.

(e) Duration. Notwithstanding the termination of the Employee's employment with the Company, this Agreement shall continue to bind the parties for so long as any obligations remain under the terms of this Agreement.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 shall 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.

Axxess Technologies, Inc.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President & Secretary

/s/ Stephen W. Miller

Appendix 1

Axxess Technologies, Inc.

Financial Performance	Bonus, % of Salary(1)
Minimum (-15%)	0%
Target	47%
Maximum +15%	70%

Discretionary Performance	Bonus, % of Salary
Poor	0%
Fair	10%
Good	15%
Outstanding	20%

1. Actual bonus amounts calculated with the bonus range using straight-line interpolation.

Appendix 2

Stock Option Vesting Schedule

Performance Targets	Vesting
Maximum Performance	3 Yrs.
Middle Performance	4 Yrs.
Minimum Performance	5 Yrs.
Less than Minimum Performance	9 Yrs.

SEVERANCE AGREEMENT

Agreement made as of the 1st day of November, 2000, between SunSource Technology Services Inc., a Delaware corporation ("Company"), SunSource, Inc., a Delaware corporation ("SunSource"), and Justin Jacobi ("Employee").

WHEREAS, Employee has been retained as the President and Chief Operating Officer of the Company; and

WHEREAS, the Company has determined that appropriate steps should be taken to and encourage the attention and dedication of Employee to his assigned duties without distraction; and

WHEREAS, in consideration of Employee's continued employment with the Company, the Company agrees that Employee shall receive the compensation set forth in this Agreement against the adverse financial and career impact on Employee in the event Employee's employment with the Company is terminated under specified circumstances;

WHEREAS, SunSource agrees to serve as the guarantor of the obligations of the Company hereunder;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto 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:

(a) "Cause" shall mean a finding by the Company that Employee has: (i) materially failed to perform assigned duties and does not remedy such material breach within 30 days after receiving written notice specifying the details thereof; (ii) been engaged in fraud, embezzlement, theft, commission of a felony or proven dishonesty in the course of his employment or service or deliberate injury to the Company; or (iii) disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information.

(b) "Change of Control" means the occurrence of any one of the following events:

(i) the sale or other disposition of 25% or more of the voting stock of the Company, (ii) the sale or other disposition of all or substantially all of the assets of the Company, (iii) a liquidation or dissolution of the Company; provided, however, that any such action with respect to the Company shall not constitute a change of control so long as SunSource continues to own, directly or indirectly, substantially all of the assets thereof.

(c) "Constructive Termination Without Cause" shall mean a termination of Employee's employment by Employee following the occurrence, without his prior written consent, of one or more of the following events: (i) a material reduction in Employee's compensation; (ii) a significant diminution in Employee's duties, responsibilities, titles or position, or the assignment to Employee of duties and responsibilities inconsistent with the title or positions held by Employee on the date of this Agreement; or (iii) the required geographical relocation of Employee out of the greater Chicago, Illinois area. A Constructive Termination Without Cause will not take effect unless: (A) Employee has delivered written notice to the Company within 60 days after acquiring knowledge of one of the events described in this Subsection 1(c) that provides a basis for Constructive Termination Without Cause, stating which one of these events has occurred; and (B) within 30 days after receipt of such notice the Company has not remedied such event and provided Employee with written notice of such remedy.

(d) "Earned Bonus" shall mean any bonuses earned under the Company's annual bonus program on the special "STS Turnaround Bonus Pool" program. For purposes hereof, a bonus shall not be deemed to have been earned until the completion of the calendar year to which it relates and accordingly, Employee will not be deemed to have earned any bonus with respect to the calendar year in which he incurs a Termination of Employment. Anything contained herein to the contrary notwithstanding, Employee shall be deemed to have an Earned Bonus for the year 2001 equal to a minimum of forty (40%) percent of his initial Base Salary.

(e) "Salary" shall mean Employee's base salary at the time of reference exclusive of any and all bonuses, incentives and fringe benefits of any kind. Employee's Salary as of the date of this Agreement is $288,000 per year.

(f) "Termination Date" shall mean the date of Employee's termination of employment with the Company.

(g) "Termination of Employment" shall mean the termination of Employee's employment by the Company.

2. Severance Benefits upon Termination.

(a) If upon or within one year following a Change of Control (i) Employee suffers a Termination of Employment for any reason other than Cause, death or disability (within the meaning of section 22(e)(3) of the Internal Revenue Code) of Employee or (ii) Employee suffers a Constructive Termination Without Cause, the Company shall pay Employee his Salary for a period of thirty (30) months from the Termination Date. In addition, Employee shall be entitled to receive his Earned Bonus, if any, at the time or times and in the same manner that such Earned Bonus would have become payable to him if he had not had a Termination of Employment.

(b) If prior to a Change of Control (i) Employee suffers a Termination of Employment for any reason other than Cause, death or disability (within the meaning of section 22(e)(3) of the Internal Revenue Code) of Employee or (ii) Employee suffers a Constructive Termination Without Cause, the Company shall pay Employee his Salary for a period of twelve (12) months from the Termination Date. In addition, Employee shall be entitled to receive his Earned Bonus, if any, at the time or times and in the same manner that such Earned Bonus would have become payable to him if he had not had a Termination of Employment.

(c) Salary payments under this Section 2 shall be paid in accordance with the Company's normal payroll practices, with the first payment commencing as soon as practicable after Employee's Termination Date. In no event will interest be credited on the unpaid balance to which Employee may become entitled. Payment shall be made by mail to the last known address provided by Employee to Company or, at Employee's option by direct deposit to Employee's account at a bank or other financial instruction designated by Employee.

(d) All payments hereunder to Employee shall cease upon the occurrence of the earliest of:

(i) completion of payment to Employee of benefits described in this Section 2;

(ii) the date Employee again becomes employed by the Company, an affiliate of the Company or a successor in interest to either;

(iii) disclosure of confidential information described in Section 7;

(iv) competition in violation of Section 8; or

(v) the death or disability (within the meaning of section 22(e)(3) of the Internal Revenue Code) of Employee.

(e) All benefits under this Agreement including, but not limited to, payments under this Section 2, and other benefits under Section 4 shall be conditioned upon the execution and continued acceptance of a release, in a form then used by the Company or SunSource for other similarly situated executives. If Employee has received benefits hereunder and subsequently repudiates the release in any manner, he shall repay (i) the amount of payments under Section 2 and (ii) the value of any other benefits received under Section 4 or otherwise hereunder.

3. Other Severance Benefits. The payment due under Section 2 hereof shall be in lieu of any severance or similar payments or benefits accrued for Employee, or to which Employee otherwise becomes entitled, through the Termination Date under any other severance or similar plan, policy or program of the Company. Anything contained herein to the contrary notwithstanding, if Employee becomes entitled to any severance or similar payments or benefits under any such other plan, policy or program, any amounts otherwise due and payable hereunder shall be offset by the amount of such other payments or benefits.

4. Other Benefits.

(a) Except as provided in Subsection (b) below, nothing in this Agreement shall prevent or limit Employee's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by the Company, and for which Employee may qualify, from the date hereof through the Termination Date.

(b) During the period in which Employee is entitled to payments under Section 2, the Company shall (i) continue to provide Employee with the fringe benefits listed in Attachment A, and (ii) continue Employee's coverage in the Company's welfare benefit plans as available to similarly situated active executives of the Company, to the extent permissible under the terms of such plans and the applicable provisions of law, including the Internal Revenue Code,

until such time as Employee becomes entitled to a substantially similar welfare benefit package at his new employer. Anything contained herein to the contrary notwithstanding, the Company's obligation to provide medical and dental benefits shall be limited to reimbursement of Employee's cost of COBRA continuation coverage under the Company's medical and dental benefits plan. Nothing herein shall alter the Company's right to amend, modify or terminate any such welfare benefit plans.

5. Set-Off. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations shall be subject to set-off, counterclaim, recoupment, defense or other right which the Company may have against Employee.

6. Taxes. Any payment required under this Agreement shall be subject to all requirements of the law with regard to the withholding of taxes, filing, making of reports and the like, and the Company shall use its best efforts to satisfy promptly all such requirements.

7. Confidential Information.

(a) 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 Employee or which he is authorized to disclose or required to disclose in connection with legal or administrative proceedings, is referred to collectively as "Confidential Information." During or after the Termination Date, Employee shall not (i) use or exploit in any manner Confidential Information for himself or any person, partnership, association, corporation or other entity other than the Company, (ii) remove any Confidential Information, or any reproduction thereof, from the possession or control of Company or (iii) treat Confidential Information other than in a confidential manner.

(b) All Confidential Information developed, created or maintained by Employee, alone or with others while employed by the Company, and all Confidential Information maintained by Employee thereafter, shall remain at all times the exclusive property of the Company. Employee shall return to the Company all Confidential Information, and reproductions thereof, whether prepared by him or others, that are in his possession immediately upon request and in any event upon the termination of his employment with the Company.

(c) For purposes of this Section 7, the term "Company" shall include the Company, SunSource and their subsidiaries.

8. Agreement Not to Compete. During the Restricted Period (defined below), Employee shall not, at any time within the Territory (defined below), directly or indirectly, engage in, or have any interest on behalf of himself or others in, any 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 shall have been engaged at any time during the one year prior to the termination of Employee's employment (the "Restricted Business"); provided, however, that nothing contained herein shall prevent or prohibit 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, 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 is required to pay Salary or Earned Bonus to Employee under Section 2, but in no event less than the period of one year following Employee's Termination Date. 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. Employee acknowledges, however, that this Section 8 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 existing business of the Company. For purposes of this Section 8, the term "Company" shall include the Company, SunSource and their subsidiaries.

9. SunSource as Guarantor. SunSource expressly agrees to serve as guarantor of the obligations of the Company hereunder.

10. Remedies. The Employee expressly acknowledges 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 Employee's obligations under these provisions without having to prove 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. For purposes of this Section 10, the term "Company" shall include the Company, SunSource and their subsidiaries.

11. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to the Company, to:

SunSource Technology Service Inc.
2301 Windsor Court
Addison, IL 60101
Attention: Chuck Freeman

with a copy to SunSource, to:
SunSource
One Logan Square
Suite 3000
Philadelphia, PA 19103
Attn: Maurice P. Andrien, Jr.
President and CEO

If to Employee, to:

Mr. Justin Jacobi
390 Appleblossom Lane
Bay Village, OH 44140

or to such other names or addresses as the Company, SunSource or Employee, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

12. Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

13. Contents of Agreement, Amendment and Assignment.

(a) This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by Employee, the Company and SunSource.

(b) Nothing in this Agreement shall be construed as giving Employee any right to be retained in the employ of the Company.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Employee hereunder shall not be assignable in whole or in part.

14. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, 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.

15. Remedies Cumulative; No Waiver. No right conferred upon the parties by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by a party in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

16. Term of Agreement. This Agreement shall commence on the date hereof

and shall continue in effect until twelve (12) months after the occurrence of a Change of Control; provided, however, that in the event Employee shall have incurred a Termination of Employment prior thereto, this Agreement shall continue in effect until the satisfaction of all obligations of the parties hereunder.

17. Survivorship. The respective rights and obligations of the parties under this Agreement shall survive any termination of the Employee's employment to the extent necessary to the intended preservation of such rights and obligations.

18. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

SUNSOURCE TECHNOLOGY SERVICES INC.

By: /s/ Maurice P. Andrien

SUNSOURCE, INC.

By: /s/ Joseph M. Corvino

EMPLOYEE

/s/ Justin M. Jacobi

ATTACHMENT A

FRINGE BENEFITS

Auto Allowance	$1,050 per month
Country Club Reimbursement	Reasonable Monthly Dues

SEVERANCE AGREEMENT

Agreement made as of the 22nd day of November, 2000, between SunSource, Inc., a Delaware corporation ("Company"), and Joseph M. Corvino ("Employee").

WHEREAS, Employee is the Chief Financial Officer of the Company; and

WHEREAS, the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of Employee to his assigned duties without distraction; and

WHEREAS, in consideration of Employee's continued employment with the Company, the Company agrees that Employee shall receive the compensation set forth in this Agreement against the adverse financial and career impact on Employee in the event Employee's employment with the Company is terminated under specified circumstances that may include a voluntary or involuntary termination associated with a Change in Control (as defined herein);

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto 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:

(a) "Beneficial Owner" and the correlative term "Beneficially Own" are used herein within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

(b) "Cause" shall mean a finding by the Company that Employee has: (i) materially breached his employment or service contract, if any, with the Company; (ii) materially failed to perform assigned duties (if Employee does not have an employment agreement) and does not remedy such material breach within 30 days after receiving written notice specifying the details thereof; (iii) been engaged in fraud, embezzlement, theft, commission of a felony or proven dishonesty in the course of his employment or service or deliberate injury to the Company; or (iv) disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information.

(c) "Change of Control" means the occurrence of any one of the following events:

(i) Any Person other than the management group of Maurice Andrien, 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) "Constructive Termination Without Cause" shall mean a termination of Employee's employment by Employee following the occurrence, without his prior written consent, of one or more of the following events: (1) a material reduction in Employee's compensation; (2) a significant diminution in Employee's duties, responsibilities, titles or position, or the assignment to Employee of duties and responsibilities inconsistent with the title or positions held by Employee on the date of this Agreement; (3) the required geographical relocation of Employee out of the greater Philadelphia, Pennsylvania area; or (4) a change

in Employee's direct reports such that Employee does not report directly to the President or Chief Executive Officer of the Company. A Constructive Termination Without Cause will not take effect unless: (1) Employee has delivered written notice to the Company within 60 days after acquiring knowledge of one of the events described in this Subsection 1(d) that provides a basis for Constructive Termination Without Cause, stating which one of these events has occurred; and (2) within 30 days after receipt of such notice the Company has not remedied such event and provided Employee with written notice of such remedy.

(e) "Salary" shall mean Employee's base salary at the time of reference exclusive of any and all bonuses, incentives and fringe benefits of any kind. Employee's Salary as of the date of this Agreement is $240,000 per year.

(f) "Termination Date" shall mean the date of Employee's termination of employment with the Company.

(g) "Termination of Employment" shall mean the termination of Employee's employment by the Company.

2. Severance Benefits upon Termination.

(a) If upon or within one year following a Change of Control (i) Employee suffers a Termination of Employment for any reason other than Cause, death or disability (within the meaning of Section 22(e)(3) of the Internal Revenue Code) of Employee or (ii) Employee suffers a Constructive Termination Without Cause, the Company shall pay Employee his Salary for a period of twenty-four (24) months from the Termination Date.

(b) If within the three month period commencing one year following a Change of Control Employee voluntarily terminates employment, the Company shall pay Employee his Salary for a period of twenty-four (24) months from the Termination Date; provided that Employee provides advance written notice of termination to the Company no later than 275 days following the Change of Control.

(c) If either before a Change of Control or more than one year following a Change of Control (i) Employee suffers a Termination of Employment for any reason other than Cause, death or disability (within the meaning of Section 22(e)(3) of the Internal Revenue Code) of Employee or (ii) Employee suffers a Constructive Termination Without Cause, the Company shall pay Employee his Salary for a period of twenty-four (24) months from the Termination Date.

(d) Payments under this Section 2 shall be paid in accordance with the Company's normal payroll practices, with the first payment commencing as soon as practicable after Employee's Termination Date. In no event will interest be credited on the unpaid balance to which Employee may become entitled. Payment shall be made by mail to the last known address provided by Employee to Company or, at Employee's option by direct deposit to Employee's account at a bank or other financial instruction designated by Employee.

(e) All payments hereunder to Employee shall cease upon the occurrence of the earliest of:

(i) completion of payment to Employee of benefits described in this Section 2;

(ii) the date Employee again becomes employed by the Company, an affiliate of the Company or a successor in interest to either;

(iii) disclosure of confidential information described in Section 8;

(iv) competition in violation of Section 9; or

(v) the death or disability (within the meaning of Section 22(e)(3) of the Internal Revenue Code) of Employee.

(f) All benefits under this agreement including, but not limited to, payments under this Section 2, acceleration of options under Section 3, and other benefits under Section 5 shall be conditioned upon the execution and continued acceptance of a release, in the form and substance of Attachment A. If Employee has received benefits hereunder and subsequently repudiates the release in any manner, he shall immediately repay (i) the amount of payments under Section 2 and (ii) the value of any other benefits received hereunder.

3. Acceleration of Options.

(a) Except as set forth in Subsection (b) below, upon a Change of Control, (i) all outstanding grants under the Company's 1998 Equity Compensation Plan shall automatically accelerate and become fully exercisable, and (ii) the restrictions and conditions on Employee's outstanding restricted stock, if any,

shall immediately lapse.

(b) Notwithstanding anything herein to the contrary, in the event of a Change of Control, the Company shall not have the right to take any actions described in this Agreement (including without limitation actions described in Subsection (a) above) that would make the Change of Control ineligible for pooling of interests accounting treatment or that would make the Change of Control ineligible for desired tax treatment if, in the absence of such action, the Change of Control would qualify for such treatment and the Company intends to use such treatment with respect to the Change of Control.

4. Other Severance Benefits. The payment due under Section 2 hereof shall be in lieu of any severance or similar payments or benefits accrued for Employee, or to which Employee otherwise becomes entitled, through the Termination Date under any other severance or similar plan, policy or program of the Company, including the SunSource Severance Pay Plan. Anything contained herein to the contrary notwithstanding, if Employee becomes entitled to any severance or similar payments or benefits under any such other plan, policy or program, any amounts otherwise due and payable hereunder shall be offset by the amount of such other payments or benefits.

5. Other Benefits.

(a) Except as provided in Subsection (b) below, nothing in this Agreement shall prevent or limit Employee's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by the Company, and for which Employee may qualify, from the date hereof through the Termination Date.

(b) During the period in which Employee is entitled to payments under Section 2, the Company shall (i) continue to provide Employee with the fringe benefits listed in Attachment B, and (ii) continue Employee's coverage in the Company's welfare benefit plans as available to similarly situated active executives of the Company, to the extent permissible under the terms of such plans and the applicable provisions of law, including the Internal Revenue Code, until such time as Employee becomes entitled to a substantially similar welfare benefit package at his new employer. Anything contained herein to the contrary notwithstanding, the Company's obligation to provide medical and dental benefits shall be limited to reimbursement of Employee's cost of COBRA continuation coverage under the Company's medical and dental benefits plan. Nothing herein shall alter the Company's right to amend, modify or terminate any such welfare benefit plans.

6. Set-Off. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations shall be subject to set-off, counterclaim, recoupment, defense or other right which the Company may have against Employee.

7. Taxes. Any payment required under this Agreement shall be subject to all requirements of the law with regard to the withholding of taxes, filing, making of reports and the like, and the Company shall use its best efforts to satisfy promptly all such requirements.

8. Confidential Information.

(a) 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 Employee or which he is authorized to disclose or required to disclose in connection with legal or administrative proceedings, is referred to collectively as "Confidential Information." During or after the Termination Date, Employee shall not (i) use or exploit in any manner Confidential Information for himself or any person, partnership, association, corporation or other entity other than the Company, (ii) remove any Confidential Information, or any reproduction thereof, from the possession or control of Company or (iii) treat Confidential Information other than in a confidential manner.

(b) All Confidential Information developed, created or maintained by Employee, alone or with others while employed by the Company, and all Confidential Information maintained by Employee thereafter, shall remain at all times the exclusive property of the Company. Employee shall return to the Company all Confidential Information, and reproductions thereof, whether prepared by him or others, that are in his possession immediately upon request and in any event upon the termination of his employment with the Company.

(c) For purposes of this Section 8, the term "Company" shall include the Company and its subsidiaries.

9. Agreement Not to Compete. During the Restricted Period (defined below), Employee shall not, at any time within the Territory (defined below), directly or indirectly, engage in, or have any interest on behalf of himself or others in, any 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 shall have been engaged at any time during the one year prior to the termination of Employee's employment (the "Restricted Business"); provided, however, that nothing contained herein shall prevent or prohibit 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, 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 of one year following Employee's Termination Date. 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. Employee acknowledges, however, that this Section 9 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. For purposes of this Section 9, the term "Company" shall include the Company and its subsidiaries.

10. Remedies. The Employee expressly acknowledges that the remedy at law for any breach of Sections 8 or 9 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 Employee's obligations under these provisions without having to prove 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.

11. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to the Company, to:
SunSource, Inc.
3000 One Logan Square
Philadelphia, PA 19103
Attention: President

If to Employee, to:

Joseph M. Corvino
1420 Ardleigh Circle
West Chester, PA 19380

or to such other names or addresses as the Company or Employee, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

12. Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

13. Contents of Agreement, Amendment and Assignment.

(a) This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by Employee and the Company.

(b) Nothing in this Agreement shall be construed as giving Employee any right to be retained in the employ of the Company.

(c) All of the terms and provisions of this Agreement shall be binding

upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Employee hereunder shall not be assignable in whole or in part.

14. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, 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.

15. Remedies Cumulative; No Waiver. No right conferred upon the parties by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by a party in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

16. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect until twenty-four (24) months beyond the month in which a Change in Control occurs (or, if later, twenty-four (24) months beyond the consummation of the transaction which constitutes a Change in Control).

17. Survivorship. The respective rights and obligations of the parties under this Agreement shall survive any termination of the Employee's employment to the extent necessary to the intended preservation of such rights and obligations.

18. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

SUNSOURCE, INC.

By: /s/ Maurice P. Andrien, Jr.

President and CEO

EMPLOYEE

/s/ Joseph M. Corvino

ATTACHMENT A
GENERAL RELEASE

Whereas _____ (herein referred to as "Employee") has been employed by SunSource, Inc. (herein collectively referred to as "Employer") and because Employee and Employer desire to amicably terminate Employee's employment with Employer, Employee and Employer agree as follows:

1. In consideration of the promises of Employer set forth in paragraph 3 below, Employee, and his/her heirs, executors and administrators, intending to be legally bound, hereby permanently and irrevocably terminates his/her employment with Employer, effective , 200 , and remises, releases and forever discharges Employer, and its subsidiaries and affiliates, and its and their officers, directors, shareholders, employees, agents, its and their respective successors and assigns, heirs, executors, and administrators, and any individual or organization related to Employer and against whom or which Employee could claim (hereinafter referred to collectively as "Releasees") of and from any and all actions and causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which he/she had, now has, or may have, by reason of any matter, cause or thing whatsoever, from the beginning of his/her employment with Employer up to and including the date of this General Release (hereinafter "Agreement"), particularly, but without limitation, any claims arising from or relating in any way to his/her employment relationship or the termination of his/her employment relationship with Employer, including, but not limited to, any claims which have been asserted, could have been asserted or could be asserted now or in the future, including claims under any federal, state, or local laws, including Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. 2000e et seq., the Age Discrimination in Employment Act, 29 U.S.C. 621 et seq., the American with Disabilities Act, 42 U.S.C. 12101 et seq., the Employee Retirement Income Security Act, 29 U.S.C. 1001 et seq. ("ERISA"), any common law contract or tort claims now or hereafter recognized, and all

claims for attorney's fees and costs.

2. Employee further agrees and covenants that neither he/she, nor any person, organization or other entity on his/her behalf, will file, charge, claim, sue or cause or permit to be filed, charged or claimed, any civil action, suit or legal proceeding for personal relief (including any action for damages, injunctive, declaratory, monetary or other relief) against Releasees involving any matter occurring at any time in the past up to and including the date of this Agreement or involving any continuing effects of any acts or practices which may have arisen or occurred prior to the date of this Agreement. Employee further agrees that if any person, organization, or other entity should bring a claim against Releasees involving any such matter, he/she will not accept any personal relief in any such action.

3. In full consideration of Employee's execution of this General Release, and his/her agreement to be legally bound by its terms, Employer agrees to provide Employee with the attached Severance Agreement, to which he/she acknowledges he /she would not otherwise be entitled.

4. Except as set forth in this Agreement, it is expressly agreed and understood that Employer does not have, and will not have, any obligation to provide Employee at any time in the future with any payments, benefits or considerations other than those recited in paragraph 3 above, other than any vested benefits to which Employee may be entitled under the terms of Employer's benefit plans.

5. Employee hereby agrees and recognizes that his/her employment relationship with Releasees has been permanently severed and that Releasees have no obligation, contractual or otherwise, to hire, rehire or re-employ him/her in the future and Employee agrees not to seek re-employment with Releasees.

6. Employee agrees and acknowledges that the agreement by Employer, described herein, is not and shall not be construed to be an admission of any violation of any federal, state or local statute or regulation, or of any duty owed by Employer and that this Agreement is made voluntarily to provide an amicable conclusion of his/her employment relationship with Employer.

7. Employee agrees, covenants and promises that he/she has not communicated or disclosed, and will not hereafter communicate or disclose the terms of this General Release to any persons with the exception of members of his/her immediate family and his/her attorney, and his/her accountant or tax advisor, each of whom shall be informed of this confidentiality obligation and shall be bound by its terms.

8. Employee hereby certifies that:

(a) he/she has read the terms of this Agreement, and that he/she understands its terms and effects, including the fact that he/she has agreed to release and forever discharge Releasees from any legal action arising out of his employment relationship with Employer, the terms and conditions of that employment relationship, and the termination of that employment relationship;

(b) he/she has signed this Agreement voluntarily and knowingly in exchange for the consideration described herein, which he/she acknowledges as adequate and satisfactory to him/her;

(c) he/she has been advised by Employer, through this document, to consult an attorney prior to signing this Agreement;

(d) Employer has provided Employee with at least days within which to consider and sign this Agreement, and that Employee has signed on the date indicated below after concluding that this Agreement is satisfactory to him/her;

(e) Employee has the right to revoke this Agreement for a period of seven (7) days following his/her execution of this Agreement by giving written notice to the Employer to the attention of _____.

(f) Neither Employer, nor any of its agents, representatives or attorneys have made any representations to Employee concerning the terms or effects of this Agreement and other than those contained herein;

9. The parties hereto acknowledge that the undertakings of each of the parties herein are expressly contingent upon the fulfillment and satisfaction of the obligations of the other party as set forth herein.

10. If any provision of this Agreement is deemed invalid, the remaining provisions shall not be affected.

IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties have executed the foregoing Agreement this day of , .

EMPLOYEE

Witness: _____ _____

SUNSOURCE, INC.

Witness: _____ By: _____

Title: _____

ATTACHMENT B
FRINGE BENEFITS

Auto Allowance	$12,600
Health Club Reimbursement	1,100
Life Insurance - Tax Gross-Up [What Program?]	

AMENDMENT NO. 4

TO

REVOLVING CREDIT, TERM LOAN, GUARANTY
AND SECURITY AGREEMENT

THIS AMENDMENT NO. 4 (this "Amendment") is entered into as of December ___, 2000, by and among SUNSOURCE INC., a corporation organized under the laws of the State of Delaware ("SunSource"), SUNSOURCE TECHNOLOGY SERVICES INC., a corporation organized under the laws of the State of Delaware ("STSI"), THE HILLMAN GROUP, INC. ("Hillman"), a Delaware corporation, AXXESS TECHNOLOGIES, INC. ("Axxess"), a Delaware corporation (SunSource, STSI, Hillman and Axxess, 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").

BACKGROUND

Borrowers, the other Credit Parties, Lenders and Agent are parties to that certain Revolving Credit, Term Loan, Guaranty and Security Agreement dated as of December 15, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Agent and Lenders provide Borrowers with certain financial accommodations.

Borrowers and the other Credit Parties have requested that Agent and Lenders amend the Loan Agreement and Agent and Lenders are willing to do so on the terms and conditions hereafter set forth herein.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Agent and Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 3 below, the Loan Agreement is hereby amended as follows:

(a) Section 1.2 is amended by adding the following defined terms in their appropriate alphabetical order to provide as follows:

"Allied Capital" shall mean Allied Capital Corporation, a Maryland corporation.

"Allied Capital Subordinated Note" shall have the meaning given to the term "Debentures" in the Allied Investment Agreement.

"Allied Capital Subordination Agreement" shall mean that certain Subordination Agreement dated as of December __, 2000 among Agent, Allied Capital and Credit Parties.

"Allied Investment Agreement"" shall mean that certain Investment Agreement by and among the Borrowers, each of the other Credit Parties that is a party thereto and Allied Capital, dated as of December __, 2000.

"Amendment No. 4 Effective Date" shall mean December __, 2000.

"Mexican Liquidation" shall mean the liquidation by SunSource of all or substantially all of the stock and/or assets of SunSource Integrated Services de Mexico for cash liquidation proceeds of at least $1,000,000.

(b) Section 1.2 is amended by amending the following defined terms in their entirety to provide as follows:

"Applicable Percentage" shall mean (a) during the period from the Amendment No. 4 Effective Date through June 30, 2001, 2.75% with respect to the Revolving Interest Rate for Revolving Advances consisting of Eurodollar Rate Loans and 3.00% with respect to the Term Loan Rate for Eurodollar Rate Loans and (b) thereafter, as of any date of determination, a per annum rate equal to the rate set forth below for the applicable type of Eurodollar Rate Loans based upon the Fixed Charge Coverage Ratio for the most recently ended fiscal quarter for

the four fiscal quarters then ended as follows:

<TABLE>
<CAPTION>

Fixed Charge Coverage Ratio	Revolving Eurodollar Rate Loans	Term Eurodollar Rate Loans
<S>	<C>	<C>
less than 1.00 to 1.00	3.25%	3.50%
1.00 - 1.09 to 1.00	3.00%	3.25%
1.10 - 1.35 to 1.00	2.75%	3.00%
1.36 - 1.50 to 1.00	2.50%	2.75%
Greater than 1.50 to 1.00	2.25%	2.50%

</TABLE>

The Applicable Percentage shall be adjusted (up or down) prospectively on a quarterly basis as determined by the Fixed Charge Coverage Ratio and shall be effective for each calendar month commencing at least five (5) Business Days after the date of delivery to Agent of the quarterly unaudited or annual audited (as applicable) financial statements evidencing the need for an adjustment. Failure to timely deliver such financial statements shall, in addition to any other remedy provided for in this Agreement, result in an increase to the highest level set forth in the foregoing and until the first day of the first calendar month following the delivery of the required financial statements demonstrating that such an increase is not required. If a Default or Event of Default has occurred and is continuing at the time any reduction in the Applicable Percentage is to be implemented, that reduction shall be deferred until the first day of the first calendar month following the date on which such Default or Event of Default is waived or cured.

"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 expensed, plus (iv) loss on the Harding Divestiture net of any tax benefit from such loss and loss on the Mexican Liquidation net of any tax benefit from such loss minus (v) all credits to income of Borrowers on a consolidated basis for such period for federal, provincial, state and local taxes credited and minus (vi) gain on contribution of Kar and A & H Bolt.

"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 plus (iv) non cash charges for such period related to the write-off of inventory step-up as a result of the application of Accounting Principles Board #16, Accounting for Business Combinations, for acquisitions consummated by SunSource or any other Credit Party.

"Fixed Charge Coverage Ratio" shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA minus non-financed capital 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 and all Subordinated Debt Payments during such period, except for payments paid in calendar year 2001 of principal on the Axxess Subordinated Notes and of principal and interest on the Axxess Long Term Note.

"Subordinated Debt Payments" shall mean and include all cash actually expended to make payments of principal and interest on the Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty, SunSource Subordinated Guaranties and the Allied Capital Subordinated Note.

(c) Section 2.2(b)(iii) is hereby amended by deleting "one, two three or six months" and inserting "one, two or three months" in its place and stead.

(d) Section 2.4 is amended by adding the following at the end thereof:

"Notwithstanding the foregoing, following the repayment of the Term Loan required by Section 2.14(e) hereof, the Term Loan shall be payable

(subject to acceleration or termination of this Agreement) based upon equal quarterly installments of $125,000 each commencing on April 1, 2001 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."

(e) A new Section 2.14(e) is added immediately after Section 2.14(d) to provide as follows:

"(e) Upon execution of the Allied Investment Agreement, the Borrowers shall make a repayment of the (i) Term Loan in an amount sufficient to reduce the outstanding principal balance of the Term Loan to $2,500,000, such repayment shall be applied, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof, and (ii) Revolving Advances in an amount equal to all proceeds remaining following the closing of the $30,000,000 loan under the Allied Investment Agreement and the repurchase of certain of the Axxess Subordinated Notes and of the Axxess Long Term Subordinated Note, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof."

(f) Sections 6.6, 6.7 and 6.8 are hereby amended in their entirety to provide as follows:

"6.6. Fixed Charge Coverage Ratio. Maintain, with respect to Borrowers on a consolidated basis, a Fixed Charge Coverage Ratio of not less than the ratio as of the end of the applicable periods set forth below:

Period	Ratio
Three months ending March 31, 2001	0.65 to 1.0
Four months ending April 30, 2001	0.70 to 1.0
Five months ending May 31, 2001	0.80 to 1.0
Six months ending June 30, 2001	1.00 to 1.0
Seven months ending July 31, 2001	1.00 to 1.0
Eight months ending August 31, 2001	1.00 to 1.0
Nine months ending September 30, 2001	1.00 to 1.0
Ten months ending October 31, 2001	1.00 to 1.0
Eleven months ending November 30, 2001	1.00 to 1.0
Twelve months ending December 31, 2001 and on the last day of each month ending thereafter for the twelve month period then ending	1.00 to 1.0

Compliance with this Section 6.6 shall not be required if, at all times during the three month period preceding the test date, Undrawn Availability was in excess of $10,000,000; provided, however, if the Axxess Long Term Subordinated Note and Axxess Subordinated Notes have not been repaid in full, then the Undrawn Availability test for the three months ending March 31, 2001 shall be $16,000,000.

6.7 Undrawn Availability. Maintain, with respect to Borrowers on a consolidated basis, at all items (i) during the period commencing on the Amendment No. 4 Effective Date and ending on May 15, 2001, at least $10,000,000 of Undrawn Availability (as calculated under Section 2.1(a)(y)) and (ii) commencing May 16, 2001 and thereafter, at least $2,500,000 of Undrawn Availability (as calculated under Section 2.1(a)(y)) including, without limitation, in either case, after giving effect to any payments made under the Junior Subordinated Debentures, the Axxess Subordinated Notes, the Axxess Long Term Subordinated Note, the SunSource Long Term Subordinated Guaranty, the SunSource Subordinated Guaranties and the Allied Capital Subordinated Note.

6.8. Deferred Interest. In the event the Fixed Charge Coverage Ratio for the (i) three (3) month period ending March 31, 2001 is less than 0.65 to 1.0, (ii) six (6) month period ending June 30, 2001 is less than 1.00 to 1.00, (iii) nine (9) month period ending on September 30, 2001 is less than 1.05 to 1.00, (iv) four (4) fiscal quarter period ending on December 31, 2001 and on the last day of each fiscal quarter thereafter tested on a rolling four (4) quarter basis is less than 1.10 to 1.00, 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. Notwithstanding the foregoing, the Credit Parties may make regularly scheduled payments of interest on the Junior Subordinated Debentures on or prior to June 30, 2001 if Undrawn Availability with respect to Borrowers on a consolidated basis exceeds $10,000,000 after giving effect to each such payment."

(g) Section 7.6 is amended in its entirety to provide as follows:

"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 $15,000,000."

(h) Section 7.8 is amended in its entirety to provide as follows:

"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, (iv) Indebtedness set forth in the financial statements delivered pursuant to Section 5.5 hereof, (v) Indebtedness due under the Axxess Subordinated Notes and Axxess Long Term Subordinated Note as each is in effect on the Joinder, Consent and Amendment No. 2 Effective Date and (vi) Indebtedness due under the Allied Investment Agreement as in effect on the Amendment No. 4 Effective Date."

(i) Section 7.11 is amended in its entirety to provide as follows:

"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 $18,000,000 in any one fiscal year in the aggregate for all Credit Parties."

(j) Section 7.18 is amended in its entirety to provide as follows:

"7.18. Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty, the SunSource Subordinated Guaranties and the Allied Capital Subordinated Note. 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, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty, the SunSource Subordinated Guaranties or the Allied Capital Subordinated Note, except for (a) 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 and (b) payments permitted by the (i) Axxess Subordination Agreement on the Axxess Subordinated Notes, Axxess Long Term Subordinated Note and the SunSource Subordinated Guaranties and (ii) Allied Capital Subordination Agreement on the Allied Capital Subordinated Note." Notwithstanding the foregoing, the Axxess Subordinated Notes and the Axxess Long Term Subordinated Note may be prepaid on or after the Amendment No. 4 Effective Date; provided that not more than $8,500,000 shall constitute payment in full of the Axxess Long Term Subordinated Note."

(k) Section 9.12 is amended by deleting "fifteen (15) days" and inserting "one (1) day" in its place and stead.

(l) Section 10.12 is amended in its entirety to provide as follows:

"10.12. an event of default has occurred and been declared under the Junior Subordinated Debentures, the Axxess Subordinated Notes, Axxess Long Term Subordinated Note, SunSource Long Term Subordinated Guaranty, SunSource Subordinated Guaranties or the Allied Investment Agreement, which default shall not have been cured or waived within any applicable grace period;"

3. Conditions of Effectiveness. This Amendment shall become effective as of the Amendment No. 4 Effective Date, provided that all of the following conditions shall have been satisfied: (i) Agent shall have received four (4) copies of this Amendment executed by all Credit Parties and Lenders; (ii) Agent shall have received four (4) copies of the Allied Capital Subordination Agreement executed by Allied Capital and the Credit Parties; (iii) Agent shall have received an amount sufficient to reduce the outstanding principal balance of the Term Loan to $2,500,000 shall have been remitted to Agent pursuant to Section 2.14(e) of the Loan Agreement and (iv) Agent shall have received such other certificates, instruments, documents, agreements and opinions of counsel as may be required by Agent or its counsel (including all items provided to Allied Capital in connection with the Allied Investment Agreement), each of which shall be in form and substance satisfactory to Agent and its counsel.

4. Representations, Warranties and Covenants. Each Borrower and each of the other Credit Parties hereby represents, warrants and covenants as follows:

(a) This Amendment and the Loan Agreement, as amended hereby,

constitute legal, valid and binding obligations of each Borrower and each of the other Credit Parties and are enforceable against each Borrower and each of the other Credit Parties in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment, each Borrower and each of the other Credit Parties hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment.

(c) No Event of Default has occurred and is continuing or would exist after giving effect to this Amendment.

(d) Each Borrower and each of the other Credit Parties has no defense, counterclaim or offset with respect to the Loan Agreement or the Obligations.

5. Effect on the Loan Agreement.

(a) Upon the effectiveness of Section 2 hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(b) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent or any Lender, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

6. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

8. Counterparts; Facsimile Signatures. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement. Any signature received by facsimile transmission shall be deemed an original signature hereto.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first written above.

SUNSOURCE INC., as a Borrower
SUNSOURCE TECHNOLOGY SERVICES INC., as a Borrower
THE HILLMAN GROUP, INC., as a Borrower
AXXESS TECHNOLOGIES, 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
SUNSUB C INC., as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President of each of the foregoing corporations

SUNSUB HOLDINGS LLC

By: SunSub C Inc., its sole member

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Manager

J. N. FAUVER (CANADA) LIMITED, as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

1394066 ONTARIO INC., as a Guarantor

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title:

PNC BANK, NATIONAL ASSOCIATION, as Lender and as Agent

By: /s/ Peter H. Schryver

Name: Peter H. Schryver
Title: Senior Vice President

BANK OF AMERICA BUSINESS CREDIT, as Co-Agent and Lender

By: /s/ Richard Levenson

Name: Richard Levenson
Title: Senior Vice President

FIRSTAR BANK, N.A., as Co-Agent and Lender

By: /s/ Donald K. Mitchell

Name: Donald K. Mitchell
Title: Vice President

FIFTH THIRD BANK, as Lender

By: /s/ Ann Pierson

Name: Ann Pierson
Title: Corporate Banking Officer

LASALLE BUSINESS CREDIT, as Lender

By: /s/ Stephen V. Riege

Name: Stephen V. Rieger
Title: Asst. Vice President/Regional Manager

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

IBJ WHITEHALL BUSINESS CREDIT CORPORATION, as Lender

By: /s/ Andrew C. Sepe

Name: Andrew C. Sepe
Title: Assistant Vice President

INVESTMENT AGREEMENT

by and among

SUNSOURCE INC.
SUNSOURCE TECHNOLOGY SERVICES, INC.
SUNSOURCE INVESTMENT COMPANY, INC.
SUNSUB A, INC.
THE HILLMAN GROUP, INC.
AXXESS TECHNOLOGIES, INC.
SUNSOURCE CORPORATE GROUP, INC.
SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC.
SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.
A&H HOLDING CO.
SUNSUB C, INC.
SUNSUB HOLDING L.L.C.
and
ALLIED CAPITAL CORPORATION

Dated as of December 28, 2000

TABLE OF CONTENTS

Exhibits and Schedules

INVESTMENT AGREEMENT

THIS INVESTMENT AGREEMENT (this "Agreement") is made as of December 28, 2000 by and among: (i) SunSource Inc., a Delaware corporation (the "Company"), (ii) SunSource Technology Services, Inc., a Delaware corporation ("STS"); (ii) SunSource Investment Company, Inc., a Delaware corporation ("SIC"); (iii) SunSub A, Inc., a Delaware corporation ("SunSub A"); (iv) The Hillman Group, Inc., a Delaware corporation ("Hillman"); (v) Axxess Technologies, Inc., a Delaware corporation ("Axxess"); (vi) SunSource Corporate Group, Inc., a Delaware corporation ("SCG"); (vii) SunSource Industrial Services Company, Inc., a Delaware corporation ("SISC"); (viii) SunSource Inventory Management Company, Inc., a Delaware corporation ("SIMC"); (ix) A&H Holding Co., a Michigan corporation ("A&H"); (x) SunSub C, Inc., a Delaware corporation ("SunSub C"); (xi) SunSub Holding, L.L.C., a Delaware limited liability company ("Holding" and together with the Company, STS, SunSub A, Hillman, Axxess, SCG, SISC, SIMC, and A&H, the "Borrowers" and each of the Company, SunSub A, Hillman, Axxess, SCG, SISC, SIMC, A&H, SunSub C and Holding, a "Borrower") and (xii) Allied Capital Corporation, a Maryland corporation ("Allied" or the "Lender").

RECITALS:

A. The Company has requested that Allied invest in the Company the aggregate sum of Thirty Million Dollars ($30,000,000) in exchange for the Debentures and the Warrants. The Lender is willing to make such investment in the Company on the terms and conditions set forth herein.

B. The parties wish to set forth herein their understandings and agreements pertaining to this transaction.

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Lender and its respective successors and assigns with respect to their interest in all or any part of any of the Debentures, Warrants or Warrant Shares (as these terms are hereinafter defined) (individually, a "Holder" and collectively, the "Holders"), the Borrowers hereby agree as follows:

ARTICLE I.
DEFINITIONS

SECTION 1.1 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"Act of Bankruptcy," when used in reference to any Person, means the occurrence of any of the following with respect to such Person: (i) such Person shall have made an assignment for the benefit of his or its creditors; (ii) such Person shall have admitted in writing his or its inability to pay his or its

debts as they become due; (iii) such Person shall have filed a voluntary

petition in bankruptcy; (iv) such Person shall have been adjudicated a bankrupt or insolvent; (v) such Person shall have filed any petition or answer seeking for himself or itself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future Applicable Law pertinent to such circumstances; (vi) such Person shall have filed or shall file any answer admitting or not contesting the material allegations of a bankruptcy, insolvency or similar petition filed against such Person; (vii) such Person shall have sought or consented to, or acquiesced in, the appointment of any trustee, receiver, or liquidator of such Person or of all or any substantial part of the properties of such Person; (viii) 60 days shall have elapsed after the commencement of an action against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future Applicable Law without such action having been dismissed or without all orders or proceedings thereunder affecting the operations or the business of such Person having been stayed, or if a stay of any such order or proceedings shall thereafter be set aside and the action setting it aside shall not be timely appealed; or (ix) 60 days shall have expired after the appointment, without the consent or acquiescence of such Person of any trustee, receiver or liquidator of such Person or of all or any substantial part of the assets and properties of such Person without such appointment having been vacated.

"Act of Dissolution," when used in reference to any Person (other than an individual), shall mean the occurrence of any action initiating, or any event that results in, the dissolution, liquidation, winding-up or termination of such Person.

"Affiliate" means, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. "Affiliate" shall also mean any beneficial owner of Capital Stock representing 10% or more of the total voting power of the voting Capital Stock (on a fully diluted basis) of the Company or any of its Subsidiaries (whether or not currently exercisable) and any Person who would be an Affiliate of such beneficial owner pursuant to the first sentence hereof.

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

"Applicable Law(s)" when used in the singular, shall mean any applicable federal, state or local law, ordinance, order, regulation, rule or requirement of any governmental or quasi-governmental agency, instrumentality, board, commission, bureau or other authority having jurisdiction, and, when used in the plural, shall mean all such applicable federal, state and local laws, ordinances, orders, regulations, rules and requirements.

"Approval" has the meaning specified in Section 9.16(a).

"Asset Disposition" means any sale, lease (other than operating leases entered into in the ordinary course of business), transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any of its Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition") of (i) any shares of Capital Stock of a Subsidiary of the Company, (ii) all or substantially all of the assets of any division or line of business of the Company or any of its Subsidiaries, (iii) any other assets of the Company or any of its Subsidiaries having a value,

in the aggregate with all other assets (except assets which are excluded under clauses (a) through (e) below) transferred since the Closing Date, in excess of 20% percent of the value of the Consolidated Total Assets of the Company and its Subsidiaries as of the date of such disposition (provided, however, none of the following shall be considered Asset Dispositions: (a) a disposition by a Borrower to another Borrower or by a Subsidiary of a Borrower to a Borrower, (b) the sale of Inventory in the ordinary course of business, (c) sales or other dispositions of obsolete, uneconomical, negligible, worn-out or surplus assets in the ordinary course of business and in a commercially reasonable manner (including but not limited to equipment and intellectual property), (d) the sale of all of the Capital Stock or all or substantially all of the assets of STS, as long as the purchase price therefor is not less than the fair market value of STS, as determined in good faith by the Company's board of directors and (e) the sale of the Company's minority interest in GC-Sun Holdings L.P. as long as the purchase price is not less than the fair market value of the Company's option to cause GC-Sun Holdings L.P. to purchase such minority interest in accordance with

the terms of the Second Amended and Restated Limited Partnership Agreement of GC-Sun Holdings L.P. dated as of October 4, 2000, as determined in good faith by the Company' board of directors.

"Axxess Notes" means those certain Subordinated Promissory Notes issued by Axxess in favor of certain subordinated lenders, in the original aggregate principal amount of $12,000,000 dated April 7, 2000, together with any extensions thereof, any payment-in-kind notes issued in connection therewith, securities issued in exchange therefor or modifications or amendments thereto.

"Audited Financials" has the meaning specified in Section 4.6(a).

"Borrowers' Business" means the (i) the business engaged in by the Company and its Subsidiaries as of the Closing Date and similar and related businesses (as described on Schedule 4.5) and (ii) such other lines of business as may otherwise be consented to by an Approval by the Holders of the Debentures.

"Business Day" means any day other than a Saturday, Sunday or day on which banks in Washington, D.C. are authorized or required by law to close.

"Capital Lease" means any lease of (or other arrangement conveying the right to use) real or personal property, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on the balance sheet of the lessee.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof which obligations are required to be classified and accounted for as Capital Leases on a balance sheet of such Person under GAAP, and the amount of such obligations is the capitalized amount thereof determined in accordance with GAAP.

"Capital Stock" of any Person means any and all shares, interests, participation or other equivalents (however designated) of capital stock of such Person (if such Person is a corporation), any and all equivalent ownership interests in such Person (if such Person is other than a corporation), any securities convertible into or exchangeable for any of the foregoing and any and all warrants or options to purchase any of the foregoing.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof having maturities of not more than 90 days from the date of acquisition; (ii) time deposits, certificates of deposit and banker's acceptances of any domestic commercial bank having capital and surplus in excess of $200,000,000 having maturities of not more than 90 days from the date of acquisition; (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) and entered into with any bank meeting the qualifications specified in clause (ii) above; (iv) commercial paper having, at the time of acquisition thereof, the highest credit rating obtainable from Standard & Poor's Ratings Services or Moody's Investors Service, Inc. and maturing within ninety days after the date of acquisition; and (v) money market funds which invest at least 90% of their assets in the types of securities or instruments described in clauses (i), (ii), (iii) and (iv) above.

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

"Change of Control" means one or more transactions resulting in (a) the liquidation, dissolution or winding up of the Company, (b) the Transfer of all or substantially all of the assets of the Company, (c) a merger or consolidation of the Company with another Person (other than another Borrower) where the Company is not the surviving or successor entity; (d) one or more Persons (other than the shareholders of the Company that are existing as of the date hereof) either (i) owning in the aggregate in excess of 50% of the then outstanding Capital Stock of the Company or (ii) being able to elect a majority of the Company's board of directors or otherwise to exercise, directly or indirectly, a controlling influence over the management or policies of the Company, or (e) the Company ceasing to own 100% of the capital stock of each of the other Borrowers, provided, however, that any Permitted Buyout shall not be deemed to be a Change of Control.

"Charges" has the meaning specified in Section 9.9.

"Closing" means the consummation of the Transaction.

"Closing Date" means the date of this Agreement.

"Code" means the Internal Revenue Code of 1986 and the regulations thereunder, as amended or otherwise modified from time to time.

"Common Stock" means any and all (as the context may require) of the shares of the authorized common stock of the Company.

"Consolidated" means the consolidation in accordance with GAAP of the accounts or other items as to which such term applies.

"Consolidated Earnings Before Interest and Taxes" means, with respect to the Company and its Subsidiaries and for any specified period, the sum of the following (in each case determined in accordance with GAAP on a Consolidated basis and without duplication): (i) Net Income of the Company and its Subsidiaries for such period (excluding extraordinary gains and equity in the earnings of Kar but including cash distributions received on account of such equity), plus (ii) all interest expense of the Company and its Subsidiaries for such period, plus

(iii) all charges against income of the Company and its Subsidiaries for such period for federal, provincial, state and local taxes expensed, plus (iv) loss on the Harding Divestiture net of any tax benefit from such loss and loss on the Mexican Liquidation net of any tax benefit from such loss, minus (v) all credits to income of the Company and its Subsidiaries for such period for federal, provincial, state and local taxes credited and minus (vi) gain on the contribution of Kar and A&H Bolt.

"Consolidated EBITDA" means, with respect to the Company and its Subsidiaries and for any specified period, the total of the following (in each case determined in accordance with GAAP on a Consolidated basis and without duplication):

(a) Consolidated Earnings Before Interest and Taxes for such period,

plus

(b) the sum of (i) depreciation expenses for such period, plus (ii) amortization expenses for such period plus (iii) non-cash charges for such period related to the write-off of inventory step-up as a result of the application of Accounting Principles Board #16, Accounting for Business Combinations, for acquisitions consummated by the Company or any other Credit Party for such period.

Notwithstanding the foregoing, for purposes of calculating Consolidated EBITDA with respect to any reference period, (I) acquisitions that have been made by the Company or any of its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the reference period shall be deemed to have occurred on the first day of the reference period; provided, however, that only the actual historical results of operations of the Persons so acquired, with only such adjustments for pro forma expense savings or revenue increases as may be approved by the Holders, shall be used for such calculation; and (II) for purposes of calculating Consolidated Funded Leverage Ratio only, the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the end of such reference period, shall be excluded.

"Consolidated Fixed Charges" means, with respect to the Company and its Subsidiaries for any specified period, all cash actually expended or scheduled to be paid by the Company and its Subsidiaries (determined in accordance with GAAP on a Consolidated basis and without duplication) to make (a) interest payments on any Senior Debt, plus (b) scheduled principal payments on the Term Loan (as defined in the Senior Credit Facility), plus (c) payments for all fees, commissions and charges with respect to any Senior Debt, plus (d) Capitalized Lease payments, plus (e) payment with respect to any other Indebtedness for borrowed money including, without limitation, the Indebtedness under the Junior Trust Preferred Notes, in each case determined for such period in accordance with GAAP, but excluding (I) all payments of principal or interest on the Axxess Notes and all prepayments (but not scheduled payments) of principal or interest on the Warburg Note and (II) for purposes of determining compliance with the covenants of Section 6.12(b), all payments of principal or interest on the Junior Trust Preferred Notes.

"Consolidated Fixed Charges Ratio" means, for any period as at any date of determination thereof, the ratio of (i) Consolidated EBITDA for the reference period ending on,

or immediately prior to, such date of determination less the sum of (A) for purposes of determining compliance with the covenants of Section 7.6 only, Restricted Payments and payment of interest under the Junior Trust Preferred Notes made during such period, (B) non-financed capital expenditures made by the Company and its Subsidiaries on a Consolidated basis during such period and (C) taxes paid in cash by the Company and its Subsidiaries on a Consolidated basis for such period, to (ii) Consolidated Fixed Charges for the same period.

"Consolidated Funded Indebtedness" means, with respect to the Company and its Subsidiaries as of any date of determination, the sum, without duplication, of (i) the total amount of Indebtedness of the Company and its Subsidiaries, plus (ii) the total amount of Indebtedness of any other Person, to the extent that such Indebtedness has been Guaranteed by the Company or one or more of its Subsidiaries or is secured by a Lien on assets of the Company or any of its Subsidiaries, plus (iii) the aggregate liquidation value of all Disqualified Stock of the Company and all Preferred Stock of Subsidiaries of the Company, in each case, determined on a Consolidated basis in accordance with GAAP; but excluding for purposes of determining compliance with the covenants of Section 6.12 and Section 7.1(a)(xii) only, the total amount of Junior Trust Preferred Notes outstanding.

"Consolidated Funded Leverage Ratio" means, as at any date of determination thereof, the ratio of (i) Consolidated Funded Indebtedness outstanding as at such date of determination, to (ii) the aggregate Consolidated EBITDA of the Company for one of the following periods: (x) if 12 months or more have elapsed from the date of this Agreement, for the 12 months ending on, or most recently ended prior to, such date of determination, or (y) if 12 months or less have elapsed from the date of this Agreement, for the period from the date of this Agreement to such date of determination, calculated on an annualized basis.

"Consolidated Total Assets" means, with respect to the Company and its Subsidiaries, all assets of the Company and its Subsidiaries that would, in accordance with GAAP, be classified as total assets of the Company and its Subsidiaries, after deducting adequate reserves in each case in which a reserve is proper in accordance with GAAP.

"Contracts" has the meaning specified in Section 4.15.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" have meanings correlative thereto.

"Covered Financing" means (a) the issuance of any Subordinated Debt of any Credit Party or (b) the issuance of any Indebtedness convertible into Capital Stock of the Company. "Covered Financing" shall exclude any financing the sole purpose of which is to refinance, repay or redeem the Debentures and any financing provided by the seller as part of a Permitted Acquisition.

"Credit Parties" means, collectively, the Borrowers and the Guarantors; and a "Credit Party" means each Borrower or each Guarantor.

"Debentures" means the senior subordinated debentures dated December 28, 2000 in the aggregate principal amount of $30,000,000 from the Borrowers made payable severally to the Holders and evidencing the Borrowers' repayment obligation for the investment by the Holders in the Borrowers described in Section 2.1, together with all other debentures accepted from time to time in substitution, renewal or replacement for all or any part thereof including pursuant to Section 9.19.

"Default" means any event or condition that upon notice, lapse of time or both would constitute an Event of Default.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each case on or prior to the first anniversary of the stated maturity of the Debentures.

"Dollars" or "$" means lawful money of the United States of America.

"Environmental Claim" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, any Environmental Permit or

Hazardous Material or arising from alleged injury or threat to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, writ, judgment, injunction, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety, natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" means any Person required at any relevant time to be aggregated with the Company or any of its Subsidiaries under Sections 414(b), (c), (m) or (o) of the Code.

"ERISA Event" means any of the following with respect to a Plan or Multiemployer Plan, as applicable: (i) a Reportable Event with respect to a Plan or a Multiemployer Plan, (ii) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan that results in liability under Section 4201 or 4204 of ERISA, or the receipt by the Company or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has

terminated under Section 4041A of ERISA, (iii) the distribution by the Company or any ERISA Affiliate under Section 4041 or 4041A of ERISA of a notice of intent to terminate any Plan or the taking of any action to terminate any Plan, (iv) the commencement of proceedings by the PBGC under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from any Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan, (v) the institution of a proceeding by any fiduciary of any Multiemployer Plan against the Company or any ERISA Affiliate to enforce Section 515 of ERISA, which is not dismissed within thirty (30) days, (vi) the imposition upon the Company or any ERISA Affiliate of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, or the imposition or threatened imposition of any Lien upon any assets of the Company or any ERISA Affiliate as a result of any alleged failure to comply with the Internal Revenue Code or ERISA in respect of any Plan, (vii) the engaging in or otherwise becoming liable for a nonexempt Prohibited Transaction by the Company or any ERISA Affiliate, (viii) a violation of the applicable requirements of Section 404 or 405 of ERISA or the exclusive benefit rule under Section 401(a) of the Internal Revenue Code by any fiduciary of any Plan for which the Company or any ERISA Affiliate may be directly or indirectly liable or (ix) the adoption of an amendment to any Plan that, pursuant to Section 401(a)(29) of the Internal Revenue Code or Section 307 of ERISA, would result in the loss of tax-exempt status of the trust of which such Plan is a part if the Company or any ERISA Affiliate fails to timely provide security to such Plan in accordance with the provisions of such sections.

"Events of Default" has the meaning specified in Article VIII.

"Financial Officer" of any corporation or other entity means the chief financial officer, treasurer or principal accounting officer of such corporation or entity.

"Financials" means, collectively, the Audited Financials and the Interim Financials, as defined in Section 4.6.

"Foreign Subsidiary" means a Subsidiary that is organized under the laws of a jurisdiction other than the United States or any State thereof or the District of Columbia.

"GAAP" means generally accepted accounting principles, consistently applied, for the period or periods in question.

"Governmental Authority(ies)" means any Federal, state, local, quasi-governmental instrumentality or foreign court, or governmental agency, authority, instrumentality, agency, bureau, commission, department or regulatory body.

"Guarantor" means the Company and each entity that becomes a Guarantor under the Guaranty Agreement.

"Guarantee Obligation" of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or

advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided that the term "Guarantee Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The word "Guarantee" when used as a verb shall have the correlative meaning.

"Guaranty Agreement" means the Guaranty Agreement in form and substance satisfactory to the Holders by any Subsidiaries of the Borrowers which are, or may from time to time become, parties thereto, in favor of the Holders, as amended, modified or otherwise supplemented from time to time.

"Harding Divestiture" means the sale by the Company of all or substantially all of the stock and/or assets of Harding Glass, Inc., a Delaware corporation.

"Hazardous Materials" means (a) petroleum or petroleum products, petroleum by-products or petroleum breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Holder" and "Holders" have the meaning provided in the Recitals hereto.

"Indebtedness" of any Person means, without duplication, all obligations, contingent or otherwise, of such Person which in accordance with GAAP should be classified upon the balance sheet of such Person as liabilities, but in any event including: (a) all obligations of such Person for borrowed money, (b) all obligations of such Person upon which interest charges are customarily paid or accrued, (c) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred and unpaid purchase price of property or services (excluding trade accounts payable incurred in the ordinary course of business that are not past due and which are classified as short term liabilities in accordance with GAAP), (f) all obligations of others secured by (or having an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guarantee Obligations by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements, (j) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Capital Stock in such Person or any other Person, (k) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or similar facilities and bankers' acceptances; and (l) all obligations of any partnership or joint venture as to which such Person is or may become personally liable to the extent such obligations are deemed to be liabilities under GAAP.

"Indemnitee" has the meaning in Section 9.5(b).

"Intellectual Property" means, collectively, all of the Company's and its Subsidiaries' now owned and hereafter acquired intellectual property, including, without limitation the following: (a) all patents (including all rights corresponding thereto throughout the world, and all improvements thereon); (b) all trademarks (including service marks, trade names and trade secrets, and all goodwill associated therewith), (c) all copyrights (including

all renewals, extensions and continuations thereof); (d) all applications for patents, trademarks or copyrights and all applications otherwise relating in any way to the subject matter of such patents, copyrights and trademarks; (e) all patents, copyrights, trademarks or applications therefor arising after the date of this Agreement; (f) all reissues, continuations, continuations-in-part and divisions of the property described in the preceding clauses (a), (b), (c), (d), and (e), including, without limitation, any claims by the Company or its Subsidiaries against third parties for infringement thereof; and (g) all rights to sue for past, present and future infringements or violations of any such patents, trademarks, and copyrights.

"Interest" means any ownership or profit sharing interest (however designated) in any general or limited partnership, trust, limited liability company, private company or joint venture, and all agreements, instruments and documents convertible, in whole or in part, into any one or more of the foregoing.

"Interest Rate" means a fixed rate of interest equal to (i) at any time following a Permitted Buyout after which the Warrants and Warrant Shares are no longer outstanding, the Permitted Buyout Rate or (ii) at any other time, 12.5% per annum, in each case compounded quarterly and payable in accordance with the terms of the Debentures.

"Interim Financials" has the meaning in Section 4.6.

"Inventory" means "inventory" as defined in Article 9 of the UCC, including all raw materials, work in process, parts, components, assemblies, supplies and materials used or consumed in the Borrowers' Business, all goods, wares and merchandise, finished or unfinished, held for sale or lease or leased or furnished or to be furnished under contracts of service or hire.

"Investment Documents" means, collectively, the Loan Documents, the Subordination Agreement, the Investor Rights Agreement and all other instruments and documents executed and delivered in connection with the Transaction.

"Investments" means, collectively, (a) ownership or purchase of any Capital Stock or evidence of Indebtedness, Interest in or other security of another Person, (b) any loan, advance, contribution to capital, extension of credit (except for current trade and customer accounts receivable for Inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms) to another Person, (c) any joint venture, (d) any interest rate hedge agreement or similar agreement or (e) any acquisition after Closing of any business or business unit of another Person (whether acquired by purchase of assets or securities), or any commitment or option to acquire any of the foregoing items (a) through (e).

"Investor Rights Agreement" means the Investor Rights Agreement, dated of even date herewith, by and between the Company, Allied and certain other parties thereto.

"Junior Trust Preferred Notes" means, collectively, (a) the No. 1 SunSource 11.6% Junior Subordinated Debenture due 2027, (b) the No. 2 SunSource 11.6% Junior Subordinated Debenture due 2027 and (c) the Guarantee Agreement dated as of September 5, 1997 by SunSource for the benefit of the holders of the 11.6% Trust Preferred Securities of SunSource Capital Trust.

"Kar" means Kar Products, Inc., a Delaware corporation.

"Leases" has the meaning specified in Section 4.11(b).

"Licenses" shall mean, collectively, all rights, licenses, permits and authorizations now or hereafter issued by any Governmental Authority reasonably necessary in connection with the operation or conduct of the Borrowers' Business.

"Lien" means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

"Litigation Schedule" has the meaning specified in Section 4.14(a).

"Loan Documents" means, collectively, this Agreement, the Debentures, the Guaranty Agreement, the Warrants and all other instruments and documents executed and delivered in connection therewith.

"Material Adverse Change" means any material adverse change in the business, condition (financial or otherwise), operations, performance, or properties of the Credit Parties and their Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, prospects, management or condition, financial or otherwise, of the Credit Parties and their Subsidiaries taken as a whole, (b) the ability of the Credit Parties and their Subsidiaries taken as a whole, to perform any of their obligations under any Investment Document, (c) the rights and remedies of or benefits available to the Holders under any Investment Document, or (d) the consummation of any transactions contemplated hereby or thereby.

"Maturity Date" means December 28, 2006.

"Maximum Rate" has the meaning specified in Section 9.9(e).

"Mexican Liquidation" means the liquidation by the Company of all or substantially all of the stock and/or assets of SunSource Integrated Services de Mexico for cash liquidation proceeds of at least $1,000,000.

"Multiemployer Plan" shall mean any "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA to which the Company or any ERISA Affiliate makes, is making or is obligated to make contributions, or has made or been obligated to make contributions.

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP, excluding, however, any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (a) any Asset Disposition (including, without limitation, dispositions pursuant to sale and leaseback transactions) or (b) the disposition of any securities by such Person or any of its Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Subsidiaries.

"New Lending Office" has the meaning specified in Section 2.9(e).

"Non-U.S. Lender" has the meaning specified in Section 2.9(e).

"Obligations" means all indebtedness, advances pursuant to this Agreement or otherwise, debts, liabilities and obligations, for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or such amounts are liquidated or determinable) owing by the Borrowers to the Holders, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under this Agreement or any of the other Investment Documents. The term includes all principal, interest (including all interest that accrues after the commencement of any case or proceeding in bankruptcy after the insolvency of, or for the reorganization of any Borrower, whether or not allowed in such proceeding), any premiums, penalties or charges imposed in connection with the prepayment of the Debentures, fees, charges, expenses, attorneys' fees, and any other sum chargeable to the Borrowers under this Agreement or any other Investment Document.

"Other Taxes" has the meaning specified in Section 2.9(b).

"Permitted Acquisition" has the meaning specified in Section 7.9.

"Permitted Buyout" means a transaction or series of transactions as a result of which one or more of the following entities and their Subsidiaries own a majority of the Capital Stock, or all or substantially all of the assets, of the Company: Glencoe Capital, LLC; Tinicum Capital Partners, L.P.; UBS Capital; Lehman Brothers Inc.; or ING Barings LLC.

"Permitted Buyout Rate" means the interest rate per annum equal to the sum of (i) 12.5% per annum plus (ii) the following amount: (a) if the Per Share Purchase Price for the Common Stock acquired in the Permitted Buyout is $10.00 or less, 4% per annum, (b) if the Per Share Purchase Price for the Common Stock acquired in the Permitted Buyout is $12.00 or more, 3% per annum or (c) if the Per Share Purchase Price for the Common Stock acquired in the Permitted Buyout is greater than $10.00 but less than $12.00, the amount equal to (I) 9 minus (II) one half of the Per Share Purchase Price for such Common Stock divided by (III) 100, and rounded to the nearest tenth of a percent per annum.

"Permitted Indebtedness" has the meaning specified in Section 7.1.

"Permitted Lien" has the meaning specified in Section 7.2.

"Person" means any natural person, corporation, business trust, limited liability company, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"PIK Amount" shall have the meaning set forth in the Debentures.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which the Company or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Preferred Stock" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Prohibited Transaction" means a prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Per Share Purchase Price" means, with respect to a Permitted Buyout, the purchase price per share of Common Stock acquired in the Permitted Buyout.

"Real Property" means, collectively, all real property owned by the Company or its Subsidiaries or in which the Company or its Subsidiaries has a leasehold interest and all real property hereafter acquired by the Company or its Subsidiaries in fee or by means of a leasehold interest, including all real property on which the Borrowers' Business is now or hereafter conducted, together with all goods located on any such real property that are or may become "fixtures" under the law of the jurisdiction in which such real property is located.

"Receiver" means any receiver, trustee, custodian, liquidator, or similar fiduciary.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

"Remedial Action" means (a) "remedial action" as such term is defined in CERCLA, 42 U.S.C. Section 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) cleanup, remove, treat, abate or in any other way address any Hazardous Material in the environment; (ii) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material so it does not migrate or endanger or threaten to endanger public health, welfare or the environment; or (iii) perform studies and investigations in connection with, or as a precondition to, (i) or (ii) above.

"Reportable Event" means (i) any "reportable event" within the meaning of Section 4043(c) of ERISA for which the 30-day notice under Section 4043(a) of ERISA has not been waived by the PBGC (including any failure to meet the minimum funding standard of, or timely make any required installment under, Section 412 of the Internal Revenue Code or Section 302 of ERISA, regardless of the issuance of any waivers in accordance with Section 412(d) of the Internal Revenue Code), (ii) any such "reportable event" subject to advance notice to the PBGC

under Section 4043(b)(3) of ERISA, (iii) any application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Internal Revenue Code, and (iv) a cessation of operations described in Section 4062(e) of ERISA.

"Responsible Officer" of any corporation means its president, chief executive officer, any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Restricted Payment" means (i) any dividend or other distribution of any nature, direct or indirect, on account of any class of equity securities of the Company or any of its Subsidiaries, now or hereafter outstanding, (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any class of equity securities of the Company or any of its Subsidiaries, now or hereafter outstanding, (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire any class of equity securities of the Company or any of its Subsidiaries, now or hereafter outstanding, and (iv) any loan,

advance, tax sharing payment or indemnification payment to, or investment in, any Affiliate of the Company (other than the Borrowers).

"Restricted Subsidiary" means a Subsidiary of the Company other than a Subsidiary Guarantor.

"Senior Credit Facility" means the Revolving Credit, Term Loan, Guaranty and Security Agreement dated December 15, 1999 by and among the Credit Parties and the lender parties thereto, as the same may be amended, supplemented or otherwise modified from time to time and any agreement refinancing all or any of the debt or commitments thereunder, but only in each case to the extent the Indebtedness thereunder continues to constitute Senior Debt as provided in the definition thereof.

"Senior Debt" means all of the following: (a) the aggregate principal indebtedness advanced from time to time under the Senior Credit Facility up to a maximum aggregate principal amount that shall not exceed the sum of (i) $117,500,000 plus (ii) the amount of Indebtedness incurred pursuant to Section 7.1(a)(xii) and designated as "Senior Debt" by the Credit Parties, (b) all interest accrued and accruing on the aggregate principal outstanding under the Senior Credit Facility from time to time (including, without limitation, any interest accruing 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) ; (c) all other reasonable fees or monetary obligations owed under the Senior Credit Facility; and (d) all reasonable costs incurred by the Senior Lenders under the Senior Credit Facility in commencing or pursuing any enforcement action(s) with respect to the amounts described in clauses (a) through (c), including attorneys' fees and disbursements. "Senior Debt" shall also include all amendments, modifications and refinancings of the foregoing, provided such amendments, modifications or refinancings do not increase the principal amount of Senior Debt unless otherwise permitted under Section 7.1(a)(xii).

"Senior Lenders" means the lenders providing the Senior Debt under the Senior Credit Facility.

"Solvent" means, as used to describe any Person, that such Person (a) owns assets whose fair saleable value is greater than the amount required to pay all of such Person's Indebtedness (including contingent debts), (b) is able to pay all of its Indebtedness as such Indebtedness matures and (c) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

"Subordination Agreement" means that the Subordination Agreement of even date, by and among the Borrowers and certain of their affiliates, Allied and PNC Bank, National Association, as agent for the Senior Lenders, as the same may be amended, supplemented or otherwise modified from time to time.

"Subordinated Debt" means any Indebtedness of the Company or any Subsidiary thereof that is expressly subordinated and made junior in right and time of payment to the Senior Debt and the Debentures.

"Subsidiary" means, with respect to any Person (herein referred to as the "parent"), any corporation, partnership, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity having ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held, or (b) that is, at the time any determination is made, otherwise Controlled, by such Person.

"Subsidiary Guarantor" means a Guarantor that is a Subsidiary of the Company.

"Taxes" has the meaning specified in Section 2.9(a).

"Transaction" has the meaning specified in Section 4.2.

"Transfer" means the sale, assignment, lease, transfer, mortgaging, encumbering or other disposition, whether voluntary or involuntary, and whether or not consideration is received therefor.

"Warburg Note" means that certain Subordinated Promissory Note issued by Axxess in favor of Warburg, Pincus Investors, L.P., in the original principal amount of $11,000,000 dated April 7, 2000, together with any extensions thereof, any payment-in-kind notes issued in connection therewith, securities issued in exchange therefor or modifications or amendments thereto.

"Warrant Shares" means all shares of Common Stock issuable upon the exercise of the Warrants.

"Warrants" means, collectively, the warrants to purchase 285,000 shares of Common Stock.

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person of which securities (except for directors' qualifying shares) or other ownership interests representing 100% of the equity or 100% of the ordinary voting power or 100% of the general partnership interests are, at the time any determination is being made, owned, controlled or held by such

Person or one or more wholly owned subsidiaries of such Person or by such Person and one or more wholly owned subsidiaries of such Person.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part 1 of Subtitle E of Title IV of ERISA.

SECTION 1.2 Terms Generally. The definitions in Section 1.1 apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" are deemed to be followed by the phrase "without limitation." All references herein to Articles, Sections, Exhibits and Schedules are deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Any calculation of amounts, for purposes of financial covenant definitions or otherwise, with reference to one or more items shall be calculated without the duplication of any item in such calculation. Except as otherwise expressly provided herein, (a) any reference in this Agreement to any Investment Document means such document as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature are construed in accordance with GAAP, as in effect from time to time.

ARTICLE II.
THE INVESTMENT

SECTION 2.1 Funding. At the closing under this Agreement (the "Closing"), the Borrowers will borrow, and Allied will lend to the Borrowers, the aggregate sum of $30,000,000. All such indebtedness shall be evidenced by, and is to be repaid according to the terms of, one or more Debentures. The entire principal sum will be advanced at Closing.

SECTION 2.2 Senior Debt. The Holders' rights under the Debentures and this Agreement will be subordinate as to right of payment only to the Senior Debt pursuant to the Subordination Agreement.

SECTION 2.3 Repayment of Debentures. Subject to the terms of the Subordination Agreement, all unpaid principal amounts and accrued and unpaid interest under the Debentures, and all other obligations of the Borrowers to the Holders due and owing hereunder shall be paid upon the earliest of (i) the date of acceleration of the Debentures pursuant to Article VIII, (ii) the date of redemption pursuant to Section 2.6 or 2.7 and (ii) the Maturity Date, in immediately available dollars, without set-off, defense or counterclaim.

SECTION 2.4 Interest on the Debentures. Subject to the provisions of Section 2.5, the Debentures shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days assuming 12 equal 30 day months) at the Interest Rate, payable in accordance with the Debentures.

SECTION 2.5 Default Interest. If (i) the Borrowers shall default in the payment when due of the principal of or interest on the Debentures or any other amount becoming due hereunder, whether at maturity or upon acceleration, redemption or otherwise, or under any other Loan Document to which any Borrower is a party or (ii) any Event of Default exists under

Section 6.12 hereof, in each case whether or not such default is declared, the Borrowers shall pay interest currently in cash, to the extent permitted by law, on amounts due under the Debentures so long as such Event of Default is continuing (after as well as before judgment) at the Interest Rate plus 2%.

SECTION 2.6 Prepayment. The Borrowers may at any time and from time to time prepay the Debentures, in whole or in part, upon at least 15 days but no more than 60 days prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Holders before 2:00 p.m, Washington, D.C. time, without premium or penalty. Any partial prepayments shall

be made in increments of $500,000 and shall be applied pro rata to amounts outstanding under the Debentures. On the date of prepayment, the Borrowers shall pay to the holders of the Debentures being prepaid pursuant to this Section, the price specified above, by wire transfer of immediately available funds to an account designated by such Holder. Concurrently therewith, each Holder of Debentures being prepaid shall deliver to the Company the original copy of its Debenture or an affidavit of loss thereof in a form that is reasonably satisfactory to the Company. Any offer made by the Borrowers pursuant to this Section 2.6 shall be irrevocable so long as the specified conditions are met.

SECTION 2.7 Mandatory Prepayment of the Debentures.

(a) The Borrowers' obligations under the Debentures and this Agreement are not assumable, except in connection with a Permitted Buyout; upon a Change of Control, each Holder shall have the right (but not the obligation) to require the Borrowers to (a) prepay the Debentures held by such Holder for an amount equal to the then outstanding principal balance, all accrued but unpaid interest thereon and all PIK Amounts (as defined in the Debentures), if any, and (b) pay in full all of the other Obligations owing to such Holder, which amount shall be calculated on the date of prepayment and be payable in cash on such date. Any offer made by the Borrowers pursuant to this Section 2.7(a) shall be irrevocable so long as the Change of Control occurs.

(b) The Company shall provide the Holders with written notice not less than 60 days and not more than 90 days prior to the date on which any scheduled principal amount is due and payable on the Warburg Note. On thirty (30) days prior written notice to the Company, each Holder shall have the right (but not the obligation) to require the Borrowers to (a) prepay the Debentures held by such Holder for an amount equal to the then outstanding principal balance, all accrued but unpaid interest thereon and all PIK Amounts (as defined in the Debentures), if any, and (b) pay in full all of the other Obligations owing to such Holder, which amount shall be calculated on the date of prepayment and be payable in cash on such date. Any offer made by the Borrowers pursuant to this Section 2.7(b) shall be irrevocable. Nothing contained in this Section 2.7(b) shall restrict any right of the Borrowers to prepay the Warburg Note prior to maturity as provided herein; and after any such prepayment in full, the provisions of this Section 2.7(b) will be of no further force and effect.

(c) On the date of prepayment, the Borrowers shall pay to the holders of the Debentures being prepaid pursuant to this Section, the price specified above, by wire transfer of immediately available funds to an account designated by such Holder. Concurrently therewith, each Holder of Debentures being prepaid shall deliver to the Company the original copy of its Debenture or an affidavit of loss thereof in a form that is reasonably satisfactory to the Company.

SECTION 2.8 Payments.

(a) The Borrowers shall make each payment (including principal of or interest on the Debentures or other amounts) hereunder and under any other Investment Document not later than 2:00 P.M., Washington, D.C. time, on the date when due in immediately available dollars, without setoff, defense or counterclaim. Each such payment shall be made to each Holder pursuant to written instructions from such Holder to the Borrower, including pursuant to wire transfer instructions.

(b) Whenever any payment (including principal of or interest or PIK Amount on the Debenture or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest.

SECTION 2.9 Taxes.

(a) Any and all payments by or on behalf of the Borrowers hereunder and under any Investment Document shall be made, in accordance with Section 2.8, free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) income taxes imposed on the net income of a Holder and (ii) franchise taxes imposed on the net income of a Holder, in each case by the jurisdiction under the laws of which such Holder is organized or qualified to do business or a jurisdiction or any political subdivision thereof in which the Holder engages in business activity other than activity arising solely from the Holder having executed this Agreement and having enjoyed its rights and performed its obligations under this Agreement or any Investment Document or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, being called "Taxes"). If a Borrower must deduct any Taxes from or in respect of any sum payable hereunder or under

any other Investment Document to a Holder, (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.9) such Holder shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the Governmental Authority in accordance with applicable law.

(b) In addition, the Borrowers will pay to the relevant Governmental Authority in accordance with applicable law any current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any Investment Document, or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any Investment Document ("Other Taxes").

(c) Subject to Section 2.9(f) below, the Borrowers jointly and severally agree to indemnify each Holder for the full amount of Taxes and Other Taxes paid by such Holder and any liability (including penalties, interest and expenses (including reasonable attorney's fees and expenses)) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant Governmental Authority. A certificate as to the

amount of such payment or liability prepared by such Holder absent manifest error, shall be final conclusive and binding for all purposes. Such indemnification shall be made within 30 days after the date such Holder makes written demand therefor. The Borrowers shall have the right to receive that portion of any refund of any Taxes and Other Taxes received by a Holder for which the Borrowers have previously paid any additional amount or indemnified such Holder and which leaves the Holder, after the Borrowers' receipt thereof, in no better or worse financial position than if no such Taxes or Other Taxes had been imposed or additional amounts or indemnification paid to the Holder. The Holder shall have sole discretion as to whether (and shall in no event be obligated) to make any such claim for any refund of any Taxes or Other Taxes.

(d) As soon as practicable (and in any event within 60 days) after the date of any payment of Taxes or Other Taxes by a Borrower to the relevant Governmental Authority, such Borrower will deliver to each Holder, the original or a certified copy of a receipt issued by such Governmental Authority evidencing payment thereof.

(e) Any transferee of the Holders, with respect to the investment, if organized under the laws of a jurisdiction other than the United States, any State thereof or the District of Columbia (a "Non-U.S. Lender") shall deliver, to the extent legally able to do so, to the Company two copies of either United States Internal Revenue Service Form W-8BEN or Form W-8ECI or other applicable form, or, in the case of a Non-U.S. Lender claiming any other exemption from U.S. Federal withholding tax, a Form W-8, or any subsequent versions thereof or successors thereto (and, if such Non-U.S. Lender delivers a Form W-8, a certificate representing that such Non-U.S. Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10% shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of a Borrower and is not a controlled foreign corporation receiving interest from a related person (within the meaning of Section 864(d)(4) of the Code)), properly completed and duly executed by such Non-U.S. Lender claiming exemption from U.S. Federal withholding tax on payments by the Borrowers under this Agreement and the Investment Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement and on or before the date, if any, such Non-U.S. Lender changes its applicable lending office by designating a different lending office (a "New Lending Office"). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding the foregoing, no Non-U.S. Lender shall be required to deliver any form pursuant to this paragraph (e) that such Non-U.S. Lender is not legally able to deliver.

(f) The Borrowers shall not be required to indemnify any Non-U.S. Lender or to pay any additional amounts to any Non-U.S. Lender, in respect of United States Federal withholding tax pursuant to paragraph (a) or (c) above to the extent that (i) the obligation to withhold amounts with respect to United States Federal withholding tax existed on the date such Non-U.S. Lender became a party to this Agreement or, with respect to payments to a New Lending Office, the date such Non-U.S. Lender designated such New Lending Office with respect to the Debentures; provided, however, that this paragraph (f) shall not apply to (x) any Non-U.S. Lender as a result of an assignment, participation, transfer or designation made at the request of a Borrower and (y) to the extent the indemnity payment or additional amounts any Holder would be entitled to receive (without regard to this paragraph (f)) do not exceed the indemnity payment or additional amounts that the Person making the assignment, participation

or transfer to such Holder would have been entitled to receive in the absence of such assignment, participation, transfer or designation, or (ii) the obligation to pay such additional amounts would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of paragraph (e) above or (iii) such Non-U.S. Lender is treated as a "conduit entity" within the meaning of U.S. Treasury Regulations Section 1.881-3 or any successor provision.

(g) Nothing contained in this Section 2.9 shall require a Holder to make available any of its tax returns (or any other information that it reasonably deems to be confidential or proprietary).

SECTION 2.10 Use of Proceeds. The proceeds of the loan by the Lender shall be used to repay the Warburg Note, the Axxess Notes or to retire a portion of the existing Term Loan (as defined in the Senior Credit Facility), and the remainder available shall be used to pay certain transaction expenses, to pay any other amounts due under the Senior Credit Facility and/or for working capital purposes for the Company and its Subsidiaries or for general corporate purposes, including Permitted Acquisitions.

SECTION 2.11 Warrants. At the Closing, the Company shall issue and sell the Warrants to Allied.

ARTICLE III.
CONDITIONS

SECTION 3.1 Conditions to Closing. The obligations of Allied to enter into this Agreement and to perform its obligations hereunder is subject to the satisfaction of the following conditions on or prior to the Closing Date:

(a) The representations and warranties set forth in Article IV hereof shall be true and correct on and as of the Closing Date.

(b) The Credit Parties shall be in compliance with all the terms and provisions set forth herein and in each other Investment Document on its part to be observed or performed, and at the time of and immediately after the Transaction, no Event of Default or Default shall have occurred and be continuing.

(c) Allied shall have completed a due diligence investigation that does not result in a material negative finding as to the Borrowers and their management. In this regard, the Borrowers will furnish to Allied such information as Allied may reasonably request in order to enable Allied to complete the required due diligence.

(d) Allied shall have received the following items:

(i) a favorable written opinion of counsel to the Credit Parties (A) dated the Closing Date, (B) addressed to Allied and (C) covering such matters relating to the Investment Documents and the Transaction as Allied shall reasonably request, and the Credit Parties hereby request such counsel to deliver such opinion;

(ii) the Debentures, duly executed by the Borrowers and each of the other Investment Documents, executed by each of the parties thereto (other than Allied);

(iii) for each Credit Party (A) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Credit Party, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Credit Party as of a recent date, from such Secretary of State; (B) a certificate of the Secretary or Assistant Secretary of the Credit Party dated the Closing Date and certifying (1) that attached thereto is a true and complete copy of the by-laws of such Credit Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (2) below, (2) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Credit Party authorizing the execution, delivery and performance of the Investment Documents to which such Person is a party and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (3) that the certificate or articles of incorporation of the Credit Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (A) above, and (4) as to the incumbency and specimen signature of each officer executing any Investment Document or any other document delivered in connection herewith on behalf of the Credit Party; and (C) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant

Secretary executing the certificate pursuant to (B) above;

(iv) all amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrowers hereunder or under any other Investment Document;

(v) the Audited Financials and Interim Financials, as described in Section 4.6;

(vi) the Investor Rights Agreement, in form and substance satisfactory to Allied, duly executed by the Company; and

(vii) the Warrants, in form and substance satisfactory to Allied, duly executed by the Company.

(e) After giving effect to the transactions contemplated hereby, the Borrowers and their respective Subsidiaries shall not have outstanding any Indebtedness other than (A) the Senior Debt, (B) the extension of credit under this Agreement, (C) the Indebtedness set forth in the Financials and (D) the Indebtedness listed on Schedule 4.7.

(f) No event that has or reasonably would be expected to have a Material Adverse Change shall have occurred since June 30, 2000.

(g) Allied shall have received such other documents, instruments and information as Allied may reasonably request.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES

In order to induce Allied to enter into the Transaction, each of the Borrowers jointly and severally represents and warrants to Allied on the Closing Date (which representations and warranties shall survive the execution and delivery of this Agreement) that, except as set forth on the disclosure schedules attached hereto, after giving effect to the Acquisition:

SECTION 4.1 Organization; Powers. The Company and each of its Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite corporate power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure so to qualify would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect, and (d) has the corporate power and authority to execute, deliver and perform its obligations under each of the Investment Documents and each other agreement or instrument contemplated hereby, and to borrow hereunder.

SECTION 4.2 Authorization. The execution, delivery and performance by the Company and each of its Subsidiaries of each of the Investment Documents to which the Company or any of its Subsidiaries is or is to become a party and the obligations hereunder and thereunder (collectively, the "Transaction") (a) have been duly authorized by all necessary corporate action on the part of the Company or such Subsidiary and (b) will not (i) violate (A) (x) any provision of law, statute, rule or regulation, or (y) the certificate or articles of incorporation or other constitutive documents or by-laws of the Company or such Subsidiary, (B) any order of any Governmental Authority applicable to or binding upon the Company or such Subsidiary or (C) any provision of any material indenture, agreement or other instrument to which the Company or such Subsidiary is a party or by which such Person or any of such Person's Property is or may be bound (including, without limitation, the Senior Credit Facility), (ii) result in a breach of or constitute (alone or with notice or lapse of time or both) a default under or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon or with respect to any Property now owned or hereafter acquired by the Company or such Subsidiary.

SECTION 4.3 Enforceability. This Agreement has been duly executed and delivered by the Borrowers and constitutes, and each other Investment Document when executed and delivered by each Credit Party will constitute, a legal, valid and binding obligation of such Person enforceable against such Person in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of

materiality, reasonableness, good faith and fair dealing), regardless or whether considered in a proceeding in equity or at law and the availability of the remedy of specific performance.

SECTION 4.4 Governmental Approvals. Except as specifically disclosed on Schedule 4.4, the Company and each of its Subsidiaries has all material governmental authorizations,

approvals, consents, permits, licenses, certifications and qualifications, and has complied in all material respects with all applicable requirements of the United States, and other jurisdictions where such Person conducts business or owns property, to conduct its business as is presently conducted and to own and operate its facilities as they are presently operated. Except as identified on Schedule 4.4, no action, consent or approval or registration or filing with or any other action by any Governmental Authority is required in connection with the Transaction, except for such as have been made or obtained and are in full force and effect.

SECTION 4.5 Borrowers' Business; Subsidiaries. The Company and each of its Subsidiaries is as of the Closing exclusively engaged in the operation of the Borrowers' Business. Schedule 4.5 sets forth as of the Closing Date a list of all Subsidiaries of each Credit Party and the percentage ownership interest of the Credit Party therein, as well as a list of all joint ventures and partnerships of each Credit Party or any of its Subsidiaries with any other Person. The shares of capital stock or other ownership interests so indicated on Schedule 4.5 are fully paid and non-assessable and are owned by such Credit Party or its Subsidiary free and clear of all Liens.

SECTION 4.6 Financial Condition.

(a) The Company has previously provided to Allied a true and complete copy of the audited Consolidated and consolidating balance sheet of the Company and its Subsidiaries as at December 31, 1998 and December 31, 1999, and the related Consolidated and consolidating statements of income and cash flow of the Company and its Subsidiaries for the fiscal year then ended (the "Audited Financials"). The Audited Financials were prepared in accordance with GAAP, are true and correct in all material respects and fairly present the Company's and each of its Subsidiaries' operations and their cash flows at such date and for the period then ended. The auditors have issued an unqualified statement to the Company concerning the Audited Financials, a copy of which is included with the Audited Financials.

(b) The Company has previously provided to Allied a true and complete copy of the preliminary unaudited Consolidated and consolidating balance sheet of the Company and its Subsidiaries as at October 31, 2000 and the related preliminary unaudited Consolidated and consolidating statements of income and Consolidated cash flow of the Company and its Subsidiaries for the 10 month period then ended (the "Interim Financials"). The Interim Financials were prepared in accordance with GAAP (except that footnotes are omitted), are true and correct in all material respects and fairly present the Company's and each of its Subsidiaries' operations and their cash flows at such date and for the period then ended, subject to normal and immaterial year-end adjustments.

(c) Attached to Schedule 4.6(c) are the pro forma Consolidated and consolidating balance sheets of the Company and its Subsidiaries as of the end of each of fiscal years 2001 through 2003, giving effect to the incurrence of the full amount of Indebtedness contemplated under this Agreement and the use of the proceeds thereof, and the related Consolidated statements of projected cash flow, projected retained earnings and projected income for such fiscal year (the "Projected Statements"). The Projected Statements are based on estimates, information and assumptions believed by the Credit Parties to be reasonable and the Credit Parties have no reason to believe, in the light of conditions existing at the time of delivery, that such projections are incorrect or misleading in any material respect.

SECTION 4.7 Indebtedness. Set forth in the Financials or listed on Schedule 4.7 attached hereto is a complete and accurate list of all Indebtedness of the Company and its Subsidiaries as of the Closing Date. Neither the Company nor any of its Subsidiaries is in default or alleged to be in default in any material respect with respect to any of its Indebtedness listed in the Audited Financials or the Interim Financials.

SECTION 4.8 Insurance. The Company has made available to Allied insurance certificates for all of the insurance maintained by the Company or any of its Subsidiaries as listed on Schedule 4.8. The Company and its Subsidiaries have insurance in such amounts and covering such risks and liabilities as may be

reasonable and prudent and as may otherwise be reasonably required by Allied. Such insurance is in full force and effect and all premiums have been duly paid.

SECTION 4.9 Ownership and Control. Attached hereto as Schedule 4.9 is an accurate and complete list of the following information: (a) the authorized capitalization of the Company and each of its Subsidiaries as of the date hereof; (b) the number of shares of each class of the issued capital stock of the Company and each of its Subsidiaries and the number of outstanding shares thereof as of the date hereof; (c) the name of each class of all convertible securities, options, warrants and similar rights held with respect to the capital stock of the Company and each of its Subsidiaries, the number and class of shares covered thereby and the exercise or conversion price thereof; (d) the percentage of the outstanding shares of capital stock held by the Company and each of its Subsidiaries, and (e) all joint ventures and partnerships of the Company or any of its Subsidiaries with any other Person. All shares of capital stock of the Company and each of its Subsidiaries and all convertible securities, options, warrants and similar rights held with respect to the Capital Stock of the Company and each of its Subsidiaries have been duly authorized, and are validly issued, are fully paid and nonassessable (in the case of capital stock), and are owned of record as set forth on Schedule 4.9 attached hereto, free and clear of all Liens (other than Permitted Liens permitted by Section 7.2). Except as listed in Schedule 4.9 attached hereto or as contemplated by the Investor Rights Agreement, there are no outstanding options, warrants, convertible securities or other stock purchase rights issued by the Company or any of its Subsidiaries as of the date hereof, and there are no sale agreements, pledges, proxies, voting trusts, powers of attorney or other agreements or instruments binding upon the shareholders of the Company or any of its Subsidiaries with respect to beneficial and record ownership of, or voting rights with respect to, the capital stock of Company or any of its Subsidiaries as of the date hereof.

SECTION 4.10 No Material Adverse Change. Since the ending date of the Interim Financials, other than as disclosed in Schedule 4.10 hereto, as of the date hereof there has occurred no Material Adverse Change.

SECTION 4.11 Title to Properties; Possession Under Leases.

(a) The Company and each of its Subsidiaries has good and marketable title to, or valid leasehold interests in, all its material properties and assets free and clear of Liens, other than Permitted Liens permitted by Section 7.2.

(b) All leases of Real Property and other material leases to which the Company or any of its Subsidiaries is a party or by which the Company or any of its

Subsidiaries, or any of its assets is bound, together with all amendments or supplements thereto (collectively, the "Leases") are as of the date hereof valid, binding and enforceable in accordance with their terms and remain in full force and effect, except to the extent such failure to do so is not reasonably likely to have a Material Adverse Effect. True and complete copies of each of the Leases have been made available to the Lender prior to the date hereof. Neither the Company nor any of its Subsidiaries is in default or alleged to be in default in any material respect with respect to any of its obligations under any of the Leases (nor would be in default or alleged to be in default with the giving of notice, passage of time, or both), and, to the knowledge of the Borrowers, no party other than the Company or any of its Subsidiaries is in material default with respect to such party's obligations under any of the Leases (or would be in default or alleged to be in default with the giving of notice, passage of time, or both). The Company's and each of its Subsidiaries' possession of any property leased by it has not been disturbed, nor has any claim been asserted against the Company or such Subsidiary that is or could be adverse to the Company's or such Subsidiary's interests under any of the Leases. None of the Leases is subject to any material rights of set-off, recoupment or similar deduction or offset. Neither the Company nor any of its Subsidiaries has assigned or encumbered any of its rights, title or interest in or under any of the Leases nor agreed to any oral modifications of any of the provisions of any of the Leases.

SECTION 4.12 Litigation; Compliance with Laws.

(a) Except as set forth on Schedule 4.12 (the "Litigation Schedule"), there are no actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the best of knowledge of the Borrowers, threatened against or affecting the Company or any of its Subsidiaries or any business, Property or rights of the Company or any of its Subsidiaries (i) that involve any Investment Document or the Transaction or (ii) as to which there is a reasonable possibility of an adverse determination.

(b) Neither the Company nor any of its Subsidiaries nor any of their respective material properties or assets is in violation of nor will the

continued operation of its material properties and assets as currently conducted violate, any law, rule or regulation, or is in default with respect to any material judgment, writ, injunction, decree or order of any Governmental Authority, except with respect to Environmental Laws and other environmental matters, which are addressed in Section 4.20 of this Agreement.

(c) Except for matters set out in the Litigation Schedule, neither the Company nor any of its Subsidiaries is in breach of, default under, or in violation of: (a) any Applicable Law, decree, or order of any Governmental Authority, which breach, default or violation would reasonably be expected to result in a Material Adverse Effect; or (b) any deed, lease, loan agreement, commitment, bond, note, deed of trust, restrictive covenant, license, indenture, contract, or other agreement, instrument or obligation to which it is a party or by which it is bound or to which its assets are subject, which breach, default or violation would reasonably be expected to result in a Material Adverse Effect, except with respect to Environmental Laws and other environmental matters, which are addressed in Section 4.20 of this Agreement.

SECTION 4.13 Contracts, Etc. All material contracts (including all those representing 10% or more of the Company's Consolidated total revenue, profit or volume) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries

or any of its assets is bound (collectively, the "Contracts") are as of the date hereof valid, binding and enforceable in accordance with their terms and remain in full force and effect. True and complete copies of each of the Contracts have been made available to Allied prior to the date hereof. Neither the Company nor any of its Subsidiaries is in default or, to the best knowledge of the Borrowers, alleged to be in default in any material respect with respect to any of its obligations under any of the Contracts (nor would be in default or alleged to be in default with the giving of notice, passage of time, or both), and, to the best knowledge of the Borrowers, no party other than the Company or any of its Subsidiaries is in default with respect to such party's obligations under any of the Contracts (or would be in default or alleged to be in default with the giving of notice, passage of time, or both). No claim has been asserted against the Company or any of its Subsidiaries that is or could be materially adverse to its interests under any of the Contracts. None of the Contracts is subject to any material rights of set-off, recoupment or similar deduction or offset. Neither the Company nor any of its Subsidiaries has assigned or encumbered any of its rights, title or interest in or under any of the Contracts nor agreed to any oral modifications of any of the material provisions of any of the Contracts.

SECTION 4.14 No Side Agreements; Affiliate Transactions. There exists no agreement or understanding calling for any payment or consideration from a customer or supplier of the Company or any of its Subsidiaries to an officer, director, shareholder or manager of any Credit Party with respect to any transaction between any Credit Party or any of its Subsidiaries and a supplier or customer. Except as set forth in Schedule 4.14, neither the Company nor any of its Subsidiaries is a party to or bound by any agreement and arrangement (whether oral or written) to which any Affiliate of the Company or any such Subsidiary is a party except upon fair and reasonable terms no less favorable to the Company or such Subsidiary than it could obtain in a comparable arm's-length transaction with an unaffiliated Person.

SECTION 4.15 Investment Company Act; Public Utility Holding Company Act. Neither the Company nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

SECTION 4.16 Use of Proceeds. The Borrowers will use the proceeds of the investment only for the purposes specified in Article II.

SECTION 4.17 Tax Returns. The Company and each of its Subsidiaries has filed or caused to be filed all Federal, state, and local tax returns which are required to have been filed by it or has filed extensions therefor except where the failure to do so is not reasonably expected to result in a Material Adverse Effect and has paid or caused to be paid all taxes as and when due and payable by it and all assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Company and each of its Subsidiaries shall have set aside on its books adequate reserves.

SECTION 4.18 No Untrue Statements or Material Omissions. None of the statements contained in any report, financial statement, exhibit or schedule furnished by or on behalf of the Borrowers to Allied in connection with the negotiation of any Investment Document or included therein or delivered pursuant thereto, contained or contains any untrue statement of material fact or omits any material fact required to be stated therein or necessary to make the statements made

therein, in light of the circumstances under which they were made, not misleading as of the time when made or delivered.

SECTION 4.19 Employee Benefit Matters. Except as set forth on Schedule 4.19, there is no existing single-employer plan defined in Section 4001(a) of ERISA as to which the Company or any of its Subsidiaries is, or immediately after the Closing Date will be, an "employer" or a "substantial employer" as defined in Sections 3(5) and 4001(a)(2) of ERISA, respectively. The Company has made available to Allied true and complete copies of each of the plans listed on Schedule 4.19 attached hereto. There have been no "reportable events" as set forth in Section 4043(c) of ERISA for which the 30-day notice under Section 4043(a) of ERISA has not been waived by the PBGC with respect to any such plan or termination of any such plan which could result in any tax, penalty or liability being imposed upon the Company or any of its Subsidiaries that would reasonably be expected to result in a Material Adverse Effect. Except as otherwise described on Schedule 4.19 hereto, to the best knowledge of the Borrowers, neither the Company nor any of its Subsidiaries has participated in, and the execution and delivery of this Agreement by the Company or any of its Subsidiaries will not involve, any "prohibited transaction" (as defined in Section 4975 of the Internal Revenue Code of 1986, as amended) that could subject the Company or any of its Subsidiaries to any tax or penalty imposed by Section 4975 of the Internal Revenue Code of 1986, as amended that would reasonably be expected to result in a Material Adverse Effect. To the best knowledge of the Borrowers, no predecessor-in-interest to the Company or any of its Subsidiaries has participated in any "prohibited transaction" (as defined in Section 4975 of the Internal Revenue Code of 1986, as amended) that could subject the Company or any of its Subsidiaries to any tax or penalty imposed by Section 4975 of the Internal Revenue Code of 1986, as amended that would reasonably be expected to result in a Material Adverse Effect. Neither Company nor any of its Subsidiaries nor, to the best knowledge of the Borrowers, any predecessor-in-interest to the Company or any of its Subsidiaries, has incurred any "accumulated funding deficiency", as such term is defined in Section 302 of ERISA, to which the Company or any of its Subsidiaries could be subject or for which it might be liable that would reasonably be expected to result in a Material Adverse Effect. Except as otherwise set forth on Schedule 4.19, neither Company nor any of its Subsidiaries is, and immediately after the Closing will not be, a party to, and none of the operations of the Company or any of its Subsidiaries is, or after the Closing will be, covered by, a "multi employer plan", as defined in Section 3(37) of ERISA.

SECTION 4.20 Environmental Matters.

(a) Except as set forth on Schedule 4.20(a), the Company and its Subsidiaries are in material compliance with all applicable Environmental Laws, and all material Environmental Permits necessary for the existing operations of the Companies and its Subsidiaries have been obtained and are in effect.

(b) Except as set forth on Schedule 4.20(b)(1) and to the knowledge of the Borrowers, there have been no Releases or threatened Releases at the properties currently owned or operated by the Company or its Subsidiaries as set forth in Schedule 4.20(b)(2) (the "Properties") or otherwise in connection with existing operations of the Company or its Subsidiaries that are in violation of or are reasonably likely to lead to any liability arising under any Environmental Law, except for any such violations or liability that would not have a Material Adverse Effect.

(c) Except as set forth on Schedule 4.20(c), neither the Company nor any of its Subsidiaries has received any written notice of an Environmental Claim in connection with the Properties or the existing operations of the Company or any of its Subsidiaries or with regard to any Person whose liabilities for environmental matters the Company or any of its Subsidiaries has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, except in all such cases that would not have a Material Adverse Effect.

(d) Except as set forth on Schedule 4.20(d) and to the knowledge of the Borrowers, Hazardous Materials have not been transported from the Properties, nor have Hazardous Materials been generated, treated, stored or disposed of at, on or under any Properties in a manner that is reasonably likely to give rise to any liability under any Environmental Law, except for any such liability that would not have a Material Adverse Effect.

SECTION 4.21 Labor Matters. As of the date hereof, there are no strikes, lockouts or slowdowns against any Borrower or any of its Subsidiaries pending or, to the actual knowledge of the Credit Parties, threatened. The hours worked by and payments made to employees of the Company or any of its subsidiaries have not been in violation of the Fair Labor Standards Act or any

other applicable federal, state, local or foreign law dealing with such matters. The consummation of the Transaction will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Company or any of its Subsidiaries is bound.

SECTION 4.22 Public Disclosure. The Company has filed all reports or information in compliance with the Securities Exchange Act of 1934 and none of such reports or information filed by the Company during the 18 months preceding the Closing Date (upon which Allied is entitled to rely in making the investment pursuant to this Investment Agreement) contains any untrue statement of material fact or omits to state a material fact necessary to make the statements therein not misleading

SECTION 4.23 Solvency. Immediately after the consummation of the Transaction to occur on the Closing Date and after giving effect to the application of the proceeds of the investment, each of the Borrowers will be Solvent, able to pay its debts as they mature, have sufficient capital to carry out its 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.

SECTION 4.24 Licenses. The Company and its Subsidiaries have good title to all of the Licenses necessary to operate the Borrowers' Business, except to the extent such failure to do so is not reasonably likely to have a Material Adverse Effect.

SECTION 4.25 Brokers. Neither the Borrowers nor any of their Subsidiaries has engaged the services of a broker in connection with the Transactions.

SECTION 4.26 Intellectual Property. As of the Closing Date, the Company and each of its Subsidiaries owns or will own or has rights to use all Intellectual Property necessary to continue to conduct its business as now or heretofore conducted by it or proposed to be

conducted by it, and each patent, material trademark and material copyright and License owned by the Company or any of its Subsidiaries is listed, together with application or registration numbers, as applicable in Schedule 4.26. The Company and each of its Subsidiaries conducts its business and affairs without infringement of or interference with any Intellectual Property of any other Person and no Credit Parties has knowledge that another Person is infringing or interfering with any Intellectual Property of the Company or its Subsidiaries.

SECTION 4.27 Warrant Shares. All of the Warrant Shares have been duly authorized and reserved for issuance, and upon issuance subsequent to the payment of the exercise price in accordance with the terms of the Warrants, the Warrant Shares will be validly issued, fully paid and non-assessable.

ARTICLE V.
INVESTOR REPRESENTATIONS

Allied represents and warrants to the Borrowers as follows:

SECTION 5.1 Investment. Allied is acquiring the Debentures and the Warrants (collectively, the "Securities") for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof, nor with any present intention of distributing or selling the same; and Allied has no present or contemplated agreement, undertaking, arrangement, obligation, indebtedness or commitment providing for the disposition thereof.

SECTION 5.2 Authority. Allied has full power and authority to enter into and to perform this Agreement in accordance with its terms. Allied represents that it has not been organized, reorganized or recapitalized specifically for the purpose of investing in the Securities.

SECTION 5.3 Experience. Allied has carefully reviewed the representations concerning the Borrowers contained in this Agreement and has made detailed inquiry concerning the Borrowers, their business and their personnel; the officers of the Borrowers have made available to Allied any and all written information that Allied has requested and has answered to Allied's satisfaction all inquiries made by Allied.

SECTION 5.4 Accredited Investor. Allied is an "Accredited Investor" within the definition set forth in Rule 501(a) of the Securities Act.

ARTICLE VI.

AFFIRMATIVE COVENANTS

Until the Debentures and all expenses or other amounts payable under the Loan Documents are repaid in full, unless the Holders shall otherwise consent in writing, the Credit Parties jointly and severally covenant and agree with the Holders to do all of the following:

SECTION 6.1 Existence; Businesses and Properties.

(a) Each of the Credit Parties will do or cause to be done all things necessary to preserve and maintain its and its Subsidiaries' legal existence prior to any sale of such Subsidiaries otherwise permitted hereby.

(b) Each of the Credit Parties will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its and such Subsidiaries' business; comply in all material respects with all applicable laws, rules, regulations and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain and preserve all Property material to the conduct of such business and keep such Property in good repair, working order and condition (ordinary wear and tear excepted) and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

SECTION 6.2 Insurance. Each of the Credit Parties will keep its and each of its Subsidiaries' insurable properties adequately insured at all times by financially sound and reputable insurers; maintain such other insurance to such extent and against such risks as is reasonable and prudent and as may otherwise be reasonably required by the Holders, including commercial general liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and maintain such other insurance as may be required by law, in each case naming the Holders as a lienholder/mortgagee to the extent of their interests, if any.

SECTION 6.3 Obligations and Taxes. Each of the Credit Parties will pay, and cause its Subsidiaries to pay, its material Indebtedness and other material obligations promptly and in accordance with their terms and to pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof, provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and any Credit Party and its Subsidiaries, as applicable, shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien.

SECTION 6.4 Financial Statements, Reports, etc. The Borrowers will furnish to the Holders:

(a) within 90 days after the end of each fiscal year, the Consolidated and consolidating balance sheets and related statements of operations, stockholders' equity and cash flows, showing the financial condition of the Company and its Subsidiaries, as of the close of such fiscal year and the results of its operations during such year, such Consolidated statements to be audited by an independent public accountant of recognized national or regional standing

acceptable to the Board of Directors, and accompanied by an opinion of such accountant (which shall not be qualified in any material respect) that such financial statements fairly present the financial condition and results of operations of the Company and its Subsidiaries on a Consolidated basis in accordance with GAAP;

(b) within 45 days after the end of each fiscal quarter of each fiscal year, its quarterly and year-to-date Consolidated and consolidating balance sheet and related statements of operations, stockholders' equity and

cash flows showing the financial condition of the Company and its Subsidiaries, as of the close of such fiscal quarter and the results of its operations during such fiscal quarter and fiscal year-to-date period, setting forth in each case in comparative form the corresponding figures for the corresponding quarter and fiscal year-to-date period of the preceding fiscal year and the corresponding figures for the corresponding quarter and fiscal year-to-date period of the annual forecast, all certified by its Financial Officer as fairly presenting in all material respects the financial condition and results of operations of the Company and its Subsidiaries on a Consolidated basis in accordance with GAAP (but without footnotes), subject to normal year-end audit adjustments, together with a quarterly management summary description of operations, together with detailed calculations evidencing compliance with the financial ratios and covenants set forth in Section 6.12;

(c) concurrently with any delivery of financial statements under sub-paragraph (a) or (b) above, a certificate of the accounting firm or Financial Officer of the Company opining on or certifying such statements (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) containing a detailed calculation of the relevant items used to calculate compliance with the financial covenants set forth in Section 6.12 and , certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

(d) to the extent that any Credit Party is or becomes subject to such reporting requirements, promptly after the same become publicly available, copies of all final periodic and other reports, proxy statements and other materials filed by such Credit Party with the U.S. Securities and Exchange Commission (the "SEC"), or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed to its shareholders (exclusive of proprietary information unless (i) the Person that is the source of the information or report is a public company and (ii) such Person would then be required to file such proprietary information with the SEC), as the case may be;

(e) before each fiscal year, a copy of each Borrower's annual budget (detailed on a monthly basis) for the next succeeding three fiscal years, in a form consistent with past practices;

(f) promptly after entering into the same, copies of all shareholders agreements, material employment agreements and other material agreements of the Company or its Subsidiaries; and

(g) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Company or any of its Subsidiaries, or compliance with the terms of any Investment Document, as any Holder may reasonably request.

SECTION 6.5 Litigation and Other Notices. The Borrowers will furnish to the Holders prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

(b) within 30 days of filing, the filing or commencement of or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Company, any of its Subsidiaries or any Affiliate thereof;

(c) at least 30 days and no more than 60 days prior notice of any Change of Control;

(d) within 30 days of filing, notice of any material filing by the Company or any of its Subsidiaries with any Governmental Authority, including, without limitation, the U.S. Internal Revenue Service, the U.S. Environmental Protection Agency (and any state equivalent), the U.S. Occupational Safety & Health Administration and the SEC;

(e) within 10 days of receipt, notice of default on any material loans or leases to which any Credit Party is a party;

(f) within 10 days of receipt, any notices with respect to the Junior Trust Preferred Notes, and

(g) any development that has resulted in, or would reasonably be expected to result in, a Material Adverse Effect (including, without limitation, any enforcement, remedial or other governmental regulatory or other action

instituted, completed or threatened in writing against the Company or any of its Subsidiaries pursuant to any applicable Environmental Law, and any claim made by any Person against the Company or any of its Subsidiaries relating to liability in respect of Hazardous Materials, which in each case would reasonably be expected to result in a Material Adverse Effect).

SECTION 6.6 Employee Benefits. Each of the Credit Parties will, and will cause its Subsidiaries to, (a) comply in all material respects with the applicable provisions of ERISA and the Code and (b) furnish to the Holders as soon as possible after, and in any event within 10 days after any Responsible Officer of such Credit Party or Subsidiary thereof or any ERISA Affiliate knows that any ERISA Event has occurred that alone or together with any other ERISA Event could reasonably be expected to result in liability of such Credit Party or Subsidiary thereof in an aggregate amount exceeding $500,000, a statement of a Financial Officer of such Credit Party setting forth details as to such ERISA Event and the action, if any, that such Credit Party proposes to take with respect thereto.

SECTION 6.7 Maintaining Records; Access to Properties and Inspections. Each of the Credit Parties will keep, and will cause its Subsidiaries to keep, proper books of record and

account in which full and correct entries in conformity with GAAP are made of all dealings and transactions in relation to its business and activities. Each of the Credit Parties will permit any representatives designated by the Holders to visit and inspect the financial records and the properties of such Credit Party and its Subsidiaries at reasonable times during normal business hours and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Holders to discuss the affairs, finances and condition of such Credit Party and its Subsidiaries with the officers thereof and independent accountants therefor. The Holders will provide prior notice to the Company of any planned discussions with its independent accountants and will permit an officer of the Company to be present. In addition, the Company shall permit the Holders to conduct a review of the use of the proceeds of the Debentures and shall certify in writing to the Holders that the proceeds of the Debentures were used in accordance with Section 2.10 hereof.

SECTION 6.8 Compliance with Laws. Each of the Credit Parties will comply, and cause its Subsidiaries to comply with all Federal, state, local and foreign laws and regulations applicable to them. Without limiting the generality of the foregoing, each of the Credit Parties will, and will cause its Subsidiaries to comply, and cause all lessees and other persons occupying their Properties to comply, in all material respects with all Environmental Laws and Environmental Permits applicable to its operations and Properties; obtain and renew all material Environmental Permits necessary for their operations and Properties; and conduct in all material respects any Remedial Action in accordance with applicable Environmental Laws; provided, however, that no Credit Party shall be required to undertake any Remedial Action to the extent that their obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

SECTION 6.9 Preparation of Environmental Reports. If an Event of Default caused by reason of a breach of Section 4.20 or Section 6.8 shall have occurred and be continuing, then the Credit Parties shall, at the request of the Holders, provide to the Holders within 45 days after such request, at the expense of the Credit Parties, a Phase I environmental site assessment report for any of the Company's or its Subsidiaries' properties described in such request, prepared by an environmental consulting firm acceptable to the Holders (and, if based upon the recommendation of such environmental consulting firm, a Phase II environmental site assessment report) indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance, removal or remedial action in connection with any Hazardous Materials on such properties; without limiting the generality of the foregoing, if the Holders determine at any time that a material risk exists that any such report will not be provided within the time referred to above, the Holders may retain an environmental consulting firm to prepare such report at the expense of the Credit Parties, and each of the Credit Parties hereby grants and agrees to cause any Subsidiary that owns any property described in such request to grant at the time of such request, to the Holders such firm and any agents or representatives thereof an irrevocable non-exclusive license, subject to the rights of tenants, to enter onto their respective properties to undertake such assessment.

SECTION 6.10 Further Assurances. Each of the Credit Parties will execute, and will cause their Subsidiaries to execute, any and all further documents, agreements and instruments, and take all further action that may be required under applicable law, or that the Holders may reasonably request, in order to effectuate the transactions contemplated by the Investment Documents. The Credit Parties shall deliver or cause to be delivered to the Holders all such

instruments and documents (including legal opinions) as the Holders may reasonably request to evidence compliance with this Section.

SECTION 6.11 Maintenance of Office or Agency. Each of the Credit Parties shall maintain an office or agency (i) where the Debentures may be presented for payment, or for registration and transfer and for exchange as provided in this Agreement; and (ii) where notices and demands to or upon such Credit Party in respect of the Debentures may be served. The location of such office or agency initially shall be the principal office of such Credit Party as set forth in Section 9.1 hereof. Each of the Credit Parties shall give the Holders written notice of any change of location thereof.

SECTION 6.12 Financial Ratios and Covenants. The Credit Parties shall with respect to each period set forth below have complied or comply with and maintain each of the following financial ratios and financial covenants, using the information set forth in the financial statements provided by the Borrowers in accordance with Section 6.4 above:

(a) Consolidated Funded Leverage Ratio. A Consolidated Funded Leverage Ratio (i) as of March 31, 2001 for the three-month period then ended shall not be more than 4.25 to 1.00 and (ii) as of June 30, 2001 for the six-month period then ended, as of September 30, 2001 for the nine-month period then ended and thereafter as of the last day of each calendar quarter for the twelve-month period then ended shall not be more than 4.0 to 1.00.

(b) Consolidated Fixed Charges Ratio. A Consolidated Fixed Charges Ratio (i) as of March 31, 2001 for the three-month period then ended shall not be less than 1.00 to 1.00 and (ii) as of June 30, 2001 for the six-month period then ended, as of September 30, 2001 for the nine-month period then ended and thereafter as of the last day of each calendar quarter for the twelve-month period then ended shall not be less than 1.35 to 1.00.

SECTION 6.13 Observation Rights.

(a) The board of directors of the Company shall hold a general meeting (which may be held by conference call) or propose adoption of resolutions by written consent of the board of directors at least quarterly for the purpose of discussing the business and operations of the Company and its Subsidiaries. The Company shall notify each of the Holders in writing of the date and time for each general or special meeting of its board of directors or any committee thereof or of the adoption of any resolutions by written consent (describing in reasonable detail the nature and substance of such action) at least one week prior to any general meeting and at the time notice is provided to the directors of the Company of any special meeting, and concurrently deliver to the Holders any materials delivered to directors of the Company, including a draft of any resolutions proposed to be adopted by written consent. The Holders shall be free during such one week period to contact the directors of the Company and discuss the pending actions to be taken.

(b) The Company shall permit one authorized representative of Allied (and its successors) to attend and participate in all meetings of its board of directors and any committee thereof, whether in person, by telephone or otherwise, and shall provide such representative with such notice and other information with respect to such meetings as are delivered to the directors of the Company. The Company shall pay such representative's reasonable travel expenses

(including, without limitation, the cost of airfare, meals and lodging) in connection with the attendance of such meetings.

SECTION 6.14 Reservation of Warrant Shares. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock issuable upon the exercise of all outstanding Warrants. All Warrant Shares which are so issuable shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all taxes, Liens and charges. The Company shall take all such action as may be reasonably necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Common Stock may be listed (except for official notice of issuance which shall be immediately transmitted by the Company upon issuance).

SECTION 6.15 Replacement of Warrants. The Company shall perform all acts required under the Warrants, including the re-issuance or replacement of Warrants to any of the Holders upon transfer, exchange, loss or destruction thereof (upon provision of reasonable indemnification).

ARTICLE VII.
NEGATIVE COVENANTS

Until the Debentures and all expenses or other amounts payable under the Loan Documents are repaid in full, unless the Holders shall otherwise consent in writing, the Credit Parties jointly and severally covenant and agree not to do any of the following without the prior written consent of the Holders:

SECTION 7.1 Indebtedness.

(a) No Credit Party shall, nor will it permit any of its Subsidiaries to, directly or indirectly incur, create, assume or permit to exist any Indebtedness other than the following (together, the "Permitted Indebtedness"):

(i) the Senior Debt;

(ii) Indebtedness existing on the date hereof and set forth in the Financials or Schedule 4.6;

(iii) Indebtedness created hereunder and under the other Investment Documents;

(iv) Indebtedness of any Credit Party or Subsidiary of a Credit Party to another Credit Party so long as (i) after such transaction, the Person providing the Indebtedness will be Solvent and (ii) no Default or Event of Default then exists or will exist after such transaction;

(v) Indebtedness of any Credit Party or Restricted Subsidiary to another Restricted Subsidiary so long as (i) after such transaction, the Person providing

the Indebtedness will be Solvent, (ii) no Default or Event of Default then exists or will exist after such transaction and (iii) the aggregate outstanding amount of all Indebtedness incurred under this paragraph (a)(v) at any one time is less than $1,000,000;

(vi) Indebtedness of the Company or its Subsidiaries in respect of performance bonds, bid bonds, appeal bonds, surety bonds and similar obligations, in each case provided in the ordinary course of business;

(vii) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided that such Indebtedness is extinguished within five (5) Business Days of its incurrence;

(viii) Indebtedness in respect of taxes, assessments, governmental charges or levies, claims of customs authorities and claims for labor, worker's compensation, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of Section 7.2;

(ix) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Company or the applicable Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(x) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(xi) any Indebtedness that is expressly subordinate to the Debentures pursuant to a written subordination agreement in form and substance acceptable to the Holders;

(xii) any other Indebtedness incurred after December 31, 2000; provided that at the time of incurrence of such Indebtedness (A) after giving pro forma effect to the incurrence, creation or assumption of such Indebtedness and the use of the proceeds thereof, the Consolidated Funded Leverage Ratio as of the last day of last full calendar quarter ending immediately prior to such incurrence shall not exceed 3.5 to 1.0 as of March 31, 2001 for the three months then ended, as of June 30, 2001 for the six-month

period then ended, as of September 30, 2001 for the nine-month period then ended and thereafter as of the last day of each calendar quarter for the 12 months then ended; (B) the Borrowers shall, prior to such incurrence, creation or assumption, have provided to the Holders calculations showing compliance with this clause (xii), (C) the credit documentation with respect to such Indebtedness shall not contain covenants or default provisions relating to any Credit Party or any Subsidiary that are more restrictive than the covenants and default provisions contained in the Investment Documents, (D) the Credit Parties shall have provided a certificate of the Financial Officer of the Company certifying that no Default or Event of Default exists or would exist immediately after giving effect thereto and (E) for purposes of this clause (xii), any transaction (including

any acquisition of stock, merger or consolidation) pursuant to which any Person becomes a Subsidiary of a Credit Party or its Subsidiary shall be deemed an assumption by the Credit Party or its Subsidiary of any Indebtedness of such Person at such time outstanding; and

(xiii) Capital Lease Obligations up to $7,500,000 in the aggregate outstanding at any one time.

SECTION 7.2 Liens. No Credit Party shall, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any Person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof except the following (the "Permitted Liens"):

(a) Liens securing the Senior Debt;

(b) Liens on Property of such Borrower or its Subsidiaries existing on the date hereof and set forth in Schedule 7.2; provided that such Liens shall secure only those obligations that they secure on the date hereof and the amount of Indebtedness secured thereby shall not be increased;

(c) Liens for taxes, assessments or governmental charges (excluding any Lien imposed pursuant to any of the provisions of ERISA) not yet due or which are being contested in compliance with Section 6.3 but only if the existence of such Lien being contested would not likely have a Material Adverse Effect;

(d) Liens of carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due and payable or which are being contested in compliance with Section 6.3;

(e) pledges and deposits made in the ordinary course of business to secure obligations under workers' compensation, unemployment insurance and other social security laws or regulations or to secure public or statutory obligations;

(f) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), liens to secure the performance of statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or materially adversely interfere with the use of such property for its present purposes;

(h) Liens arising solely by virtue of any contractual or statutory or common law provisions relating to banker's liens, rights to set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution provided that (i)

such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Borrower or any Subsidiary in excess of those set forth by regulations promulgated by the Board of Governors of the Federal Reserve System and (ii) such deposit account is not intended by the Borrower or such Subsidiary to provide collateral to the depositary

institution;

(i) Capital Lease Obligations and purchase money Liens on equipment acquired in the ordinary course of the Borrower's Business with respect to Indebtedness permitted under Section 7.1;

(j) judgment Liens not giving rise to an Event of Default; and

(k) any Lien existing on any asset of any Person at the time such Person becomes a Subsidiary of a Borrower in connection with a Permitted Acquisition; provided that the Lien (A) shall be less than the fair market value of the asset secured thereby and (B) shall not have been not created in contemplation of such event.

SECTION 7.3 Sale and Lease-Back Transactions. No Credit Party shall, nor will it permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it or any of its Subsidiaries shall sell or transfer any property, real or personal, used or useful in its or any of its Subsidiaries' business, whether now owned or thereafter acquired, and thereafter rent or lease such property or other property that it or any of its Subsidiaries intends to use for substantially the same purpose or purposes as the property being sold or transferred.

SECTION 7.4 Investments. No Credit Party shall, nor will they permit any of its Subsidiaries to, make any Investments except:

(a) Investments existing on the date hereof;

(b) Cash Equivalents;

(c) Investments in respect of interest rate protection agreements entered into in the ordinary course of business and not for speculative purposes;

(d) Investments consisting of extensions of trade credit in the ordinary course of the Borrowers' Business; and

(e) loans and advances to employees in the ordinary course of the business of such Borrower and its Subsidiaries as presently conducted in the aggregate amount of all such Investments under this clause (e) not to exceed $20,000 at any one time outstanding;

(f) Investments in Credit Parties or Subsidiaries of a Credit Party, provided, however, that any such Investments in Restricted Subsidiaries shall not exceed an aggregate amount of $1,000,000 at any one time;

(g) Permitted Acquisitions; and

(h) other investment instruments approved in writing by Holders.

SECTION 7.5 Mergers, Consolidations, Sales of Assets, Act of Dissolution. Except in connection with a Permitted Buyout:

(a) No Credit Party shall, nor will it permit any of its Subsidiaries to, merge or consolidate or enter into any analogous reorganization or transaction with any Person or permit any Subsidiary to do any of the foregoing; provided that any Subsidiary may be merged with or liquidated into the Company or any Wholly Owned Subsidiary of the Company (if the Company or such Wholly-Owned Subsidiary is the surviving corporation).

(b) No Credit Party shall, nor permit any of its Subsidiaries to, suffer an Act of Dissolution (other than the Mexican Liquidation).

(c) No Credit Party shall, nor permit any of its Subsidiaries to, change its form of entity.

(d) No Credit Party shall, nor permit any of its Subsidiaries to, consummate any Asset Disposition without the consent of the Holders.

SECTION 7.6 Dividends and Distributions; Restrictions on Ability of Subsidiaries to Pay Dividends.

(a) No Credit Party shall, nor permit any of its Subsidiaries to, declare or pay any Restricted Payments (other than a dividend or distribution of any shares of its common stock) unless the Credit Parties shall, prior to such declaration or payment, have provided to the Holders calculations showing that the Consolidated Fixed Charge Ratio (after giving effect to such Restricted Payment on a pro-forma basis) determined as of the last day of last full calendar quarter ending immediately prior to such payment would not be less than the applicable ratio for the period then ended as follows:

Periods	Consolidated Fixed Charges Ratio
For the three months ended March 31, 2001	1.1 to 1.0
For the six months ended June 30, 2001	1.1 to 1.0
For the nine months ended September 30, 2001	1.1 to 1.0
For the 12 months ended December 31, 2001 and each calendar quarter thereafter	1.1 to 1.0

provided, however, that any Subsidiary of a Borrower may declare and pay a Restricted Payment to such Borrower. Notwithstanding anything herein to the contrary, (i) the Company shall not make any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any class of equity securities of the Company, now or hereafter outstanding; provided, however, so long as no Default or Event of Default the exists or would be caused thereby, the Company may repurchase shares of Capital Stock from its officers, directors and employees upon termination of their employment or other relationship with the Company to the extent such repurchases do not exceed $250,000 in any calendar year and (ii) subject to the provisions of Section 2.7, the Company may issue or sell Capital Stock to its officers, directors

and employees under option or incentive plans approved by the board of directors of the Company.

(b) Except as provided in the Senior Credit Facility in effect on the date hereto, no Credit Party other than the Company shall, nor permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of such Credit Party or any such Subsidiary to (i) pay any dividends or make any other distributions on its Capital Stock or any other interest or (ii) make or repay any loans or advances to the Company or the parent of such Subsidiary.

SECTION 7.7 Transactions with Affiliates. Except as otherwise expressly provided herein, no Credit Party shall, nor permit any of its Subsidiaries to, sell or transfer any Property to, or purchase or acquire any Property from, or otherwise engage in any other transactions with, any of its Affiliates other than another Credit Party, except that the Credit Parties and their Subsidiaries may engage in the foregoing transactions with Affiliates on terms that are fair and reasonable and no less favorable to such Credit Party or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

SECTION 7.8 Business of Borrowers and Subsidiaries.

(a) No Credit Party shall, nor permit any of its Subsidiaries to, change its form of entity or engage at any time in any business or business activity other than those substantially similar or related to the Borrowers' Business and business activities reasonably incidental thereto.

(b) Except for Investments permitted under Section 7.4(f), no Credit Party shall, nor permit any of its Subsidiaries to, acquire or create any new Subsidiary unless such subsequently acquired or organized Subsidiary joins this Agreement and the Debentures as a Borrower hereunder or the Guaranty Agreement as a Guarantor thereunder. No Credit Party shall, nor permit any of its Subsidiaries to, change the location of the operations of the Borrowers' Business from the states in which they are presently conducted without the consent of the Holders.

(c) No Credit Party shall, nor permit any of its Affiliates to, directly or indirectly purchase or otherwise acquire, or offer to purchase or otherwise acquire, any outstanding Debentures except by way of payment or prepayment in accordance with the provisions hereof.

(d) Notwithstanding any provision hereof to the contrary, no Credit Party shall permit a Restricted Subsidiary to, and no Restricted Subsidiary shall, (i) incur Indebtedness under Section 7.1(a)(xi), (xii) or (xiii) or (ii) acquire Capital Stock or property or assets of any other Person.

SECTION 7.9 Investment Company Act. No Credit Party shall, nor will it permit its Subsidiaries to, become an investment company subject to registration under the Investment Company Act of 1940, as amended.

SECTION 7.10 Acquisitions. No Credit Party shall, nor permit its Subsidiaries to, acquire Capital Stock or property or assets of any other Person

unless the Credit Party or

Subsidiary making such acquisition complies with all of the following (each, a "Permitted Acquisition"):

(a) The Capital Stock or property or assets acquired in such acquisition relate to a business reasonably related to the business of the Company or any of its Subsidiaries as of the Closing Date and businesses reasonably related thereto and similar businesses;

(b) No Event of Default shall exist prior to or will be caused as a result of such acquisition;

(c) The Credit Parties shall have provided the Holders with at least 30 Business Days prior written notice of such acquisition, such notice to include (i) a description of the assets or Capital Stock to be purchased, (ii) the price and terms of such acquisition, (iii) in reasonable detail, computations and a consolidated financial statement prepared on a pro forma basis of the Company and its Subsidiaries immediately prior to and after giving effect to such acquisition demonstrating compliance with Section 6.12 and Section 7.1(a)(xii) as of the last day of last full calendar quarter ending immediately prior to such acquisition as if such acquisition were effective on the first day of the relevant period and (iv) such other information with respect thereto as is reasonably requested by the Holders. For purposes of this Section 7.10, the pro forma computations shall be with reference to the actual financial results of the Credit Party or such Subsidiary and the Person being acquired (which actual financial results must be audited if the aggregate purchase price for the Person being acquired is greater than $7,500,000), with only such adjustments as may be approved by the Holders; and

(d) Such acquisition shall consist of (i) at least 51% of the Capital Stock of a Person or (ii) all of the assets of a Person or any portion of the assets that constitute a division or operating unit of the business of a Person, in each case, which the Board of Directors of the Credit Party deems to be of strategic importance to the Credit Party, provided that, in the event of subclause (i) above, the Credit Party, as the case may be, also possesses the power to direct or cause the direction of the management or policies of such entity and has the right to elect a majority of the members of the board of directors of such entity.

SECTION 7.11 Employee Compensation. All executive compensation of any Credit Party shall be approved by the respective board of directors (or other similar body) of such Credit Party.

SECTION 7.12 Prepayments; Payments of Junior Trust Preferred Notes.

(a) Except for the Senior Debt, the Warburg Note, the Axxess Notes, the Debentures, Indebtedness owed to a Credit Party from a Subsidiary or as permitted under paragraph (b) below, neither the Credit Parties nor any of their Subsidiaries shall prepay any Indebtedness for borrowed money and the Company shall not pay any amounts due under the Junior Trust Preferred Notes.

(b) The Company may make monthly payments of interest on the Junior Trust Preferred Notes if and to the extent that the Consolidated Fixed Charge Ratio (after giving effect to such payment on a pro-forma basis) determined as of the last day of the last full calendar

quarter ending immediately prior to such payment would be more than the applicable ratio for the period then ended as follows:

Periods	Consolidated Fixed Charges Ratio
For the three months ended March 31, 2001	0.5 to 1.0
For the six months ended June 30, 2001	1.0 to 1.0
For the nine months ended September 30, 2001	1.0 to 1.0
For the 12 months ended December 31, 2001	1.05 to 1.0
For the 12 months ended March 31, 2002 and each calendar quarter thereafter	1.10 to 1.0

Notwithstanding the foregoing, the Company may make regularly scheduled payments of interest on the Junior Trust Preferred Notes on or prior to June 30, 2001 if

undrawn availability on the revolver under the Senior Credit Facility exceeds $10,000,000.

(c) In the event the Company is not permitted pursuant to paragraph (b) above to make payments on the Junior Trust Preferred Notes, the Credit Parties shall take all actions necessary to exercise their right to defer interest due under the Junior Trust Preferred Notes until such payments are otherwise permitted hereunder.

SECTION 7.13 Accounting Changes. No Credit Party shall, nor permit any of its Subsidiaries to, make any significant change in accounting treatment or reporting practices, except as required or permitted by GAAP, or change its fiscal year from its current fiscal year.

SECTION 7.14 Stay, Extension and Usury Laws. To the extent permitted under applicable law, each of the Credit Parties covenants and agrees that they will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, and will use their best efforts to resist any attempts to claim or take the benefit of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of their obligations under this Agreement or the Debentures. To the extent permitted under applicable law, each of the Credit Parties hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holders, but will suffer and permit the execution of every such power as though no such law has been enacted.

SECTION 7.15 Limitation on Foreign Operations. No Credit Party shall permit (i) as of the last day of any fiscal quarter of the Company, the Credit Parties and their domestic Subsidiaries to own directly assets (other than Investments) representing less than 75% of the total consolidated assets of the Company and its Subsidiaries determined on such date or (ii) as of the last day of any fiscal quarter of the Company, the portion of Net Income of the Company and its Subsidiaries on a Consolidated basis for the period of four consecutive fiscal quarters then ended which is attributable to Foreign Subsidiaries of the Credit Parties to exceed 25% of Net Income of the Company and its Subsidiaries on a Consolidated basis for such period.

SECTION 7.16 Inconsistent Agreements; Charter Amendments. No Credit Party shall (i) enter into any agreement or arrangement which would restrict in any material respect

the ability of such Borrower to fulfill its Obligations under the Investment Documents, or (ii) supplement, amend or otherwise modify the terms of their articles of incorporation or bylaws or any of the Investment Documents if the effect thereof would reasonably be expected to have a Material Adverse Effect.

ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1 Events of Default. If any of the following events ("Events of Default") occur:

(a) any representation or warranty made or deemed made in or in connection with any Investment Document hereunder or any representation, warranty or certification contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Investment Document, proves to have been materially incorrect when so made, deemed made or furnished;

(b) default is made in the payment of any principal of or premium on the Debentures when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default is made in the payment of any interest on the Debentures or any other amount (other than an amount referred to in

(b) above) due under any Investment Document, when and as the same becomes due and payable, and such default continues unremedied for a period of ten (10) Business Days;

(d) default is made in the due observance or performance by the Borrowers or any of their Subsidiaries of any covenant, condition or agreement contained in Section 6.12 or in Article VII;

(e) default is made in the due observance or performance by the Borrowers or any of their Subsidiaries of any covenant, condition or agreement contained in any Investment Document (other than those specified in (b), (c) or

(d) above) and such default continues unremedied for a period ending the earlier of (i) a period of thirty (30) days from the date the Credit Parties or any of their Subsidiaries knew or should have known of the occurrence of such default and (ii) a period of thirty (30) days after notice thereof from the Holders to the Borrowers,

(f) any event occurs that, after notice or the passage of time, requires the prepayment of all or any portion of the principal amount of the Junior Trust Preferred Notes;

(g) any default occurs (after giving effect to any applicable notice and/or grace periods) under the Senior Debt or any other Indebtedness of the Borrowers or any of their Subsidiaries in excess of $500,000 in aggregate principal amount (including the Senior Credit Facility), either (i) which is in the payment of any amount due thereunder when and as the same becomes due and payable or (ii) pursuant to which the lenders of such Indebtedness have accelerated the maturity thereof;

(h) an Act of Bankruptcy or Act of Dissolution shall have occurred with respect to any Borrower or any of its Subsidiaries which had income (determined in accordance with GAAP) for the preceding four full calendar quarters in excess of $500,000 (other than the Mexican Liquidation);

(i) one or more final non-appealable judgments for the payment of money in excess of $250,000 to the extent not fully paid or discharged (excluding any portion thereof that is covered by a insurance policy issued by an insurance Company of recognized standing and creditworthiness) is rendered against the Borrowers or any of their Subsidiaries, and the same shall remain undischarged for a period of 15 consecutive days during which execution is not effectively stayed, or any action is legally taken by a judgment creditor to levy upon assets or properties of the Borrowers or their Subsidiaries to enforce any such judgment;

(j) an ERISA Event occurs that in the opinion of the Holders, when taken together with all other such ERISA Events, could reasonably be expected to result in liability of any Borrower or Subsidiary thereof in an aggregate amount exceeding $500,000;

(k) any execution or attachment shall be issued whereby any substantial part of the property of the Company or any of its Subsidiaries shall be taken or attempted to be taken and the same shall not have been vacated or stayed within 30 days after the issuance thereof; or

(l) any Guarantor shall repudiate or purport to revoke its guaranty, or any guaranty of the Obligations hereunder for any reason shall cease to be in full force and effect as to such Guarantor or shall be judicially declared null and void as to such Guarantor;

then, and in every such event and subject to the terms of the Subordination Agreement, (other than an Event of Default described in paragraph (h) above) and at any time thereafter during the continuance of such event, the Holders may by notice to the Company, take either or both of the following actions, at the same or different times: (i) declare the principal amount then outstanding under the Debentures to be forthwith due and payable in whole or in part, whereupon the principal amount so declared to be due and payable, together with all PIK Amounts and accrued interest thereon and all other liabilities of the Borrowers accrued hereunder and under any other Investment Document, shall become forthwith due and payable, without presentment demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Investment Document to the contrary notwithstanding; and (ii) in any event with respect to an Event of Default described in paragraph (h) above, the principal of the Debentures then outstanding, together with all PIK Amounts and accrued interest thereon and all other liabilities of the Borrowers accrued hereunder and under any other Investment Document, shall automatically become due and payable, without presentment demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Investment Document to the contrary notwithstanding.

SECTION 8.2 Waivers. The Borrowers waive presentment, demand, notice of dishonor, and protest, and all demands and notices of any action taken by the Holders under this Agreement, except as otherwise provided herein.

SECTION 8.3 Enforcement Actions. Subject to the terms of the Subordination Agreement, the Holders may, at their option, collect all or any

portion of the Obligations or enforce against the Borrowers any of their respective rights and remedies with respect to the Obligations including, but not limited to: (i) commencing or pursuing legal proceedings to collect any amounts owed with respect to or to otherwise enforce the Obligations; or (ii) executing upon, or otherwise enforcing, any judgment obtained with respect to the payment or performance of the Obligations.

SECTION 8.4 Costs. Subject to the terms of the Subordination Agreement, the Borrowers shall pay all reasonable expenses of any nature, whether incurred in or out of court, and whether incurred before or after the Debentures shall become due at their maturity date or otherwise (including, but not limited to, reasonable attorneys' fees and costs) which the Holders may reasonably incur in connection with the collection or enforcement of any of the Obligations. The Holders are authorized to pay at any time and from time to time any or all of such expenses, to add the amount of such payment to the amount of principal outstanding under the Debentures, and to charge interest thereon at the rate specified in the Debentures.

SECTION 8.5 Set-off. Subject to the terms of the Subordination Agreement, upon the occurrence and during the continuance of any Event of Default, each Holder is hereby authorized at any time and from time to time without notice to any Borrower (any such notice being expressly waived by such Borrower) and, to the fullest extent permitted by law, to set off and to apply any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or moneys at any time held and other indebtedness at any time owing by such Holder to or for the account of such Borrower against any and all of the obligations of the Borrowers now or hereafter existing under this Agreement or any other agreement or instrument delivered by such Borrower to such Holder in connection therewith, whether or not such Holder shall have made any demand hereunder or thereunder and although such obligations may be contingent or unmatured. The rights of the Holders under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which they may have. A Holder shall give the Borrower notice of any set-off hereunder after such set-off has occurred.

SECTION 8.6 Remedies Non-Exclusive. None of the rights, remedies, privileges or powers of the Holders expressly provided for herein are exclusive, but each of them is cumulative with, and in addition to, every other right, remedy, privilege and power now or hereafter existing in favor of each of the Holders, whether pursuant to the other Investment Documents, at law or in equity, by statute or otherwise.

ARTICLE IX.
MISCELLANEOUS

SECTION 9.1 Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrowers, SunSource Inc., 3000 One Logan Square, Philadelphia, Pennsylvania 19103, Attention: Joseph Corvino (Telecopy No. 215-282-1309);

with a copy to Morgan, Lewis & Bockius LLP, 1701 Market Street, Philadelphia, Pa. 19103, Attention: Andrew Hamilton (Telecopy No. (215) 963-5299); and

(b) if to Allied, Allied Capital Corporation, at its offices at 1919 Pennsylvania Avenue, N.W., 3rd Floor, Washington, D.C. 20006, Attn: G. Cabell Williams, Telecopy No. 202-659-2053; with a copy to Piper Marbury Rudnick & Wolfe LLP, 1200 Nineteenth Street, N.W., Washington, D.C. 20036, Attention of Anthony H. Rickert (Telecopy No. 202-223-2085).

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given (i) two business days after being sent by registered or certified mail, return receipt requested, postage prepaid or (ii) one business day after being sent via a reputable nationwide overnight courier service guaranteeing next business day delivery or (iii) on the date on which it is sent by facsimile transmission with acknowledgement of receipt at the number to which it is required to be sent in each case to the intended recipient as set forth above.

SECTION 9.2 Survival of Agreement. All covenants, agreements, representations and warranties made by the Borrowers herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Investment Document shall be considered to have been relied upon by the Holders and shall survive the making by the Holders of the investment, regardless of any investigation made by the Holders or on their behalf and shall continue in full force and effect as long as the principal of or any accrued interest on the Debentures is outstanding and unpaid. The provisions of Section 9.5 shall remain operative and in full force

and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of the Debentures, the invalidity or unenforceability of any term or provision of this Agreement or any other Investment Document, or any investigation made by or on behalf of the Holders.

SECTION 9.3 Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrowers and Allied, and when Allied shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 9.4 Successors and Assigns.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrowers or the Holders that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

(b) The Borrowers shall not assign or delegate any of their rights or duties hereunder without the prior written consent of the Holders, and any attempted assignment or delegation without such consent shall be null and void. The Holders may assign or delegate any of its rights or duties hereunder or under the Debentures without limitation.

SECTION 9.5 Expenses; Indemnity.

(a) The Borrowers will pay to Allied a closing fee of $150,000 and a consulting fee of $150,000, and all reasonable out-of-pocket expenses incurred by Allied in connection with the preparation and administration of this Agreement and the other Investment Documents, or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby or thereby contemplated shall be consummated) incurred by Allied in connection with the enforcement or protection of its rights in connection with this Agreement and the other Investment Documents, including any suit, action, claim or other activity of Allied to collect or otherwise enforce the Obligations or any portion thereof, or in connection with the Transaction, including, without limitation, the reasonable fees, charges and disbursements of Piper Marbury Rudnick & Wolfe LLP, counsel for Allied, and, in connection with any such enforcement or protection, the reasonable fees, charges and disbursements of any other counsel for Allied.

(b) The Borrowers, jointly and severally, agree to indemnify each Holder, and its respective directors, officers, employees and agents (each such Person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of or in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Investment Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transaction and the other transactions contemplated thereby, (ii) the use of the proceeds of the investment, (iii) any claim, litigation investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, or (iv) any actual or alleged presence or Release of Hazardous Materials on any property owned or operated by the Borrowers, or any Environmental Claim related in any way to any Borrower; provided that such indemnity shall not as to any Indemnitee be available to the extent it resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) The provisions of this Section 9.5 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement the consummation of the transactions contemplated hereby, the repayment of the Debentures, the invalidity or unenforceability of any term or provision of this Agreement or any other Investment Document, or any investigation made by or on behalf of the Lender. All amounts due under this Section 9.5 shall be payable on written demand therefor.

SECTION 9.6 Waiver of Consequential and Punitive Damages. Each of the Borrowers and the Holders hereby waive to the fullest extent permitted by law all claims to consequential and punitive damages in any lawsuit or other legal action brought by any of them against any other of them in respect of any claim among or between any of them arising under this Agreement, the other Investment Documents, or any other agreement or agreements between or among any of them at any time, including any such agreements, whether written or oral, made or alleged to have been made at any time prior to the Closing Date, and all agreements made hereafter or otherwise, and any and all claims arising under

common law or under any statute of any state or the United States of America, including any thereof in contract, tort, strict liability or otherwise, whether any such claims be now existing or hereafter arising, now known or

unknown. In making this waiver, the Holders and the Borrowers acknowledge and agree that there shall be no claims for consequential or punitive damages made by the Holders against any Borrower and there shall be no claims for consequential or punitive damages made against the Holders by any Borrower. The Holders and the Borrowers acknowledge and agree that this waiver of claims for consequential damages and punitive damages is a material element of the consideration for this Agreement.

SECTION 9.7 Applicable Law. THIS AGREEMENT AND THE OTHER INVESTMENT DOCUMENTS (OTHER THAN AS EXPRESSLY SET FORTH IN OTHER INVESTMENT DOCUMENTS) SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK (EXCLUDING CONFLICTS OF LAWS PROVISIONS).

SECTION 9.8 Waivers; Amendment.

(a) No failure or delay of a Holder in exercising any power or right hereunder or under any other Investment Document shall operate as a waiver thereof nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Holders hereunder and under the other Investment Documents are cumulative and are not exclusive of any rights or remedies that it would otherwise have. No waiver of any provision of this Agreement or any other Investment Document or consent to any departure by the Borrowers therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrowers and the Holders.

SECTION 9.9 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to the investment, together with all fees, charges, warrants and other amounts which are treated as interest on the investment under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Holders holding the investment in accordance with applicable law, the rate of interest payable in respect of the investment hereunder, together with all Charges payable in respect thereof shall be limited to the Maximum Rate.

SECTION 9.10 Entire Agreement. This Agreement and the other Investment Documents constitute the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Investment Documents. Nothing in this Agreement or in the other Investment Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Investment Documents.

SECTION 9.11 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER INVESTMENT DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER INVESTMENT DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

SECTION 9.12 Severability. In the event any one or more of the provisions contained in this Agreement or in any other Investment Document should be held invalid, illegal or unenforceable in any way, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular

jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13 Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract and shall become effective as provided in Section 9.3. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 9.14 Heading. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15 Jurisdiction; Consent to Service of Process.

(a) Each of the Borrowers hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any Maryland State court or Federal court of the United States of America sitting in the State of Maryland, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Investment Documents, or for recognition or enforcement of any judgment and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in the State of Maryland or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Holders may otherwise have to bring any action or proceeding

relating to this Agreement or the other Investment Documents against such Borrower or their properties in the courts of any jurisdiction.

(b) Each of the Borrowers hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit action or proceeding arising out of or relating to this Agreement or the other Investment Documents in any Maryland state or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.1. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.16 Consents and Approvals; Defaults.

(a) Subject to the terms of Section 9.16(c), to the extent that (i) the terms of this Agreement or any of the other Investment Documents require the Borrowers to obtain the consent or approval of the Holders, (ii) the Borrowers seek an amendment to or termination of any of the terms of this Agreement or any of the Investment Documents, or (iii) the Borrowers seek a waiver of any right granted to the Holders under this Agreement or any of the Investment Documents, such consent, approval, action, termination, amendment or waiver (each, an "Approval") shall be made by the Holders of Debentures representing at least 51% of the aggregate principal amount outstanding under all of the Debentures.

(b) Subject to the terms of Section 9.16(c), to the extent that the terms of this Agreement or any of the other Investment Documents require or permit the Holders to take any enforcement action, including but not limited to declaring a payment default or other Event of Default or accelerating amounts due under any of the Investment Documents, each Holder shall be permitted to make such declaration or acceleration and to exercise all of its rights and remedies under the Investment Documents individually as to the obligations of the Borrowers and their Subsidiaries to such Holder subject to the terms of the Subordination Agreement.

(c) Notwithstanding anything to the contrary contained in Section 9.16(a) or 9.16(b), the Holders shall not, without the prior written consent and approval of all of the affected Holders, amend, modify, terminate or obtain a waiver of any provision of this Agreement or any of the Investment Documents, which will have the effect of (i) reducing the principal amount of any

Debentures or of any payment required to be made to the Holders hereunder, or modifying the terms of a payment or prepayment thereof; (ii) reducing the Interest Rate, or extend the time for payment of interest under any Debentures; or (iii) releasing the Borrowers, any Guarantor or other obligor from any obligation under this Agreement or any of the other Investment Documents.

(d) Each Holder agrees that, for the benefit of the other Holders, any proceeds received upon enforcement by such Holder of its rights and remedies under this Agreement, will be divided, pro rata, among all Holders.

SECTION 9.17 Relationship of the Parties; Advice of Counsel. This Agreement provides for the making of an investment by the Holders, in its capacity as an investor, in the Borrowers, in their capacity as borrowers, and for the payment of interest and repayment of principal by the Borrowers to the Holders. The provisions herein for compliance with financial covenants, if any, and delivery of financial statements are intended solely for the benefit of the Holders to protect their interests as investors in assuring payments of interest and repayment of principal, and nothing contained in this Agreement shall be construed as permitting or obligating the Holders to act as a financial or business advisor or consultant to the Borrowers, as permitting or obligating the Holders to control the Borrowers or to conduct the Borrowers' operations, as creating any fiduciary obligation on the part of the Holders to the Borrowers, or as creating any joint venture, agency or other relationship between the parties other than as explicitly and specifically stated in this Agreement. The Holders are not (and shall not be construed as) a partner, joint venturer, alter-ego, manager, controlling person, operator or other business participant of any kind of the Borrowers; neither the Holders nor the Borrowers intend that the Holders assume such status, and, accordingly, the Holders shall not be deemed responsible for (or a participant in) any acts or omissions of any Borrower or any of its partners. Each of the Holders and each of the Borrowers represents and warrants to the other that it has had the advice of experienced counsel of its own choosing in connection with the negotiation and execution of this Agreement and with respect to all matters contained herein.

SECTION 9.18 Confidentiality Each of the Holders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any permitted transferee of any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of the Company or its Subsidiaries, (g) with the consent of the Borrowers, as applicable, (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Holder on a nonconfidential basis from a source other than the Borrowers provided that such source is not bound by a confidentiality agreement. For the purposes of this Section, "Information" means all information received from the Borrowers or their Subsidiaries relating to the Borrowers or their Subsidiaries or their business, other than any such information that is available to any Holder on a nonconfidential basis prior to disclosure by the Borrowers or their Subsidiaries; provided that, in the case of information received from the Borrowers or any Subsidiary after the date hereof, such information is clearly identified (in a reasonable manner) at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.19 Registration and Transfer of Debentures.

(a) The Company will keep at its principal office a register in which the Borrowers will provide for the registration of the Debentures and their transfer. The Borrowers may treat any Person in whose name any Debenture is registered on such register as the owner thereof for the purpose of receiving

payment of the principal of and interest on such Debenture and for all other purposes, whether or not such Debenture shall be overdue, and the Borrowers shall not be affected by any notice to the contrary from any Person other than the applicable Holder. All references in this Agreement to a "Holder" of any Debenture shall mean the Person in whose name such Debenture is at the time registered on such register.

(b) Upon surrender of any Debenture for registration of transfer or for exchange to the Company at its principal office, the Borrowers at their expense will execute and deliver in exchange therefor a new Debenture or Debentures, as the case may be, of the same type in denominations of at least $100,000 (except a Debenture may be issued in a lesser principal amount if the unpaid principal amount of the surrendered Debenture is not evenly divisible by, or is less than, $100,000), as requested by the holder or transferee, which aggregate the unpaid principal amount of such Debenture, registered as such holder or transferee may request, dated so that there will be no loss of interest on such surrendered Debenture and otherwise of like tenor.

(c) Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Debenture and, in the case of any such loss, theft or destruction of any Debenture, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or an unsecured indemnity agreement from the Holder reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Debenture for cancellation to the Company at its principal office, the Borrowers at their expense will execute and deliver, in lieu thereof, a new Debenture of the same class and of like tenor, dated so that there will be no loss of interest on (and registered in the name of the holder of) such lost, stolen, destroyed or mutilated Debenture. Any Debenture in lieu of which any such new Debenture has been so executed and delivered by the Borrowers shall be deemed to be not outstanding for any purpose of this Agreement.

{Signatures next page}

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

COMPANY:

SUNSOURCE INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

STS:

SUNSOURCE TECHNOLOGY SERVICES, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

SIC:

SUNSOURCE INVESTMENT COMPANY, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

SUNSUB A:

SUNSUB A, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

HILLMAN:

THE HILLMAN GROUP, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

AXXESS:

AXXESS TECHNOLOGIES, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

SCG:

SUNSOURCE CORPORATE GROUP, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Secretary

SISC:

SUNSOURCE INDUSTRIAL SERVICES COMPANY, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

SIMC:

SUNSOURCE INVENTORY MANAGEMENT COMPANY, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

A&H:

A&H HOLDING CO.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President of Finance

SUNSUB C:

SUNSUB C, INC.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President

HOLDING:

SUNSUB HOLDING L.L.C.

By: /s/ Joseph M. Corvino

Name: Joseph M. Corvino

Title: President

LENDER:

ALLIED CAPITAL CORPORATION

By: /s/ Scott S. Binder

Name: Scott S. Binder
Title: Managing Director

EXHIBIT 21.1

SUBSIDIARIES - AS OF DECEMBER 31, 2000

- 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

    - Axxess Technologies, 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

    - A&H Holding Co.
      Incorporated in the State of Michigan

      - SunSource Integrated Services
        de Mexico S. A. DE C. V.
        Incorporated in Ciudad de Mexico, Mexico

      - 1394066 Ontario Inc.
        Incorporated in the Province of Ontario

        - J. N. Fauver (Canada) Limited
          Incorporated in the Province of Ontario

      - SunSub C
        Incorporated in the State of Delaware

        - SunSub Holdings, L.L.C.
          Incorporated in the State of Nevada

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-56210, 333-53121, 333-33123 and 333-63409) of SunSource Inc. of our report dated February 8, 2001 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, PA
March 30, 2001