

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form S-2
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

SUNSOURCE INC.
(Exact name of registrant as specified in its charter)

Delaware 23-2874736
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3000 One Logan Square
Philadelphia, Pennsylvania 19103
(215) 282-1290
(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

JOSEPH M. CORVINO
Vice President - Finance, Chief Financial Officer,
Treasurer and Secretary
SunSource Inc.
3000 One Logan Square
Philadelphia, Pennsylvania 19103
(215) 282-1290
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

DONALD A. SCOTT, ESQUIRE JOHN E. RILEY, ESQUIRE
Morgan, Lewis & Bockius LLP Simpson Thacher & Bartlett
2000 One Logan Square 425 Lexington Avenue
Philadelphia, Pennsylvania 19103-6993 New York, New York 10017
(215) 963-5000 (212) 455-2000

Approximate date of commencement of proposed sale to the public: As soon as
practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act,
check the following box. ☐ _____

If the registrant elects to deliver its latest annual report to security
holders, or a complete and legal facsimile thereof, pursuant to item 11(a)(1) of
this Form, check the following box. ☐ _____

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective
registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434,
please check the following box. ☐ _____

CALCULATION OF REGISTRATION FEE

<TABLE>
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Title of Each Class of Securities to be	Amount to be	Proposed Maximum Offering	Proposed Maximum Aggregate	Amount of
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Registered Fee	Registered	Price Per Share(1)	Offering Price(1)	Registration

<S>	<C>	<C>	<C>	<C>
Common Stock, par value \$.01 per share.....	2,887,169 shares	\$23.4375	\$67,668,023	\$19,962

</TABLE>

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the high and low prices reported on the New York Stock Exchange Composite Tape on January 16, 1998.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion, dated January 22, 1998

PROSPECTUS 2,512,169 Shares

[LOGO]

Common Shares

Of the 2,512,169 shares of Common Stock, par value \$.01 per share (the "Common Shares"), of SunSource Inc. ("SunSource" or the "Company") offered hereby, 500,000 shares are being issued and sold by the Company and 2,012,169 shares are being sold by the Selling Stockholders (collectively, the "Offering"). The Selling Stockholders are affiliates of Lehman Brothers Inc. See "Security Ownership of Certain Beneficial Owners, Management and Selling Stockholders." The Company will not receive any of the proceeds from the shares being sold by the Selling Stockholders.

The Company's Common Shares are listed on the New York Stock Exchange under the symbol "SDP." On January 20, 1998, the reported last sale price of the Common Shares on the New York Stock Exchange Composite Tape was \$23.50 per share.

An investment in the Common Shares offered hereby involves various risks. See "Risk Factors" beginning on page 8.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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to		Underwriting		Proceeds
	Price to	Discounts and	Proceeds to	Selling
Stockholders	Public	Commissions (1)	Company (2)	

<S>	<C>	<C>	<C>	<C>
Per Share.....	\$	\$	\$	\$

Total (3)	\$	\$	\$	\$
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</TABLE>

- (1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of the Offering of \$500,000 payable by the Company.
- (3) The Company has granted to the Underwriters a 30-day option to purchase up to 375,000 Common Shares on the same terms and conditions as the securities offered hereby solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to the Company will be \$, \$ and \$, respectively. The Proceeds to the Selling Stockholders will not change if such option is exercised. See "Underwriting" and "Security Ownership of Certain Beneficial Owners, Management and Selling Stockholders."

The Common Shares offered by this Prospectus are offered by the Underwriters subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Underwriters and to certain further conditions. It is expected that delivery of the shares will be made at the offices of Lehman Brothers Inc., New York, on or about , 1998.

Lehman Brothers

Robert W. Baird & Co.
Incorporated

Furman Selz

Legg Mason Wood Walker
Incorporated

, 1998

[Organizational chart of the Company]

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON SHARES. SUCH TRANSACTIONS MAY INCLUDE THE PURCHASE OF COMMON SHARES PRIOR TO THE PRICING OF THE OFFERING FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE COMMON SHARES AND THE PURCHASE OF COMMON SHARES FOLLOWING THE PRICING OF THE OFFERING TO COVER A SYNDICATE SHORT POSITION IN THE COMMON SHARES OR FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE COMMON SHARES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

The following summary is qualified in all respects by the more detailed information set forth elsewhere in this Prospectus and the documents incorporated by reference herein. Unless the context suggests otherwise, (i) SunSource or the Company refers to SunSource Inc. and its predecessors and (ii) all information provided herein assumes no exercise of the Underwriters' over-allotment option. This Prospectus contains forward-looking statements that address, among other things, projected revenue, cash flow and income, the

implementation of new management information systems, cost savings, profit growth and acquisition strategy. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as in this Prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including without limitation, those discussed in "Risk Factors" and matters set forth in this Prospectus generally. As used herein, (i) the term "Conversion" means the conversion of the Company on September 30, 1997 from partnership to corporate form, (ii) the term "Refinancing" means the refinancing of the Company's senior notes and bank revolving credit which occurred on September 30, 1997 and (iii) the term "Partnership" means SunSource L.P., the predecessor partnership to the Company.

The Company

SunSource is one of the largest providers of industrial products and related value-added services in North America. Through its applications engineers and technical support personnel, SunSource provides customized solutions to complex problems encountered by its customers. The Company believes that it 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. The Company has more than 180,000 customers, none of which represents more than 5% of annual net sales. The Company's distribution and related services support more than 1,300 product lines, consisting of approximately 175,000 stock keeping units.

The Company has targeted three businesses within the distribution industry which are characterized by a potential for value-added services, economies of scale and opportunities for further consolidation.

Industrial Services. SunSource Industrial Services Company, with sales of \$455 million in 1996, provides a broad range of products and services throughout North America through the sales and marketing activities of SunSource Technology Services ("STS") and Sun Inventory Management Company ("SIMCO"). The Company believes that STS is a leading provider of systems and parts and engineering services for hydraulic, pneumatic, electrical and related systems to major industrial concerns, as well as small and medium-size businesses. STS provides services, including engineering and design of both products and processes and the assembly and repair of complex systems, which enable its customers to outsource engineering and other functions which they previously performed in-house. SIMCO provides inventory management services enabling its customers to reduce inventory investment and the associated expenses of purchasing, receiving, disbursing and accounting for parts and materials.

Hardware Merchandising Services. Hardware Merchandising Services, which operates under the name Hillman ("Hillman"), with sales of \$103 million in 1996, provides small hardware items and merchandising services to retail hardware stores through a nationwide sales and service organization. Hillman offers a full range of fasteners, letters, numbers, signs, keys, rope and chain accessories and many other inexpensive "specialty" goods, which are the "must-have" items for hardware retailers that cannot be managed economically by the retailer's own employees because of the large number of items and their low prices. Hillman maintains a 235 person nationwide sales and service organization which seeks to ensure that its customers' inventories are maintained at appropriate levels with a minimum of administrative effort or expense. Hillman also provides inventory management software that ties into retailers' point-of-sale systems. Through its merchandising system, Hillman assists retailers with rack positioning, store layout, new package design and color coding systems to permit ease of shopping by consumers.

Glass Merchandising. Glass Merchandising, which operates under the name Harding ("Harding"), with sales of \$90 million in 1996, operates one of the largest networks of full service retail glass shops in the United States. Harding is comprised of approximately 85 retail locations throughout the Southwest and, to a lesser degree, along the East Coast. Harding sells and installs automotive glass and also sells, fabricates and installs flat glass. Customers include individual retail consumers, insurance companies and commercial accounts.

The markets in which the Company participates are currently impacted by the following trends:

- o Manufacturers are increasing their reliance on distributors in order to enhance their profitability and improve their returns on capital;

- o Customers are increasing their reliance on value-added distributors as their contacts with the manufacturers diminish or cease altogether;

- o Customers are outsourcing non-core functions to high-quality service providers;
- o Channels of distribution are in the process of consolidation; and
- o Managerial skills required for success in industrial distribution are changing dramatically.

The Company's growth has resulted from its ability to capitalize on these trends due to its competitive strengths in the following areas:

- o Acquisition Integration Capability - The ability to integrate acquired companies while improving operational efficiencies and enhancing their effectiveness in the marketplace.

Since the organization of its predecessor in 1975 and through 1991, the Company grew primarily through acquisitions of existing distribution companies. During this period, a series of acquisitions expanded the Company's operations both geographically and in the number and types of products offered. Thirty-five of these acquisitions had purchase prices in excess of \$1 million and approximately 40 more had purchase prices under \$1 million. The Company's ability to make acquisitions since 1991 was hindered by its previous partnership structure and associated restrictions in its credit agreement. As a result of the Conversion, the Refinancing and this Offering, the Company expects to have the necessary financial capacity to resume its acquisition program. The Company intends to seek acquisition candidates that have developed attractive market niches, have strong management and have demonstrated their ability to achieve stable growth and high returns on invested capital.

- o Ability to Capitalize on Industry Trends - The ability to execute dynamic business strategies to capitalize on opportunities arising from rapid structural changes in the marketplace.

The Company has established separate organizations for its three businesses, each headed by a chief executive officer who is supported by sales, marketing, financial, logistics and information systems resources. This organizational structure enables the Company to manage each of its businesses within the context of the varying market opportunities, rates of change and competitive threats affecting those businesses. The Company's small headquarters staff shapes and guides the strategic decisions of its operating companies. Performance benchmarks are established as part of this process and progress is monitored to ensure that initiatives remain on track.

- o Technology for Competitive Advantage - The ability to use technology and technical expertise as competitive advantages to build and defend attractive market niches.

For example, STS is implementing a new integrated information system which will permit (i) the centralization of the purchasing function, resulting in a smaller staff with a higher level of professional skills; (ii) a reduction in the number of warehouses from 36 to fewer than ten; (iii) higher customer order fill rates; and (iv) lower exposure to obsolete or slow-moving inventory.

SunSource believes that each of its three operating businesses is well positioned to capture opportunities in the markets in which it participates:

- o SunSource Industrial Services Company's strategy is to capitalize on the trends among industrial customers toward consolidation of suppliers, outsourcing the procurement function for goods and outsourcing in-plant services for which they lack expertise or sufficient resources.
- o Hillman's strategy is to capitalize on the desire of its customers to outsource the burden of maintaining a complex, low value inventory as well as to continually expand its product line.

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- o Harding's strategy is to take advantage of the trend toward consolidation in the retail glass business. Multiple acquisitions, most of which are quite small, can be integrated because of Harding's management information systems and the increased number of management personnel dedicated to making acquisitions.

The Company traces its origins to 1975, when Sun Company, Inc. ("Sun") decided to pursue a diversification strategy outside of its traditional energy business. After an extensive analysis of strategic alternatives, Sun concluded that the industrial distribution business offered substantial opportunities for growth, high returns on invested capital, and relatively low business risk. Sun pursued this strategy through Sun Distributors, Inc., which became an industry

consolidator and acquired 16 companies between 1975 and 1985. In 1986, Sun decided to refocus its efforts on its core energy business and sell its non-energy businesses. The Company was purchased by a predecessor affiliate of the Selling Stockholders in October 1986. In February 1987, the Company made an initial public offering of its limited partnership interests and became a publicly traded master limited partnership.

The Company continued to make acquisitions after its initial public offering, but its ability to make acquisitions after 1991 was hindered by its partnership structure and associated restrictions in the Company's credit agreements. In 1994 and 1995, the Company divested three non-strategic businesses with aggregate 1994 sales of \$177.1 million. The Company converted from partnership to corporate form on September 30, 1997.

The Offering

<TABLE>	
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<S>	<C>
Common Shares being offered by the Company.....	500,000
Common Shares being offered by the Selling Stockholders.....	2,012,169
Common Shares outstanding (before and after the Offering)....	6,418,936 and 6,918,936, respectively
Selling Stockholders.....	Lehman LTD I, Inc., Lehman Brothers Capital Partners I and
	Lehman/SDI, Inc., who are affiliates of Lehman
Brothers Inc.	
Use of Proceeds by the Company.....	To repay borrowings under the Company's revolving
credit	facility
New York Stock Exchange symbol.....	SDP

</TABLE>

Risk Factors

An investment in the Common Shares offered hereby involves various risks. See "Risk Factors."

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SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION (In thousands except per share amounts)

The following tables set forth summary consolidated historical and pro forma financial data of the Company and the Partnership as of the dates and for the periods indicated. The historical financial information as of September 30, 1997 and for the nine months ended September 30, 1997 and 1996 is derived from unaudited financial statements included elsewhere herein. The historical information for each of the three years in the period ended December 31, 1996 is derived from audited financial statements included elsewhere herein. The historical financial information for each of the two years in the period ended December 31, 1993 are derived from audited financial statements not included elsewhere herein. The summary unaudited pro forma income statement information for the nine months ended September 30, 1997 and 1996 and for the twelve months ended December 31, 1996 gives effect to the Conversion, the Refinancing, the Offering and the elimination of other non-recurring charges and credits as of the beginning of each period presented. The pro forma financial information should be read in conjunction with the unaudited pro forma consolidated financial statements and related notes thereto appearing elsewhere herein. See "Index to Financial Statements," "Selected Historical and Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

<TABLE>							
<CAPTION>							
		Nine Months Ended September 30,		Years Ended December 31,			
		-----		-----			
Historical Statement of Operations Data:		1997	1996	1996	1995 (1)	1994 (1)	1993
(1) 1992 (1)							
-----		-----		-----			
		(unaudited)	(unaudited)				
<S>		<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Net sales.....		\$ 529,199	\$ 489,517	\$ 649,254	\$ 628,935	\$ 735,861	\$ 655,707
\$ 612,052							
EBITDA (2), (3).....		30,482	29,047	29,999	36,959	44,901	
36,835 38,126							
EBITA (2), (3).....		27,458	26,363	26,376	33,298	40,399	
31,729 32,654							

Income from operations (2).....	26,100	24,914	24,452	31,302	37,759
28,975 29,712					

Pro Forma Statement of Operations Data:

	PRO FORMA		
	(unaudited)		
Net sales.....	\$ 529,199	\$ 489,517	\$ 649,254
EBITDA (3).....	36,026	31,538	41,429
EBITA (3).....	33,002	28,854	37,806
Amortization.....	1,748	1,839	2,444
Income from operations.....	31,254	27,015	35,362
Interest expense, net.....	5,371	5,038	6,726
Distribution on guaranteed preferred beneficial interests.....	(9,174)	(9,174)	(12,232)
Income before income taxes.....	16,889	13,481	17,149
Provision for income taxes.....	7,576	6,336	8,060
Net income.....	\$ 9,313	\$ 7,145	\$ 9,089
Net income per Common Share.....	\$ 1.35	\$ 1.03	\$ 1.31
Weighted average number of outstanding Common Shares.....	6,918,936	6,918,936	6,918,936

	September 30, 1997	
	(unaudited)	
	Historical	As Adjusted(4)
Balance Sheet Data:		
Working capital.....	\$ 105,357	\$ 105,357
Total assets.....	305,003	305,003
Long-term debt.....	77,708	67,104
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures.....	115,991	115,991
Stockholders' (deficit) equity.....	(3,097)	7,507
Book value per Common Share.....	(.48)	1.08

</TABLE>

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(1) Includes results of operations from divisions sold as follows:

	Years Ended December 31,			
	1995	1994	1993	1992
Net sales	\$ 29,070	\$ 177,107	\$ 162,270	\$ 159,912
EBITDA (3)	608	10,338	8,539	10,106
EBITA (3)	305	9,085	6,989	8,315
Income from operations	270	8,588	6,637	8,017

(2) Includes \$3,053 of Conversion-related transaction and other costs for the nine months ended September 30, 1997 and \$2,150 for the year ended December 31, 1996, \$5,950 of restructuring charges for the year ended December 31, 1996 and management fee expense of \$2,491 for the nine-month periods ending September 30, 1996 and 1997 and \$3,330 in each year in the five year period ending December 31, 1996.

(3) "EBITDA" is defined as income from operations before depreciation and amortization; "EBITA" is defined as income from operations before amortization. EBITDA and EBITA are not measures of performance under Generally Accepted Accounting Principles ("GAAP"). While EBITDA and EBITA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP, the Company believes that EBITDA and EBITA are accepted within the business segments in which the Company operates as generally recognized measures of performance. Moreover, substantially all of the Company's financing agreements contain covenants in which EBITDA and/or EBITA are used as measures of financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of other measures of performance determined in accordance with GAAP.

(4) Assumes the Offering closed on September 30, 1997 with net proceeds of \$10,604,000 to the Company for 500,000 Common Shares issued.

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An investment in the Common Shares of the Company offered hereby involves various risks. In addition to general investment risks and those factors set forth elsewhere in this Prospectus, prospective investors should consider, among other things, the following factors:

Restructuring

In December 1996, the Company announced a restructuring plan to integrate and consolidate its five domestic STS divisions. The Company expects the restructuring plan to result in the elimination of approximately 175 employees in the STS divisions and produce certain net annualized cost savings of approximately \$5.0 million per year upon its completion. The STS divisions consist of hydraulic and pneumatic distributors that were acquired by the Company between 1976 and 1991. Until the restructuring, each of the STS divisions was operated on a decentralized basis. The announced restructuring plan is a three-year project to consolidate all financial and other administrative responsibilities for the STS divisions in one location, and includes a migration to one management information system. The integration and consolidation of the finance and administrative functions is expected to be completed in the first half of 1999. The restructuring of the sales organization and distribution network has begun; however, management's current estimate is that completion of this phase will require approximately an additional 18 months due to the need for further analysis of STS' customer base and logistics requirements. The failure to complete the restructuring or successfully integrate the STS divisions would have an adverse impact on the Company's ability to fully achieve the net cost savings indicated above. Although the Company believes that STS will be successful with its restructuring plan, there can be no assurance that it will be able to complete the plan effectively or on a timely basis. See "Business--Industrial Services--SunSource Technology Services."

Changing Industry Environment

The industrial distribution industry is undergoing significant change. Historically, industrial distributors have served as suppliers of industrial products and as extensions of manufacturers' sales forces, selling products through the distribution channels to original equipment manufacturers, retailers, end users and other customers. In recent years, both manufacturers and customers have been increasingly relying on industrial distributors 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 industrial distributors 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 industry could cause the industry to become more competitive. Although the Company believes that it is well positioned to take advantage of these changing industry dynamics, there can be no assurance that the Company will be able to compete effectively in or adapt to the changing industry environment. See "Business--Industry Overview" and "Business--Business Strategy."

Risks Associated with Acquisitions

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

prospective acquisitions may have an adverse impact on the Company's growth strategy. The Company is not currently a party to any agreement or understanding regarding a material acquisition but is pursuing discussions with a number of prospective sellers of businesses. See "Business--Business Strategy."

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. See "Business."

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; Year 2000 Issue

The Company believes that its proprietary computer software programs are an integral part of its business and growth strategies. The Company depends on its information systems generally to process orders, to manage inventory and accounts receivable collections, to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations and to provide superior service to its customers. While the Company has taken precautions against certain events that could disrupt the operation of its information systems, there can be no assurance that such a disruption will not occur. Any such disruption could have a material adverse effect on the Company's business and results of operations. See "Business."

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

Future Dilution of Common Stock

The Company is permitted to issue additional equity or debt securities, including shares of Preferred Stock. Issuances of additional Common Shares or shares of Preferred Stock could adversely affect stockholders' equity interest in the Company and could adversely affect the market price of the Common Shares, and the interests in the

assets, liabilities, cash flow and results of operations of the Company represented by Common Shares may be diluted. Holders of Common Shares are not entitled to preemptive rights.

Provisions that May Discourage Changes of Control

The Company's Certificate of Incorporation and Bylaws and the Stockholders Agreement and Stockholders Rights Plan described under "Description of Capital Stock" contain certain provisions that may have the effect of encouraging persons considering an acquisition or takeover of the Company to negotiate with the Board of Directors rather than to pursue non-negotiated acquisitions or takeover attempts that a stockholder might consider to be in the stockholders' best interests, including offers that might result in a premium over the market price for the Common Shares.

In addition to the Stockholders Rights Plan, these provisions include authorization for the Board of Directors to issue classes or series of Preferred Stock and a requirement that stockholders notify the Company in advance of any director nominees or items of business to be proposed at any meeting of stockholders. In addition, the deferred compensation plans of the Company

provide that, upon the occurrence of a change in control as defined in the plans, the vesting provisions of awards under the plans will be accelerated. These provisions may reduce interest in the Company as a potential acquisition target or reduce the likelihood of a change in the management or voting control of the Company without the consent of the then incumbent Board of Directors.

Limited Trading Market and Volatility of Common Shares

The Common Shares have traded on the New York Stock Exchange since the effective date of the Conversion on October 1, 1997. Prior to that time the Class B limited partnership interests of the Partnership had limited trading volume because institutional and other investors do not typically invest in limited partnership interests for various tax and administrative reasons. The limited trading volume in the Common Shares has continued since October 1, 1997.

From time to time after the Offering, there may be significant volatility in the market price for the Common Shares. Operating results of the Company or of other companies participating in the industrial distribution industry, changes in general economic conditions and the financial markets, or other developments affecting the Company or its competitors could cause the market price for the Common Shares to fluctuate substantially.

Reliance on Executive Officers

The Company is highly dependent upon the skills, experience and efforts of its executive officers. Loss of the services of one or more of the Company's executive officers could have a material adverse effect on the Company's business and development. The Company's continued growth also depends in part on its ability to attract and retain qualified managers, sales representatives and other key employees and on its executive officers' ability to implement the Company's strategy successfully. No assurance can be given that the Company will be able to attract and retain such employees or that such executive officers will be able to implement the Company's strategy successfully. See "Management."

THE COMPANY

SunSource Inc. is a Delaware corporation organized in 1996 to accomplish the Conversion. The Conversion was effected by the merger of the Partnership into the Company effective on September 30, 1997. In the Conversion, each Class A limited partnership interest of the Partnership was exchanged for \$1.30 in cash and 0.38 of a Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures (the "Trust Preferred Securities"); each Class B limited partnership interest was exchanged for 0.25 Common Share of the Company; and the general and limited partnership interests in the general partner of the Partnership were exchanged for 1,000,000 Common Shares.

The Partnership was organized in 1986 under the name Sun Distributors L.P. to conduct the business formerly conducted by Sun Distributors, Inc. when it was a subsidiary of Sun. The name was changed to SunSource L.P. in April 1996.

The principal executive office of the Company is located at 3000 One Logan Square, Philadelphia, PA 19103 and its telephone number is (215) 282-1290.

USE OF PROCEEDS

The net proceeds to the Company from the Offering (estimated at \$10,604,000) will be used to repay borrowings under the Company's revolving credit facility. As of December 31, 1997, the balance on the Company's revolving credit facility was approximately \$33.0 million. The funds borrowed by the Company under the revolving credit facility were used to pay transaction costs and other payments related to the Conversion and for working capital purposes. The interest rate on borrowings under the revolving credit facility are based on London Interbank Offered Rate ("LIBOR") plus 1.0% to 1.5% or prime. At December 31, 1997, such interest rate was approximately 7.37% per annum.

The Company will receive no proceeds from the sale of Common Shares in the Offering by the Selling Stockholders.

DIVIDEND POLICY

The Company paid a cash dividend of \$.10 per Common Share on January 6, 1998. The Company expects to declare future quarterly dividends on the Common Shares of \$.40 per Common Share annually, subject to the discretion of the Board of Directors and dependent upon, among other things, the Company's future

earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

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CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1997 and as adjusted to give effect to the Offering and repayment of borrowings under the Company's revolving credit facility (assuming the Offering closed on September 30, 1997 with net proceeds of \$10,604,000 to the Company). The table should be read in conjunction with the historical and pro forma consolidated financial statements of the Company and the Partnership and related notes thereto included elsewhere herein and the unaudited pro forma financial statements and related notes thereto included elsewhere herein.

<TABLE>
<CAPTION>

	As of September 30, 1997	
	Historical	As Adjusted
	(In thousands)	
<S>	<C>	<C>
Senior notes.....	\$60,000	\$60,000
Bank revolving credit facility (1).....	17,000	6,396
Capital lease obligations.....	708	708
	-----	---
Total debt.....	77,708	67,104
	-----	-----
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures.....	115,991	115,991
	-----	-----
Stockholders' deficit/equity:		
Preferred Stock, \$0.01 par, 1,000,000 shares authorized, none issued...	--	--
Common Stock, \$0.01 par, 20,000,000 shares authorized, 6,418,936 historical shares issued and outstanding; 6,918,936 as adjusted shares issued and outstanding.....	64	69
Paid-in-capital.....	--	10,599
Accumulated deficit(2).....	(1,485)	(1,485)
Cumulative foreign currency translation adjustment.....	(1,676)	(1,676)
	-----	-----
Total stockholders' deficit/equity.....	(3,097)	7,507
	-----	-----
Total capitalization.....	\$190,602	\$ 190,602
	=====	=====

</TABLE>

- (1) Subsequent to September 30, 1997, distributions payable of \$17,557 were funded through the bank revolving credit facility.
- (2) The Company's accumulated deficit is primarily a result of the exchange of Class A limited partnership interests for cash and guaranteed preferred beneficial interests in the Company's junior subordinated debentures. The guaranteed preferred beneficial interests are classified between total liabilities and equity on the Company's balance sheet and were recorded at their fair value on September 30, 1997. (See page F-10 for further information on Conversion-related adjustments).

12

PRICE RANGE OF COMMON SHARES

As a result of the Conversion which was effective at the close of business on September 30, 1997, the Common Shares began trading on the New York Stock Exchange on October 1, 1997 under the symbol "SDP". The following table sets forth the high and low closing sale prices on the New York Stock Exchange Composite Tape for the Common Shares since that date:

	High	Low
1998		
First Quarter (to January 20).....	\$23 9/16	\$23 5/16
1997		
Fourth Quarter.....	\$25 13/16	\$23 1/2

For a recent reported last sale price of the Common Shares on the New York Stock Exchange Composite Tape see the cover page of this Prospectus. As of January 20, 1998, there were approximately 776 holders of record of the Common Shares.

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

	High	Low
1997		
First Quarter.....	\$ 18	\$ 16 1/2
Second Quarter.....	20 1/2	16
Third Quarter.....	23 1/2	19
1996		
First Quarter.....	\$ 20 1/2	\$ 16
Second Quarter.....	18	16
Third Quarter.....	18	17
Fourth Quarter.....	18 1/2	16 1/2

SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION
(In thousands, except for per unit and per share data)

The following table sets forth selected consolidated historical and pro forma financial data of the Company and the Partnership as of the dates and for the periods indicated. The historical financial information as of September 30, 1997 and for the nine months ended September 30, 1997 and 1996 is derived from unaudited financial statements included elsewhere herein. The historical financial information as of December 31, 1996 and 1995 and for each of the three years in the period ended December 31, 1996 is derived from audited financial statements included elsewhere herein. The historical financial information as of September 30, 1996, December 31, 1994, 1993, 1992 and for each of the two years in the period ended December 31, 1993 is derived from financial statements not included elsewhere herein. The selected unaudited pro forma income statement information for the nine months ended September 30, 1997 and 1996 and for the twelve months ended December 31, 1996 gives effect to the Conversion, the Refinancing, the Offering and the elimination of other non-recurring charges and credits as of the beginning of each period presented. The pro forma financial information should be read in conjunction with the unaudited consolidated pro forma financial statements and notes thereto appearing elsewhere herein. See "Index to Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

<TABLE>
<CAPTION>

December 31,	Nine Months Ended September 30,			Years Ended		
-----	-----	-----	-----	-----	-----	-----
(1) 1992 (1)	1997	1996	1996	1995 (1)	1994 (1)	1993
----	----	----	----	----	----	----
	(unaudited)	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Historical Statement of Operations Data:						
Net sales.....	\$ 529,199	\$ 489,517	\$ 649,254	\$ 628,935	735,861	\$
655,707 \$ 612,052						
Cost of sales.....	315,000	293,748	386,251	375,425	451,785	
401,441 370,435	-----	-----	-----	-----	-----	---

Gross profit.....	214,199	195,769	263,003	253,510	284,076	
253,266 241,617						
Selling, general and admin. exp.....	178,783	164,231	221,574	213,221	235,845	
213,101 200,161						
Management fee.....	2,491	2,491	3,330	3,330	3,330	
3,330 3,330						
Depreciation.....	3,024	2,684	3,623	3,661	4,502	
5,106 5,472						
Amortization.....	1,358	1,449	1,924	1,996	2,640	

2,848	2,861						
Restructuring charges.....		--	--	5,950	--	--	
--	--						
Transaction and other costs.....	3,053	--	--	2,150	--	--	
--	--						
		-----	-----	-----	-----	-----	-----
Income from operations.....	26,100	24,914	24,452	31,302	37,759		
28,975 29,712							
Interest expense, net.....	5,507	5,147	6,875	6,920	9,890		
10,004 11,540							
Other income (expense), net.....	(83)	470	550	256	(1,748)		
498 (69)							
Gain on sale of division.....	--	--	--	20,644	3,523		
--	--						
Provision (benefit) for income taxes...	(8,932)	(372)	(1,140)	537	100		
869 493							
Extraordinary loss.....	(3,392)	--	--	(629)	--		
-- (3,434)							
Cumulative effect on prior years of change in accounting principle.....	--	--	--	--	--		
-- 822							
Net income	\$ 26,050	\$ 20,609	\$ 19,267	\$ 44,116	\$ 29,544	\$	
18,506 \$ 15,079							
Net income per limited partnership interest							
- Class A.....	N/A	0.82	1.10	1.10	1.10		
1.10 1.10							
- Class B.....	N/A	0.52	0.32	1.45	0.79		
0.28 0.13							
Cash distributions declared per limited partnership interest							
- Class A.....	N/A	0.73	1.10	1.10	1.10		
1.10 1.10							
- Class B.....	N/A	0.23	0.33	0.67	0.49		
0.27 0.13							
Weighted average number of out- standing limited partnership interests							
- Class A.....		11,099,573	11,099,573	11,099,573	11,099,573		
11,099,573 11,099,573							
- Class B.....		21,675,746	21,675,746	21,675,746	21,675,746		
21,675,746 21,675,746							
Pro forma net income per Common Share (2) \$	1.35	N/A	N/A	N/A	N/A		
N/A N/A							
Weighted average number of outstanding Common Shares.....	6,418,936	N/A	N/A	N/A	N/A		
N/A N/A							

</TABLE>

<TABLE>
<CAPTION>

	September 30,		December			
31,	-----		-----			
Balance Sheet Data:	1997	1996	1996	1995	1994	-
1993 1992						
---	----	----	----	----	----	---
	(unaudited)	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Working capital.....	\$ 105,357	\$ 101,476	\$ 100,781	\$ 95,841	\$ 76,060	\$
92,091 \$ 98,579						
Total assets.....	305,003	263,303	262,555	254,591	266,186	273,493
261,588						
Short-term debt financing.....	--	6,395	6,395	6,395	18,970	
5,700 5,700						
Long-term debt and capitalized lease obligations.....	77,708	63,934	69,150	63,934	75,168	
104,185 116,122						
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	\$ 115,991	N/A	N/A	N/A	N/A	
N/A N/A						

</TABLE>

<TABLE>
<CAPTION>

PRO FORMA			
December 31, 1996	Nine Months Ended September 30,		Year Ended
	1997	1996	
	(unaudited)	(unaudited)	
	<C>	<C>	<C>
Pro Forma Statement of Operations:			
Net sales.....	\$ 529,199	\$ 489,517	\$
649,254			
EBITDA (3).....	36,026	31,538	
41,429			
EBITA (3).....	33,002	28,854	
37,806			
Amortization.....	1,748	1,339	
2,444			
Income from operations.....	31,254	27,015	
35,362			
Interest expense, net.....	5,371	5,038	
6,726			
Distribution on guaranteed preferred beneficial interests..	(9,174)	(9,174)	
(12,232)			
Income before income taxes.....	16,889	13,481	
17,149			
Provision for income taxes.....	7,576	6,336	
8,060			
Net income.....	\$ 9,313	\$ 7,145	\$
9,089			
Net income per Common Share.....	\$ 1.35	\$ 1.03	\$
1.31			
Weighted average number of outstanding Common Shares.....	6,918,936	6,918,936	
6,918,936			

</TABLE>

(1) Includes results of operations from divisions sold as follows:

<TABLE>
<CAPTION>

	Years Ended December 31,			
	1995	1994	1993	1992
	<C>	<C>	<C>	<C>
Net sales.....	\$ 29,070	\$ 177,107	\$ 162,270	\$ 159,912
Gross profit.....	8,649	56,931	52,707	52,404
Selling, general and administrative expense	8,041	46,593	44,168	42,298
Depreciation.....	303	1,253	1,550	1,791
Amortization.....	35	497	352	298
Income from operations.....	270	8,588	6,637	8,017

</TABLE>

(2) The pro forma earnings per common share for the nine months ended September 30, 1997 gives effect to the Conversion as of the beginning of the year presented and excludes non-recurring charges and credits directly related to the Conversion.

(3) "EBITDA" is defined as income from operations before depreciation and amortization; "EBITA" is defined as income from operations before amortization. EBITDA and EBITA are not measures of performance under Generally Accepted Accounting Principles ("GAAP"). While EBITDA and EBITA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP, the Company believes that EBITDA and EBITA are accepted within the business segments in which the Company operates as generally recognized measures of performance. Moreover, substantially all of the Company's financing agreements contain covenants in which EBITDA and/or EBITA are used as measures of financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of other measures of performance determined in accordance with GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

General

The Company is one of the largest providers of industrial products and related value-added services in North America. The Company is organized into three businesses which are SunSource Industrial Services Company, Hillman and Harding. SunSource Industrial Services Company is comprised of STS and SIMCO.

Conversion

The Conversion resulted in the Company reporting a stockholders' deficit as of September 30, 1997, due to the exchange of Trust Preferred Securities and cash for all of the Class A partnership interests which was recorded at fair value aggregating \$130.4 million. The Trust Preferred Securities have both equity characteristics and certain creditors' rights, and therefore are classified between total liabilities and stockholders' equity on the Company's balance sheet. The Trust Preferred Securities bear interest at an annual rate of 11.6% and are cumulative and callable, at the Company's option, after September 30, 2002. The interest payments on the Junior Subordinated Debentures underlying the Trust Preferred Securities of approximately \$12.2 million annually 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.

Restructuring

In December 1996, the Company recorded restructuring charges of \$6.0 million (on a pre-tax basis) related to a restructuring and consolidation of STS (approximately \$4.4 million) and the one-time write-off of certain non-performing assets of Harding (approximately \$1.6 million). The restructuring plan is expected to result in the elimination of approximately 175 employees in the STS divisions and result in net cost savings of approximately \$5.0 million annually upon its completion. The restructuring plan is a three-year project that will consolidate all financial and administrative responsibilities for STS in a centralized location which is expected to be completed in the first half of 1999. However, the Company has deferred completion of restructuring of the STS sales organization and distribution network for an additional eighteen months pending further analysis of its customer base and logistics requirements. Of the \$4.2 million of restructuring charges that will result in cash payments, \$0.2 million was paid by the Company through December 31, 1996, and an additional \$1.8 million was paid during the nine months ended September 30, 1997.

Sale of Certain Divisions

The Company sold its Downey Glass division on October 27, 1995, its Dorman Products division on January 3, 1995 and its three Electrical Group divisions on December 5, 1994, for an aggregate cash consideration, net of expenses, of approximately \$70.6 million (subject to certain post-closing adjustments) and the assumption of certain liabilities. The proceeds from these divestitures were used to reduce debt and for general purposes including acquisitions. The Company recorded gains on the sale of these divisions aggregating \$24 million. See Note 14 of the Notes to the Consolidated Financial Statements of the Partnership for the three years in the period ended December 31, 1996 regarding litigation pertaining to the sale of the Dorman Products division.

Sales from the divested divisions aggregated \$29.1 million for the year ended December 31, 1995 and \$177.1 million for the year ended December 31, 1994. Income from operations from the divested divisions aggregated \$0.3 million in 1995 and \$8.6 million in 1994.

Acquisitions

The Company recently resumed its strategy to acquire retail glass shops for integration with Harding. Since August 31, 1997, Harding acquired the assets of three retail glass shops for net cash consideration of \$0.8 million. Sales from the acquired shops aggregated approximately \$2.5 million for the twelve-month period prior to acquisition.

On April 11, 1996, STS purchased certain assets of Hydraulic Depot, Inc. for an aggregate purchase price of \$0.7 million. Sales of Hydraulic Depot were \$2.2 million for the nine months ended September 30, 1997 and \$2.0 million from the acquisition date through December 31, 1996.

On November 13, 1995, Hillman purchased certain assets of the retail division of Curtis Industries ("Curtis") for an aggregate purchase price of \$8.0 million and the assumption of certain liabilities. Curtis was integrated with the Hillman division and its sales were \$11.0 million for the twelve months ended December 31, 1996 and \$1.6 million from the acquisition date through December 31, 1995.

Income Taxes

The Company's pro forma effective income tax rate for the nine months ended September 30, 1997 was 44.9%. The Company incurs federal, state and local income taxes on its domestic operations and foreign income taxes on its operations in Canada and Mexico. In addition, the Company has recorded goodwill in connection with acquisitions and the Conversion that is not deductible for federal income tax purposes. Consequently, the Company expects that its consolidated effective income tax rate will continue to be approximately 45.0%.

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. The discussion pertains to the consolidated statements of income and cash flows of the Company for the nine months ended September 30, 1997 and 1996 (pro forma) and for the years ended December 31, 1996, 1995 and 1994 (historical) and the consolidated balance sheets dated September 30, 1997, December 31, 1996 and 1995 (historical) and should be read in conjunction with these consolidated financial statements and notes thereto appearing elsewhere herein. Reference is also made, where appropriate, to the unaudited consolidated pro forma financial statements and the notes thereto contained elsewhere herein.

Pro Forma Results for the Nine Months Ended September 30, 1997 and 1996

Net income on a pro forma basis for the nine months ended September 30, 1997 was \$9.3 million or \$1.35 per Common Share compared with \$7.1 million or \$1.03 per Common Share for the same period in 1996, an increase of \$2.1 million or 30.3%.

Net sales increased \$39.7 million or 8.1% in the first nine months of 1997 to \$529.2 million from \$489.5 million in the first nine months of 1996.

Sales for the nine months ended September 30, 1997 and 1996 and respective sales variances by business segment are as follows:

<TABLE>
<CAPTION>

(Decrease)	Nine Months Ended September 30,		Sales Increase
	1997	1996	Amount
%			
		(In millions)	
<S>	<C>	<C>	<C>
<C>			
SunSource Industrial Services Company			
STS.....	\$ 242.8	\$ 224.5	\$ 18.3
8.1%			
SIMCO.....	130.5	116.9	13.6
11.7%			
	-----	-----	-----
Total SunSource Industrial			
Services Company.....	373.3	341.4	31.9
9.3%			
Hillman.....	89.3	79.4	9.9
12.4%			
Harding.....	66.6	68.7	(2.1)
(3.0)%			
	-----	-----	-----
Total Company	\$ 529.2	\$ 489.5	\$ 39.7
8.1%	=====	=====	=====

</TABLE>

Sales of STS increased \$18.3 million or 8.1% in the first nine months of 1997 to \$242.8 million from \$224.5 million in the comparable 1996 period due

primarily to an increase in the volume of products sold and value-added services provided to STS's customer base. SIMCO's sales increased \$13.6 million or 11.7% in the first nine-months of 1997 to \$130.5 million from \$116.9 million in the comparable 1996 period due to sales from new in-plant inventory management programs aggregating \$9.1 million and an increase in expediter maintenance product sales of \$4.5 million.

Hillman's sales increased \$9.9 million or 12.4% in the first nine months of 1997 to \$89.3 million from \$79.4 million in the comparable 1996 period as a result primarily of expansion into complementary product lines, such as keys, letters, numbers, signs and rope and chain accessories.

Harding's sales decreased \$2.1 million or 3.0% in the first nine months of 1997 to \$66.6 million from \$68.7 million in the comparable 1996 period. The decline is attributable to decreases in wholesale glass and other product lines aggregating \$2.7 million, offset by an increase in retail automotive sales of \$0.6 million. In recent years, Harding has discontinued certain low-margin product lines and has withdrawn from non-strategic markets. Growth in Harding's retail glass shops is expected to continue as a result of internal sales programs and acquisitions.

Cost of sales increased \$21.3 million or 7.2% in the first nine months of 1997 to \$315.0 million from \$293.7 million in the comparable 1996 period, due primarily to increased sales levels in the comparison period.

Gross margins were 40.5% in the first nine months of 1997 compared with 40.0% in the comparable 1996 period, comprised by business segment as follows:

	Nine Months Ended September 30,	
	1997	1996
SunSource Industrial Services Company		
STS.....	26.1%	25.7%
SIMCO.....	58.6%	61.4%
Total SunSource Industrial Services Company.....	37.5%	37.9%
Hillman.....	52.8%	49.9%
Harding.....	40.8%	38.4%
Total Company.....	40.5%	40.0%

The improvement in STS' gross margin is due primarily to labor efficiencies in its service and repair business and lower freight costs. The decrease in SIMCO's gross margin is due mainly to competitive pricing pressures and changes in sales mix as a result of new inventory management programs. Hillman's gross margins increased due primarily to a significant reduction in packaging costs in the first nine months of 1997 from the comparable 1996 period. The increase in Harding's gross margins was due primarily to improved purchasing management in auto and flat glass, exiting from low-margin product lines and efforts to improve margins in the wholesale flat glass business.

Selling, warehouse and delivery and general & administrative ("S,G&A") expenses increased by \$13.9 million or 8.5% in the first nine months of 1997 to \$178.2 million from \$164.2 million in the comparable 1996 period. Selling expenses increased \$4.8 million comprised of increases in SunSource Industrial Services Company and Hillman to support expanded sales and Harding as a result of increased marketing efforts in retail glass. Warehouse and delivery expenses increased \$2.6 million to support increased sales in the 1997 period. General and administrative expenses increased \$6.5 million consisting of: (i) an increase of \$5.3 million to support the overall increase in 1997 sales levels and the increased number of SIMCO system accounts and (ii) an increase of \$1.3 million in corporate expenses compared to the 1996 period which included an expense reduction of \$0.8 million as a result of incentive-based compensation plans and a non-recurring reduction in insurance reserves of \$0.4 million.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian and Mexican operations as accounted for in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred income taxes represent differences between the financial statement and tax bases of assets and liabilities as classified on the Company's balance sheet. The Company's provision for income taxes on a pro forma basis in the first nine months of 1997 increased \$1.2 million from the first nine months of 1996 due to higher income levels in the 1997 period. The Company's effective income tax rate decreased from 47.0% in the 1996 period to 44.9% in the 1997 period as a result of certain expenses that are non-deductible permanently for tax purposes, such as goodwill.

Operating Results Excluding Divisions Sold for the Three Years Ended
December 31, 1996

The table below reflects the results from ongoing operations of the Company for each of the three years in the period ended December 31, 1996, which excludes the sales, gross profit and operating expenses of divisions sold in 1995 and 1994. The management fee to general partner represents a payment made by the Company to its general partner while operating as a master limited partnership. Since the Company's conversion to corporate form, the management fee is retained by a wholly owned subsidiary of the Company.

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1995	1994
		(In thousands)	
<S>	<C>	<C>	<C>
Net sales.....	\$ 649,254	\$ 599,865	\$
558,754			
Cost of sales.....	386,251	355,004	
331,609			
Gross profit.....	263,003	244,861	
227,145			
Operating expenses:			
Selling, general and administrative expenses.....	221,574	205,180	
189,252			
Management fee to general partner.....	3,330	3,330	
3,330			
Depreciation.....	3,623	3,358	
3,249			
Amortization.....	1,924	1,961	
2,143			
Total operating expenses.....	230,451	213,829	
197,974			
Restructuring charges.....	5,950	--	-
-			
Transaction costs.....	2,150	--	-
-			
Income from operations.....	\$ 24,452	\$ 31,032	\$
29,171			

</TABLE>

Years Ended December 31, 1996 and 1995

Net income for the year ended December 31, 1996 was \$19.3 million compared with \$44.1 million in 1995. As previously discussed, 1996 net income included a \$4.9 million charge (net of \$1.1 million in deferred tax benefits), related to the restructuring of STS and Harding and a \$2.1 million charge for transaction costs associated with the Conversion. The 1995 net income included a gain of \$20.6 million from the sale of the Downey Glass division in October 1995 and the Dorman Products division in January 1995. Net income for 1995 also included a \$0.6 million charge related to the early retirement of debt and \$0.3 million of operating income from the Downey Glass division. Excluding these non-recurring items, net income for 1996 amounted to \$26.3 million or 10.5% above the comparable 1995 net income of \$23.8 million.

After giving effect to the Offering, the Conversion, the Refinancing and the elimination of gains and results of operations from divisions sold, as well as non-recurring items, pro forma net income for the twelve months ended December 31, 1996 was \$9.1 million or \$1.31 per Common Share or 10.2% above comparable 1995 net income of \$8.2 million. See Notes to Pro Forma Consolidated Financial Statements for adjustments that affect comparability to historical results.

Net sales increased \$49.4 million or 8.2% in 1996 to \$649.3 million from \$599.9 million in 1995 resulting primarily from an increase in the volume of products sold due to continued strengthening in existing product markets as well as additional market penetration from new product lines and value-added services.

Sales for the years ended December 31, 1996 and 1995 and sales variances by business segment are as follows:

<TABLE>

<CAPTION>

(Decrease)	Years Ended December 31,		Sales Increase
	1996	1995	Amount
%			
		(In millions)	
SunSource Industrial Services Company			
<S>	<C>	<C>	<C>
<C>			
STS.....	\$ 299.1	\$ 285.5	\$ 13.6
4.8%			
SIMCO.....	156.4	138.2	18.2
13.1%			
	-----	-----	-----
Total SunSource Industrial			
Services Company.....	455.5	423.7	31.8
7.5%			
Hillman.....	103.4	84.6	18.8
22.2%			
Harding.....	90.4	91.6	(1.2)
(1.3)%	-----	-----	-----
Total Company.....	\$ 649.3	\$ 599.9	\$ 49.4
8.2%	=====	=====	=====
=====			

</TABLE>

Sales of STS increased \$13.6 million or 4.8% in 1996 to \$299.1 million from \$285.5 million in 1995 due to continued strength in existing product markets. SIMCO sales increased \$18.2 million or 13.1% in 1996 to \$156.4 million from \$138.2 million in 1995 as a result of sales growth from new inventory management programs of \$10.5 million and an increase in expediter maintenance product sales of \$7.7 million.

Hillman's sales increased \$18.8 million or 22.2% in 1996 to \$103.4 million from \$84.6 million in 1995 due to contributions from the Curtis acquisition in the amount of approximately \$11.0 million and the balance of \$7.8 million in growth from new accounts, expansion of existing product lines and market penetration of new product lines.

Harding's sales declined \$1.2 million or 1.3% in 1996 to \$90.4 million from \$91.6 million in 1995 due to a decrease in wholesale glass, brokerage and other product line sales of \$2.8 million and the discontinuation of certain low margin product lines and markets served aggregating \$0.2 million, offset by an increase in retail glass sales of \$1.8 million or 4.2% from the comparable 1995 period.

Cost of sales increased \$31.3 million or 8.8% in 1996 to \$386.3 million from \$355.0 million in 1995 due primarily to increased sales levels.

Gross margins were 40.5% in 1996 compared with 40.8% in 1995, comprised by business segment as follows:

	Years Ended December 31,	
	1996	1995
	----	----
SunSource Industrial Services Company		
STS.....	26.7%	27.4%
SIMCO.....	61.1%	64.5%
Total SunSource Industrial		
Services Company.....	38.6%	39.5%
Hillman.....	50.8%	52.4%
Harding.....	38.8%	35.9%

Total Company..... 40.5% 40.8%

The decline in SunSource Industrial Services Company's gross margin was due mainly to competitive pricing pressures and changes in sales mix. Hillman's gross margins decreased due to reduced packaging productivity levels and costs associated with integration of the Curtis acquisition and for other business expansion

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programs. Harding's gross margins increased due to improved purchasing management and increased sales in retail glass which carries higher margins than the other product lines in this segment.

S,G&A expenses increased by \$16.4 million or 8.0% to \$221.6 million in 1996 from \$205.2 million in 1995, comprised as follows: increased selling expenses of \$7.4 million supporting increased 1996 sales levels; increased warehouse and delivery expenses of \$6.3 million due to the integration of the Curtis acquisition, expansion programs by certain operating units and the addition of seven large in-plant accounts by SIMCO; and increased general and administrative expenses of \$2.7 million.

Years Ended December 31, 1995 and 1994

Net income for the year ended December 31, 1995 was \$44.1 million including a combined gain of \$20.6 million from the sale of the Dorman Products and Downey Glass divisions, compared with \$29.5 million of net income in 1994, which included a gain of \$3.5 million from the sale of the Electrical Group divisions in December 1994. Net income for 1995 also included a \$0.6 million charge related to the early retirement of debt and a reduction in net interest cost of approximately \$3.2 million from the prior year. Net income for the year ended December 31, 1994 included income from divisions sold aggregating \$8.6 million. Excluding operating income and gains from divisions sold, as well as the extraordinary loss on early extinguishment of debt, net income for 1995 amounted to \$23.8 million or 36.7% above comparable 1994 net income of \$17.4 million.

After giving effect to the Conversion, the Refinancing, the Offering and the elimination of gains and results of operations from divisions sold, as well as non-recurring items, net income for the year ended December 31, 1995 would have been \$8.2 million, an increase of 103% from the comparable 1994 net income of \$4.1 million. See Notes to Pro Forma Consolidated Financial Statements for adjustments that affect comparability to historical results.

Net sales increased \$41.1 million or 7.4% in 1995 to \$599.9 million from \$558.8 million in 1994, resulting primarily from an increase in the volume of products sold due to strengthening in most product markets and significant growth from sales programs and services initiated since 1992.

Sales for the years ended December 31, 1995 and 1994 and sales variances by business segment were as follows:

<TABLE> <CAPTION> (Decrease) ----- %	Years Ended December 31,		Sales Increase
	1995	1994	Amount
-----	-----	-----	-----
			(In millions)
SunSource Industrial Services Company			
<S>	<C>	<C>	<C>
<C>			
STS.....	\$ 285.5	\$ 260.4	\$ 25.1
9.6%			
SIMCO.....	138.2	128.1	10.1
7.9%			
	-----	-----	----
Total SunSource Industrial			
Services Company.....	423.7	388.5	35.2
9.1%			
Hillman.....	84.6	72.8	11.8
16.2%			
Harding.....	91.6	97.5	(5.9)
(6.1)%			
	-----	-----	-----
Total Company.....	\$ 599.9	\$ 558.8	\$ 41.1
7.4%	=====	=====	=====

</TABLE>

Sales of SunSource Industrial Services Company increased \$35.2 million or 9.1% in 1995 to \$423.7 million from \$388.5 million in 1994 due primarily to an increase in the volume of products sold as a result of strengthening in most product markets.

Hillman's sales increased \$11.8 million or 16.2% in 1995 to \$84.6 million from \$72.8 million in 1994 due primarily to continued geographic expansion and the introduction of new product lines.

Harding's sales decreased \$5.9 million or 6.1% in 1995 to \$91.6 million from \$97.5 million in 1994 due to a decline in sales volume primarily attributable to the discontinuation of certain product lines and markets served.

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Cost of sales increased \$23.4 million or 7.1% in 1995 to \$355.0 million from \$331.6 million in 1994, due primarily to increased sales levels in the existing businesses in the comparison period.

Gross margins were 40.8% in 1995 compared with 40.7% in 1994, comprised by business segment as follows:

	Years Ended December 31,	
	1995	1994
	----	----
SunSource Industrial Services Company		
STS.....	27.4%	27.7%
SIMCO.....	64.5%	65.9%
Total SunSource Industrial Services Company.....	39.5%	40.3%
Hillman.....	52.4%	51.0%
Harding.....	35.9%	34.4%
Total Company.....	40.8%	40.7%

Changes in sales mix were the principal contributors to the changes in gross margins.

S,G&A expenses increased by \$15.9 million or 8.4% to \$205.2 million in 1995 from \$189.3 million in 1994, comprised as follows: increased selling expenses of \$8.9 million, increased warehouse and delivery expenses of \$3.2 million and increased general and administrative expenses of \$3.8 million. The increase in S,G&A expenses supported increased 1995 sales levels and expansion programs by certain operating units. S,G&A as a percentage of sales increased from 33.9% in 1994 to 34.2% in 1995 due mainly to increased support payments, incentive programs and marketing efforts for the sales force.

Interest expense, net decreased \$3.0 million to \$6.9 million in 1995 from \$9.9 million in 1994 due to reduced financing costs of approximately \$1.5 million from the prepayment of senior notes on March 14, 1995, \$1.1 million from reduced borrowing levels under the Company's revolving credit facility and increased interest income of approximately \$0.4 million.

Other income, net was \$0.7 million for the twelve months ended December 31, 1995, compared to \$1.4 million of other expense recorded in 1994. This change was primarily due to the favorable settlement of certain non-recurring insurance and legal matters in 1995.

Liquidity and Capital Resources

On a historical basis, net cash provided by operations was \$23.0 million in the first nine months of 1997 compared with \$20.6 million in the first nine months of 1996, an increase of \$2.4 million. This increase was due primarily to increased net income of \$5.4 million offset by increased working capital investment in operations in the comparison period of approximately \$0.5 million, and other non-cash items of \$2.5 million. The Company's net interest coverage ratio on a pro forma basis (earnings before interest, distributions on guaranteed preferred beneficial interests and taxes over net interest expense and distributions on guaranteed preferred beneficial interests) improved to 2.16x in the first nine months of 1997 from 1.95x in the comparable 1996 period.

The Company's cash position of \$2.7 million as of September 30, 1997 increased \$1.0 million from the balance at December 31, 1996. Cash was provided during this period primarily from operations of \$23.0 million and proceeds from the sale of property and equipment of \$0.7 million. Cash was used during this period predominantly for capital expenditures (\$3.3 million), cash distributions to partners (\$13.9 million), pre-payment penalty on senior notes (\$4.3 million) and other items (\$1.2 million).

The Company's working capital position of \$105.4 million at September 30, 1997 represents an increase of \$4.6 million from the December 31, 1996 level of \$100.8 million. The Company's current ratio decreased to 2.02x

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at September 30, 1997 from 2.16x at December 31, 1996, principally due to an increase in distributions payable of \$14.4 million related to the Conversion. Excluding this item, the Company's current ratio was 2.34x as of September 30, 1997.

On September 30, 1997, the Company issued a \$60.0 million 7.66% Senior Note due 2002 and amended its credit agreement to increase the aggregate availability under the existing revolving line of credit to \$90.0 million at variable borrowing rates of LIBOR plus 1.0% to 1.5% or prime. SunSource anticipates interest cost savings of approximately 100 basis points through its new debt facilities compared to its previous debt structure. The Company's current borrowing capacity along with proceeds from the Offering is expected to provide the Company with sufficient working capital for reinvestment in its businesses and acquisition capital in the near future.

As of September 30, 1997, the Company had \$70.8 million available under its new credit facilities. As of September 30, 1997, the Company had \$79.2 million of outstanding indebtedness consisting of the aforementioned \$60.0 million Senior Note, bank borrowings totaling \$17.0 million, and letter of credit commitments aggregating \$2.2 million. In addition, an indirect, wholly-owned Canadian subsidiary of the Company has a \$2.5 million Canadian dollar line of credit for working capital purposes, of which no amount was outstanding at September 30, 1997.

As of September 30, 1997, the Company's total debt (including distributions payable) as a percentage of its consolidated capitalization (total debt, Trust Preferred Securities and stockholders' deficit) was 45.8% compared with 44.7% as of December 31, 1996. The Company's consolidated capitalization (including distributions payable) as of September 30, 1997 was \$208.2 million compared to \$173.0 million at December 31, 1996.

Proceeds from the Offering will be used to repay borrowings under the Company's revolving credit facility. As a result of the Offering, the Company's net worth would be \$7.5 million on an as adjusted basis as of September 30, 1997, resulting in total debt as a percentage of consolidated capitalization ratio of 40.7% as defined above.

The Company spent approximately \$5.0 million for capital expenditures in 1997, primarily for warehouse, machinery and equipment and computer hardware and software.

The Company has recorded an estimated liability of \$2.9 million at September 30, 1997 for remaining tax distributions due to Class B interest holders of the Partnership, related to taxable income for the nine months ended September 30, 1997 that is expected to be paid by March 31, 1998.

As a result of the Conversion of the Partnership to corporate form, the Company's cash flow is expected to improve due to the following: (i) retention of the management fee payable to the general partner of SDI Operating Partners, L.P. in the amount of \$3.3 million per year, (ii) retention of distributions on the general partner's ownership in the Partnership and SDI Operating Partners, L.P. amounting to approximately \$0.4 million annually and (iii) a reduction in income tax rates.

The Board of Directors of the Company declared on December 10, 1997 a cash dividend of \$.10 per share of Common Stock which was paid on January 6, 1998, to holders of record as of December 22, 1997. The Company expects to declare future quarterly dividends on the Common Stock to aggregate \$.40 per Common Share annually, subject to the discretion of its Board of Directors and dependent upon, among other things, the Company's future earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

The Company has deferred tax assets aggregating \$15.9 million as of September 30, 1997. 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. The minimum level of future taxable income necessary to realize the Company's recorded deferred tax assets at September 30, 1997, is approximately \$39.8 million. For the year ended December 31, 1996, the Company's consolidated federal taxable income was \$28.6 million.

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Recent Accounting Pronouncements

In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," which requires changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. Additionally, the FASB issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," which requires disclosures in financial statements based on management's approach to segment reporting and industry requirements to report selected segment information, disclosures about products and services and major customers, on a quarterly basis. The Company will be required to adopt SFAS 130 and 131 during fiscal 1998. The impact of these new standards on the Company's future financial statements and disclosures has not been determined.

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.

BUSINESS

General

SunSource is one of the largest providers of industrial products and related value-added services in North America. Through its applications engineers and technical support personnel, SunSource provides customized solutions to complex problems encountered by its customers. The Company believes that it 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. The Company has more than 180,000 customers, none of which represents more than 5% of annual net sales. The Company's distribution and related services support more than 1,300 product lines, consisting of approximately 175,000 stock keeping units.

The Company traces its origins to 1975, when Sun decided to pursue a diversification strategy outside of its traditional energy business. After an extensive analysis of strategic alternatives, Sun concluded that the industrial distribution business offered substantial opportunities for growth, high returns on invested capital, and relatively low business risk. Sun pursued this strategy through Sun Distributors, Inc., which became an industry consolidator and acquired 16 companies between 1975 and 1985. In 1986, Sun decided to refocus its efforts on its core energy business and sell its non-energy businesses. The Company was purchased by a predecessor affiliate of the Selling Stockholders in October 1986. In February 1987, the Company made an initial public offering of its limited partnership interests and became a publicly traded master limited partnership.

The Company continued to make acquisitions after its initial public offering, but its ability to make acquisitions after 1991 was hindered by its partnership structure and associated restrictions in the Company's credit agreements. In 1994 and 1995, the Company divested three non-strategic businesses with aggregate 1994 sales of \$177.1 million. The Company converted from partnership to corporate form on September 30, 1997.

The Company has targeted three businesses within the distribution industry which are characterized by a potential for value-added services, economies of scale and opportunities for further consolidation.

Industrial Services. SunSource Industrial Services Company, with sales of \$455 million in 1996, provides a broad range of products and services throughout North America through the sales and marketing activities of STS and SIMCO. The Company believes that STS is a leading provider of systems, parts and engineering services for hydraulic, pneumatic, electrical and related systems to major industrial concerns, such as Ford Motor Company, Hillrom and Vermeer Manufacturing, as well as small and medium-size businesses. STS provides services, including engineering and design of both products and processes and the assembly and repair of complex systems, which enable its customers to outsource engineering and other functions which they previously performed in-house. SIMCO provides inventory management services enabling its customers to reduce inventory investment and the associated expenses of purchasing, receiving, disbursing and accounting for parts and materials.

Hardware Merchandising Services. Hillman, with sales of \$103 million in 1996, provides small hardware items and merchandising services to retail hardware stores through a nationwide sales and service organization. Hillman offers a full range of fasteners, letters, numbers, signs, keys, rope and chain accessories and many other inexpensive "specialty" goods, which are "must-have" items for retailers that cannot be managed economically by the retailer's own employees because of the large number of items and their low prices. Hillman maintains a 235 person nationwide sales and service organization which seeks to ensure that its customers' inventories are maintained at appropriate levels with a minimum of administrative effort or expense. Hillman also provides inventory management software that ties into retailers' point-of-sale systems. Through its merchandising system, Hillman assists retailers with rack positioning, store layout, new package design and color coding systems to permit ease of shopping by consumers.

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Glass Merchandising. Harding, with sales of \$90 million in 1996, operates one of the largest networks of full service retail glass shops in the United States. Harding is comprised of approximately 85 retail locations throughout the Southwest and, to a lesser degree, along the East Coast. Harding sells and installs automotive glass and also sells, fabricates and installs flat glass. Customers include individual retail consumers, insurance companies and commercial accounts.

The table below provides the sales and gross profit for each of the Company's three businesses for the nine months ended September 30, 1997 and 1996 and for each of the three years in the period ended December 31, 1996, excluding sales and gross profit from divisions sold. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

FINANCIAL INFORMATION BY BUSINESS (UNAUDITED)
(In thousands)

	Nine Months Ended September 30,				Years Ended December 31,			
	1997		1996		1996		1995	
1994								
% Total		% Total		% Total		% Total		% Total
SALES	Sales	Sales	Sales	Sales	Sales	Sales	Sales	Sales
Sales								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>								
SunSource Industrial Services Company								
STS.....	\$ 242,804	45.9%	\$ 224,542	45.9%	\$ 299,068	46.1%	\$ 285,466	47.6%
260,428 46.6%								
SIMCO.....	130,514	24.6%	116,891	23.9%	156,380	24.1%	138,207	23.0%
128,077 22.9%								
Total SunSource Industrial Services Company.....	373,318	70.5%	341,433	69.8%	455,448	70.2%	423,673	70.6%
388,505 69.5%								
Hillman.....	89,235	16.9%	79,369	16.2%	103,437	15.9%	84,631	14.1%
72,779 13.0%								
Harding.....	66,646	12.6%	68,715	14.0%	90,369	13.9%	91,561	15.3%
97,470 17.5%								
Consolidated Net Sales.....	\$ 529,199	100.0%	\$ 489,517	100.0%	\$ 649,254	100.0%	\$ 599,865	100.0%
558,754 100.0%								
GROSS PROFIT	% Sales	% Sales	% Sales	% Sales	% Sales	% Sales	% Sales	% Sales
% Sales								
SunSource Industrial Services Company								

STS.....	\$ 63,438	26.1%	\$ 57,949	25.7%	\$ 79,745	26.7%	\$ 78,496	27.4%	\$
72,019 27.7%									
SIMCO.....	76,439	58.6%	71,810	61.4%	95,626	61.1%	89,171	64.5%	
84,432 65.9%									
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total SunSource Industrial Services Company.....	139,877	37.5%	129,759	37.9%	175,371	38.6%	167,667	39.5%	
156,451 40.3%									
Hillman.....	47,100	52.8%	39,599	49.9%	52,527	50.8%	44,360	52.4%	
37,130 51.0%									
Harding.....	27,222	40.8%	26,411	38.4%	35,105	38.8%	32,834	35.9%	
33,564 34.4%									
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Consolidated Gross Profit.....	\$ 214,199	40.5%	\$ 195,769	40.0%	\$ 263,003	40.5%	\$ 244,861	40.8%	\$
227,145 40.7%									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

Industry Overview

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

Manufacturers are increasing their reliance on distributors in order to enhance their profitability and improve their returns on capital. Manufacturers are attempting to (i) reduce their logistics expense by making less frequent, larger shipments to fewer locations; (ii) reduce their sales expense by shrinking their direct sales forces; (iii) lower their marketing expense by trimming or eliminating technical support of their product lines; (iv) control their inventory investment with computer systems that enable them to track the inventory held by their distributors; and (v) improve their credit exposure by dealing with fewer, better capitalized distributors.

Customers are increasing their reliance on value-added distributors as their contacts with the manufacturers diminish or cease altogether. Customers are beginning to rely on their distributors for technical

support, engineering, repair and other services no longer available from the downsized manufacturers. The Company believes that the percentage of products sold through distributors will continue to increase as customers move to consolidate supply sources to streamline operations and reduce administrative costs. Customers can monitor their inventory requirements through the distributor's information system and avoid stocking such inventory until necessary. In addition, current information systems enable customers to measure precisely the economic benefits provided by their distributors.

Customers are outsourcing non-core functions to high quality service providers. Many companies have chosen to outsource primary supply chain functions including procurement, delivery and inventory management functions to high-quality service providers. Others have outsourced primary engineering, maintenance and repair functions. The Company expects this trend to continue as customers increasingly concentrate resources on developing their core capabilities.

Channels of distribution are in the process of consolidation. The increasing demands upon distributors from both vendors and customers are forcing them to make substantial investments in technology, training and logistics systems. Many smaller distributors that cannot afford to make these investments are being acquired by larger competitors that can provide the requisite services. The surviving, larger distributors enjoy multiple benefits, such as greater purchasing power with vendors, a larger revenue base over which to spread substantial fixed costs and lower costs of capital.

Managerial skills required for success in industrial distribution are changing dramatically. Management today must deal with complex and sophisticated national distribution channels while remaining responsive to increasingly individualized customer demands. Future success will require management to adapt to changing technology and develop sophisticated organizations that are

comfortable with change and can react quickly.

Business Strategy

While each of the Company's three businesses has its roots in traditional wholesale distributor activities, the evolution of each business has been affected in significantly different ways by the trends discussed above. However, commonalities among the businesses have enabled the Company to build a record of strong, profitable growth on the basis of three core competencies:

- o Acquisition Integration Capability - The ability to integrate acquired companies while improving operational efficiencies and enhancing their effectiveness in the marketplace.

Since the organization of its predecessor in 1975 and through 1991, the Company grew primarily through acquisitions of existing distribution companies. During this period, a series of acquisitions expanded the Company's operations both geographically and in the number and types of products offered. Thirty-five of these acquisitions had purchase prices in excess of \$1 million and approximately 40 more had purchase prices under \$1 million. The Company's ability to make acquisitions since 1991 was hindered by its previous partnership structure and associated restrictions in its credit agreement. As a result of the Conversion, the Refinancing and this Offering, the Company expects to have the necessary financial capacity to resume its acquisition program. The Company intends to seek acquisition candidates that have developed attractive market niches, have strong management and have demonstrated their ability to achieve stable growth and high returns on invested capital.

- o Ability to Capitalize on Industry Trends - The ability to execute dynamic business strategies to capitalize on opportunities arising from rapid structural changes in the marketplace.

The Company has established separate organizations for its three businesses, each headed by a chief executive officer who is supported by sales, marketing, financial, logistics and information systems resources. This organizational structure enables the Company to manage each of its businesses within the

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context of the varying market opportunities, rates of change, and competitive threats affecting those businesses. The Company's small headquarters staff shapes and guides the strategic decisions of its operating companies. Performance benchmarks are established as part of this process and progress is monitored to ensure that initiatives remain on track.

- o Technology for Competitive Advantage - The ability to use technology and technical expertise as competitive advantages to build and defend attractive market niches.

Technology offers significant opportunities for improving both the Company's internal operations and its product and service offerings to its customers. For example, STS is implementing a new integrated information system which will permit (i) the centralization of the purchasing function, resulting in a smaller staff with a higher level of professional skills; (ii) a reduction in the number of warehouses from 36 to fewer than ten; (iii) higher customer order fill rates; and (iv) lower exposure to obsolete or slow-moving inventory. Hillman has developed a new sales tracking program that will enable it to closely monitor the performance of its sales representatives with respect to increasing product line penetration within their accounts. Harding's new management information system improves its ability to manage operations and fully utilize its purchasing power. It also permits Harding to integrate acquisitions substantially faster than was previously possible.

Growth Opportunities

SunSource believes that each of its three operating businesses is well positioned to capture opportunities in the markets in which it participates.

SunSource Industrial Services Company's strategy is to capitalize on the trends among industrial customers toward consolidation of suppliers, outsourcing the procurement function for goods and outsourcing in-plant services for which they lack expertise or sufficient resources.

STS believes that it can significantly increase its revenues by expanding its relationships with large industrial customers to provide them with

the full range of available products and services which STS can provide. To this end, STS is currently enhancing its sales organization to include industry specialists to augment the effectiveness of individual sales representatives. For example, a sales representative could call upon STS' technology specialists to assist in solving a paper mill's production problem. A successful solution would be communicated to STS' industry specialist, who would check for similar opportunities at the customer's other mills and would ensure the information was made available to all STS representatives who call on paper mills.

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. In addition, STS intends to resume its acquisition program later in 1998 when its restructuring project is closer to completion. STS' acquisition strategy is to acquire technology-driven distributors on the West Coast, New England, and Florida to solidify its geographic coverage in those areas. STS' objective is also to acquire companies with complementary services, such as vibration monitoring or preventive maintenance programs to industrial facilities.

Hillman's strategy is to capitalize on the desire of its customers to shift the burden of maintaining a complex, low value inventory as well as to continually expand its product line. Hillman currently services approximately 8,000 retail hardware locations, an estimated 65% of the retail hardware outlets that are large enough to benefit from the Hillman merchandising system. Management believes that growth is most likely to come from: (i) further penetration of the retail hardware outlet markets; (ii) an increase in the average number of Hillman product lines sold to each retail hardware outlet; (iii) expanded participation in the home center and regional lumber yard businesses in the United States; and (iv) expansion in the Caribbean, Mexico and Central America under a newly-hired Director of International Sales. Hillman targets companies for acquisition that offer a significant extension of its already broad product line, companies with substantial selling relationships with very large outlets,

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such as home centers and nationwide building supply operations, and companies which offer management services which would be of value to Hillman's customer base (such as companies that specialize in providing set up and layout design services for new store locations).

Harding believes that it has an excellent opportunity to build its network of retail glass shops through further acquisitions in the highly fragmented retail glass industry that consists of more than 9,000 independent and small regional glass shops.

Industrial Services (STS and SIMCO)

SunSource Industrial Services Company provides a single nationwide source for a broad array of industrial products and supporting technical services. SunSource Industrial Services Company is comprised of two sales and marketing activities--STS and SIMCO. Their common strategy is to capitalize on the increasing awareness of many industrial companies of their inefficiencies in performing activities that are ancillary to their principal business. These activities include repairing equipment, running preventive maintenance programs, maintaining in-house engineering capabilities and inventory management. In most instances, the only alternative available to many industrial companies for such services has been small, local firms, many of which lack the resources necessary to assure the quality of services that they provide. SunSource Industrial Services Company's customers are located throughout the United States, Mexico and Canada and include major industrial concerns, as well as small and medium-size businesses.

SunSource Technology Services (STS)

STS, with sales of approximately \$300 million in 1996, offers a full range of technology-based products and services to its customers. Its product lines include hydraulic, pneumatic, electronic and filtration parts and equipment. Services include engineering design, equipment repair and product upgrades.

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

to meet those standards. STS also conducts multiple-day training programs to help customers stay current with evolving technologies relevant to their operations.

STS has benefited from the trend for manufacturers to move towards increased standardization of products. The result is that many such products have to be modified and used in combination with other components in order to meet customers' performance requirements. 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. One example of this type of customized solution is a hydraulic integrated circuit ("HIC"), which is more compact and less prone to leakage than a generic circuit. Customized solutions like HICs make STS a more valuable resource to its customers, thereby allowing STS greater pricing flexibility. Management believes that there is a growing market for such customized solutions among medium and smaller original equipment manufacturers ("OEM") who do not have the capabilities to develop such products.

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

establishing service centers for the repair and overhaul of hydraulic equipment in major industrial markets around the country.

The six hydraulic and pneumatic distributors which today comprise STS were acquired by the Company between 1976 and 1991. The acquired companies typically enjoyed profitable market niches created either through exclusive territories granted by their vendors or the unique services they offered. Until recently, STS operated each of its divisions on a decentralized basis with each division having its own president and vice president of sales. In early 1997, STS initiated a three-year project to consolidate financial and administrative activities in its Chicago headquarters. STS is in the first stage of installing a new information system that should be fully operational in the first half of 1999. In addition, STS is in the process of consolidating 36 inventory stocking locations into fewer than ten facilities which the Company believes will result in significantly lower operating costs and better product availability. Centralized purchasing and inventory management is expected to result in improved fill rates for customers while at the same time reducing STS' inventory investment, leveraging its purchasing power with many suppliers and reducing suppliers' operating costs. As an important part of this restructuring, the focus of the sales organization will increasingly be on specific technologies and market segments instead of geography.

Products and Suppliers. STS believes that it carries the most diverse selection of fluid power products of any distributor in the United States, totaling an estimated 100,000 items in five major product categories. Typically, hydraulic systems are employed for dealing with heavy loads in applications such as mining, manufacturing, construction or agriculture. An example of a hydraulic application is the system that controls the positioning of the scraping blade of a road grader - an integrated system of motors, pumps, valves, tubing, sensors and electronic controls. Pneumatic systems are similar to hydraulic systems except that air or some other gas is substituted for hydraulic fluid. Pneumatic systems are preferred for lighter weight applications such as light manufacturing and packaging lines. Hydraulic and pneumatic products represented approximately 60% and 21%, respectively, of STS' 1996 sales.

STS distributes products in five major product categories. A representative list of products by category is shown below:

<TABLE>			
<CAPTION>			
Product Category	Representative Products		

<S>	<C>		
Hydraulic Products	Accumulators	Heat Exchangers	Power Units
	Contamination Controls	Hoses	Pumps
	Control Valves	Hydrostatic Drives	Regulators
	Coolers	Hydrostatic Transmissions	Servos
	Cylinders	Manifold Systems	Swivels
	Fittings	Motors	Tubing
	Gauges	Oil Filters	Valves
	Gear Boxes	Power Steering Units	Winches

Pneumatic Products	Actuators Air Cylinders Air Dryers Air Filters Air Lubricators Air Regulators Air Springs Booster Pumps Cable Cylinders Connector Products	Control Valves Coolers Couplings Cylinders Dryers Filters Fittings Gauges Grippers Lube Panels	Lube Systems Lubricators Plastic Tubing Pressure Switches Regulators Slides Switches Vacuum Generators Vacuum Pumps Valves
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</TABLE>

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<TABLE>

<CAPTION>

<S>

Electronic Controls

<C>

AC Converters
 Contractors
 Controls
 Counters
 Electric Actuators

<C>

Electric Controls
 Encoders
 Motion Control Systems
 Sensors
 Software

<C>

Starters
 Switches
 Tachometers
 Timers

Filtration Products

Filtration Media
 Meters

Pump Systems
 Pumps

Regulators

Lubrication Products

Air Lubricators

Lubricators

</TABLE>

STS has a broad supply base which includes almost all major manufacturers of fluid power products in the United States. STS' top ten suppliers account for less than 30% of its 1996 sales. Because of the fragmented nature of the industry, manufacturers of fluid power equipment historically have awarded their franchises on a limited geographical basis. STS has secured exclusive franchises within certain geographic areas from significant suppliers such as Vickers, Hydroline, Trabon, Versa, SMC, Denison, Norgren, Mosier and Hansen. Two of STS' larger suppliers are Sunstrand and Commercial, whose products are distributed in most of STS' territories.

In recent years there has been considerable consolidation among suppliers, a trend which management believes will continue. STS, as a leading fluid power distributor, is likely to benefit from this trend. In addition, STS 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. STS currently serves over 35,000 customers, the top ten of which accounted for approximately 11% of its 1996 sales. Approximately 60% of sales are to OEM customers who incorporate the equipment or system purchased from STS into their final products. An example of an OEM customer is a manufacturer of back-hoes who incorporates a STS hydraulic system to operate the hoe. The remaining 40% of sales are to maintenance, repair and operation ("MRO") customers who use STS products as part of their production process. An example of an MRO customer is an automobile manufacturer whose heavy metal presses are powered by large hydraulic systems designed and installed by STS.

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

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

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

To support the outside sales representatives, STS employs approximately 235 inside sales representatives who collectively function as a customer service department, taking orders from customers on the telephone, answering questions and solving problems. STS also employs approximately 20 people in its telemarketing group which is responsible for customers with sales potential not

sales representative. STS has established an electronic data interchange ("EDI") capability for use with selected customers and vendors and is in the early stages of establishing a presence on the Internet.

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

Sun Inventory Management Company (SIMCO)

SIMCO provides inventory management services resulting in the delivery of required material to the customer's point of use at the lowest total cost. SIMCO's customers range from small machine shops with two or three employees to major manufacturing facilities with thousands of employees.

SIMCO serves its small and medium-size accounts through its "expediter" activity. The expediter activity, with sales of \$121 million in 1996, offers personalized, small parts inventory management service to the low volume customer. The expediter sales force relieves the customer of the inconvenience and expense of purchasing numerous, small, inexpensive maintenance parts and provides assurance against the expense and inconvenience of stock outs. Sales in this market segment tend to be of relatively small dollar value items with limited technology content but high service demands. The Company believes that SIMCO has a competitive advantage in this market segment due to its large sales force, a broad inventory of parts for diverse applications, a reputation for high-quality products, a responsive physical distribution system and a computerized material management system which permits 98% of all orders to be shipped within 24 hours. In 1996, the expediter activity of SIMCO sold more than 25,000 products to over 50,000 customers in the United States and Canada.

SIMCO's "integrated supply" activity, with sales of \$35 million in 1996, is focused on major industrial manufacturing customers. In some instances, SIMCO will take over complete responsibility for a customer's purchases of maintenance, repair and operating supplies. In those cases, SIMCO places the purchase orders, receives the material and dispenses it to the customer's employees from the customer's tool cribs. The advantage to the customer is substantial reduction in the total cost of procuring and handling the thousands of items which are routinely used by a large facility, while at the same time improving the availability of these materials.

Products and Suppliers. SIMCO's expediter activity packages and inventories over 25,000 items in nine major product categories. The largest category is fasteners, which accounted for approximately 30% of SIMCO's 1996 expediter sales. A representative list of products of SIMCO's expediter activity by category is shown below:

<TABLE>			
<CAPTION>			
Product Category	Representative Products		
-----	-----		
<S>	<C>	<C>	<C>
Fasteners	Bolts	Nuts	Socket Products
	Cotter Pins	Screws	Washers
Electrical Products	Clamps	Plugs/Clips	Terminals
	Connectors	Fuses/Switches	Wire/Cable
Fluid Power	Connectors	Hydraulic Hose	Unions
	Fittings	Tubing	Valves
Cutting Tools	Abrasives	Drill Bits	Reamers
	Cutoff Blades	Hacksaw Blades	Taps and Dies
</TABLE>			

<CAPTION>

<S>	<C>	<C>	<C>
Chemicals	Adhesives Brake Cleaner	Coolants Lubricants	Paints Penetrating Fluid
Transportation Hardware	Air Brake Parts Body Hardware	Filters Gaskets	Ignition Parts Wheel Hardware
Assortments	Cutting Tools	Electrical Products	Fasteners
Shop Supplies	Brooms	Hand Cleaners	Towels
Welding and Other	Regulators	Solder	Welding Rods

SIMCO purchases the parts it needs for its expediter activity from over 600 regular vendors, none of which account for greater than 2% of SIMCO's annual purchases. SIMCO has long-standing relationships with a majority of its suppliers and continually seeks to upgrade vendor performance by measuring it and educating vendors on SIMCO's quality and service standards. A majority of the products sold by SIMCO's expediter activity are packaged by vendors under SIMCO's private brand labels.

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

The products and suppliers used by SIMCO's integrated supply activity vary considerably depending on the nature of the customer's manufacturing activity. SIMCO seeks to maximize its purchasing power by aggregating purchases of common items used by multiple SIMCO customers and also by purchasing through the other SunSource businesses. SIMCO often obtains lower prices and provides improved availability for many products without changing the customer's vendors.

Markets and Customers. Customers of the expediter activity tend to be smaller companies that make frequent small purchases. A typical expediter customer purchases less than \$2,400 per year from SIMCO and includes truck fleet operators, construction and mining operations, industrial plants, paper plants, welding shops, hospitals, schools, government facilities and automobile dealerships.

SIMCO's integrated supply customers tend to be large industrial facilities which purchase in excess of \$1 million per year from SIMCO. SIMCO's major industrial customers include Colgate Palmolive, Mercedes Benz and Marley Cooling Tower.

Sales and Marketing. SIMCO's expediter sales representatives serve their customers by providing merchandising systems, helping control inventory and physically stocking and organizing products. For example, a sales representative might maintain an inventory of 100 to 150 small items for an automobile repair center. Items typically include nuts, bolts, small cutting tools, lubricants and related items. The service provided to the customer is to insure that all of these small consumables remain in stock, thereby enabling the customer to avoid the expense of maintaining inventories, placing purchase orders and receiving materials. Even more importantly, the customer's highly trained technicians do not have to waste time and money tracking down missing parts of nominal dollar value. Larger accounts are offered programmed inventory maintenance service ("PIMS") to ensure that inventory is maintained at appropriate levels. PIMS sales account for approximately 20% of total expediter sales. SIMCO also offers customized product literature which is targeted to selected niche markets.

SIMCO's expediter sales force consists of approximately 750 sales representatives, each of whom sells the entire product line and serves an average of 65 customer accounts. Ten to twelve sales representatives in a geographical area report to a district manager, who in turn reports to one of ten regional vice presidents. Sales management support includes training on new product applications and technical information to assist customers in

solving operational and maintenance problems. The marketing department provides support in the form of product line management, promotional programs, catalogs and related materials. Logistics support is provided by seven strategically located distribution centers and a computerized material management system which assures fast, accurate and complete shipments.

SIMCO approaches its larger integrated supply customers by offering to perform a survey of their existing procurement practices. The goal of the study

is to determine whether the customer's total costs can be reduced by utilizing the outsourcing services offered by SIMCO. Typically, savings occur in the customer's purchasing department, in its tool cribs or other dispensing locations within its facility and in lower inventory carrying costs. The net result of a decision to outsource to SIMCO is typically lower total costs, substantial reduction in inventory investment and improved product availability.

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

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

Hardware Merchandising Services (Hillman)

The Company believes that Hillman, with sales of \$103 million in 1996, is the leading supplier of merchandising services, fasteners and related small hardware repair items to retail outlets in the United States. Through its sales and service force, Hillman provides hardware retailers in all 50 states and in Mexico, Central and South America with an extensive line of fasteners and other small hardware items. More importantly, Hillman complements its extensive product selection with value-added services for the retailer.

Fasteners and other small hardware items typically account for approximately 25% of a hardware store's traffic, but less than 5% of its revenues. A typical hardware store maintains in inventory thousands of different items, many of which generate only small 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 profits.

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

order fill rates and rapid delivery from its nine distribution centers across the United States. Orders are shipped within 24 hours with a 96% order fill rate.

Products and Suppliers. Hillman buys its products from approximately 500 vendors, the largest of which accounted for 14.6% of Hillman's 1996 purchases and the top ten of which accounted for less than 45% of Hillman's 1996 total purchases. Hillman's wide variety of products includes standard and specialty nuts, bolts, screws, washers and anchors, plus brass, stainless steel, plastic and miscellaneous fasteners. Management believes that Hillman's selection of over 20,000 fastener items is the largest in the industry. Non-fastener products include locks, keys, letters, numbers, signs, rope and chain accessories and an extensive list of special-purpose items having a relatively limited product line such as corks, electrical connectors, flashlight bulbs, specialty fuses, and picture hangers.

Hillman buys approximately half of its purchases directly from foreign suppliers and coordinates its overseas purchasing with SIMCO. The balance of purchases are made from domestic manufacturers and master distributors. To assure quality from its vendors, Hillman conducts annual on-site evaluations and random sampling of products and communicates the results to vendors. Hillman also tracks the performance of its vendors based on delivery time and accuracy of shipments.

Markets and Customers. Hillman services approximately 8,000 full service retail outlets. Hillman historically has serviced individual dealers of some of the larger cooperatives, such as Cotter (Tru-Serve), Ace and HWI. Hillman sells directly to the cooperative's retail locations and also supplies many fastener items to the cooperative's central warehouses. These central warehouses continue to distribute to their smaller members that do not have the purchase volume to justify direct service from Hillman. These arrangements with the cooperatives reduce credit risk and logistics for Hillman and reduce central warehouse inventory and delivery costs for the cooperatives.

Hillman is also increasing its focus on regional and national lumber yards and home centers, particularly companies with three to fifteen locations. Management believes that the dynamics which make its services attractive to hardware retailers are present with these larger customers as well. At the present time, Hillman sells approximately \$15 million to this market segment. Management has established a special sales and service force to further penetrate this market segment.

Hillman also sells to approximately 6,000 smaller hardware outlets who are not large enough to qualify for Hillman's full service program, and has four sales representatives dedicated to serving industrial customers in the greater Cincinnati area. Hillman can offer such industrial customers very attractive prices because of Hillman's purchasing power and low freight costs.

Sales and Marketing. Hillman believes that it is more responsive to customers' needs than its competitors because it operates the largest direct national sales force selling fasteners and small hardware repair items and providing related value-added services to hardware stores. The sales force is comprised of a vice president of sales, two regional managers, 20 field sales managers and approximately 175 sales representatives. Each sales representative is responsible for approximately 50 full service accounts, each of which is generally called on an average of every three weeks. Several specialists call on cooperative warehouses and others focus on home centers and regional lumber yards. The sales effort to home centers and lumber yards is supported by a 60 person service organization that is devoted to maintaining the customers' inventory levels and ensuring that the Hillman displays are properly maintained. Hillman has an EDI system which is used by a number of larger customers. Hillman's sales force is supported by a five person customer support staff which is responsible for quoting special items and bulk quantity orders, expediting orders, issuing credits and providing sales representatives with customer feedback.

Competition. The principal competitors for Hillman's core business are Midwest Fasteners, Servalite, Elco and Sharon Bolt & Screw, the latter two of which carry only fastener products. Hillman competes primarily on the strength of the merchandising services it provides, as well as product availability, price and breadth of product line.

Management estimates that Hillman sells to approximately 65% of the full service retail outlets that comprise its core market. The smaller hardware outlets who purchase products but not services from Hillman also purchase products from local and regional distributors and cooperatives. Competition in this segment is primarily on the basis of price and availability.

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

Glass Merchandising (Harding)

Harding, with sales of approximately \$90 million in 1996, is one of the largest regional networks of full service retail glass shops in the United States. Harding operates in the following businesses: retail automotive and flat glass, insulating glass, small contract glazing and the wholesale distribution of automotive and flat glass.

Harding provides retail glass products and related services through a network of approximately 85 retail locations throughout the Southwestern United States and, to a lesser degree, along the East Coast. Customers include

individuals, insurance companies and commercial accounts. The retail glass market is highly fragmented within the U.S. market, consisting primarily of small, privately owned companies with one or two locations. The industry is in the early stages of consolidation and Harding believes that it is well positioned to capitalize on this opportunity due to its substantial purchasing power and its comprehensive management information systems.

As a result of emphasizing the higher margin retail business and deemphasizing lower margin businesses, such as glass tempering and large contract glazing, Harding has increased its overall gross margins from 34.9% in 1994 to 40.8% in the nine-month period ended September 30, 1997. Harding is positioned as a full-service glass retailer offering one of the broadest product lines in the retail glass industry as well as installation services for automotive glass, windows and commercial store fronts. The role of the fabrication and wholesale activities is to ensure that the full service shops receive the products they require at the lowest total cost.

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

Products and Suppliers. Harding maintains in inventory over 8,000 items and many more products can be fabricated to meet customer requirements. The following are major products carried by Harding:

Adhesives/Sealants	Commercial Glass Store Fronts	Storm Doors
Automotive Glass	Mirrors/Mirrored Walls	Fire Resistant Glass
Beveled Mirror Strips	Wardrobe Doors	Patio Doors
Shower/Bath Enclosures	Glass Blocks	Wire Glass
Framed Mirrors	Replacement Insulating Glass	
Glass Units	Solariums	

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

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Markets and Customers. Approximately 37% of retail autoglass sales are attributable to insurance companies while the remaining sales are divided among individuals, autobody shops, rental car agencies and car dealerships. Retail flat glass sales are split fairly evenly between individual consumers and small contract jobs under \$5,000. Wholesale autoglass sales are primarily to glass shops, while wholesale flat glass sales are divided among independent retail glass shops, window manufacturers and large contract glaziers. Harding's top ten customers accounted for approximately 10% of 1996 sales.

Sales and Marketing. The majority of Harding's retail customers are located within ten miles of a store and typically order in person or via phone. The retail marketing effort relies on the strategic location of the stores as well as advertising in the local media. Harding's retail organization also maintains a 24 person sales force of whom 19 sell both flat and automotive glass and five focus exclusively on flat glass.

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

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

Competition. Because of the diversity of markets and geographic locations it serves, Harding has numerous competitors at the retail level. Harding's retail competitors can be categorized as follows: national automotive chains, large regional glass retailers and local independent glass shops.

Harding, with its broad offering of both automotive and flat glass, has positioned itself as the largest comprehensive glass retailer in its region. At the wholesale level, Harding faces competition from national, regional and local competitors. In addition, in recent years, the major manufacturers of automotive and flat glass have been taking steps to integrate vertically into wholesale distribution, thereby assuring themselves of greater control over the sale of their products. As a result, many of these smaller, independent glass businesses are now inclined to look favorably upon the sale of their businesses to a larger competitor.

The Company believes that Harding is currently the largest full service retail glass shop business in the United States with approximately 85 retail locations. Although a number of chains are larger than Harding, they deal primarily in auto glass replacement and are not full service shops. Competition for Harding's full service shops comes mainly from single location operations or small chains. Harding's purchasing power and recently installed comprehensive information system give it significant advantages over these competitors.

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 14 of Notes to Consolidated Financial Statements of the Partnership as of and for the three years ended December 31, 1996.

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Employees

As of September 30, 1997, the Company had approximately 4,000 employees, of which approximately 1,700 are sales personnel, approximately 1,300 are employed as warehouse and delivery personnel and approximately 1,000 hold administrative positions. The Company has collective bargaining agreements with five unions representing a total of approximately 80 employees. In the opinion of management, employee relations are good.

Backlog

The Company's sales backlog excluding divested operations was \$59,531,000 as of December 31, 1996, and \$54,935,000 as of December 31, 1995. On average, the Company's backlog is less than one month's sales.

Properties

The Company currently has approximately 200 warehouse and stocking facilities located throughout the United States, Canada and Mexico. Most of these include sales offices. Approximately 32% of these facilities are owned and the remainder are leased. The Company's principal properties are the following warehouse facilities:

Business -----	Location -----	Description -----
Hillman	Cincinnati, Ohio	190,000 sq. ft. (leased)
Harding	Denver, Colorado	184,000 sq. ft. (owned)
SIMCO	Itasca, Illinois	80,000 sq. ft. (owned)

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

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's subsidiary operating partnership, upon which R&B allegedly based its offer to purchase the assets of the Dorman Products division of such subsidiary operating partnership. Dorman and R&B seek damages of approximately \$21 million. In the opinion of management, the ultimate resolution of this matter will not have a material effect on the consolidated financial position, operations or cash flows of the Company.

MANAGEMENT

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

<TABLE>
<CAPTION>

Name	Age	Position
- - - - -	---	-----
<S>	<C>	<C>
Donald T. Marshall.....	63	Chairman of the Board and Chief Executive Officer
John P. McDonnell.....	62	President and Chief Operating Officer; Chief Executive Officer, SunSource Industrial Services Company; Director
Norman V. Edmonson.....	57	Executive Vice President; Director
Joseph M. Corvino.....	43	Vice President-Finance, Chief Financial Officer, Treasurer and Secretary
Max W. Hillman, Jr.....	50	Chief Executive Officer, Hillman
Harold J. Cornelius.....	48	Chief Executive Officer, Harding
O. Gordon Brewer, Jr.....	60	Director
Eliot M. Fried.....	65	Director
Arnold S. Hoffman.....	62	Director
Robert E. Keith, Jr.....	56	Director
Ernest L. Ransome, III.....	71	Director
Donald A. Scott.....	68	Director
Henri I. Talerma.....	40	Director

</TABLE>

Donald T. Marshall has been the Chairman and Chief Executive Officer since December 1988 and a director since February 1987. Mr. Marshall served as President and Chief Executive Officer from February 1987 to December 1988. Mr. Marshall started with the Company in 1977 as Vice President-Operations.

John P. McDonnell has been the President and Chief Operating Officer since December 1994 and a director since May 1995. Mr. McDonnell served as Group Vice President from December 1987 to December 1994 and President of the Walter Norris division from December 1981 to December 1987.

Norman V. Edmonson has been the Executive Vice President since December 1994 and a director since February 1987. Mr. Edmonson served as Group Vice President from May 1, 1977 to December 1994. Mr. Edmonson plans to retire as an executive officer in May 1998 but will continue after that time as a director and consultant to the Company.

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. Mr. Corvino started with the Company as Assistant Controller in June 1980.

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Max W. Hillman, Jr. has been the Chief Executive Officer of Hillman since December 1996. Mr. Hillman served as Group Vice President from December 1991 to December 1996. Mr. Hillman started with the Company in operations in 1982.

Harold J. Cornelius has been the Chief Executive Officer of Harding since December 1996. Mr. Cornelius served as Group Vice President from December 1988 to December 1996. Mr. Cornelius started with the Company in the sales organization in 1979.

O. Gordon Brewer, Jr. has been a director of the Company since February 1987. Mr. Brewer has served as Vice President-Finance of Ikon Office Solutions (formerly Alco Standard Corporation) for more than the past five years. Mr. Brewer serves as a director of Corporate Insurance and Reinsurance Limited.

Eliot M. Fried has been a director of the Company since December 1994. Mr. Fried has been a Managing Director of Lehman Brothers Inc. since 1987. Mr. Fried serves as a director of Axsys Technologies, Inc., Bridgeport Machines, Inc., EVI, Inc., L3 Communications, Inc. and Walter Industries.

Arnold S. Hoffman has been a director of the Company since February

1987. Mr. Hoffman has been a Senior Managing Director in Corporate Finance at Legg Mason Wood Walker, Incorporated since April 1995 and a Managing Director at Legg Mason Wood Walker, Incorporated prior thereto. Mr. Hoffman serves as a director of Intelligent Electronics Incorporated.

Robert E. Keith, Jr. has been a director of the Company since December 10, 1997. Mr. Keith has been the Managing Director and Chief Executive Officer of TL Ventures (a venture capital firm) for more than the past five years. Mr. Keith serves as a director of Cambridge Technology Partners, National Media Corporation, Navigator, Safeguard Scientifics, Inc. and Wave Technologies International.

Ernest L. Ransome, III has been a director of the Company since February 1987. Mr. Ransome has been the Chairman of Giles & Ransome, Inc. (a distributor of construction equipment) for more than the past five years.

Donald A. Scott has been a director of the Company since February 1987. Mr. Scott has been a partner of Morgan, Lewis & Bockius LLP from July 1964 to present. Mr. Scott serves as a director of Provident Mutual Life Insurance Company.

Henri I. Talerman has been a director of the Company since March 1995. Mr. Talerman has been a Managing Director of Lehman Brothers Inc. from June 1992 to present and Senior Vice President of Lehman Brothers Inc. prior to 1992. Mr. Talerman serves as a director of McBride plc. and Financier Gerflor SA and as an advisory director of Europe Capital Partners.

All directors will hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. All executive officers hold office at the pleasure of the Board of Directors.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND SELLING STOCKHOLDERS

Except for the 500,000 shares being offered by the Company, all of the Common Shares being offered hereby are being sold by the Selling Stockholders named below.

The following table shows for (i) each director, (ii) each executive officer, (iii) certain persons known to the Company to own beneficially more than 5% of the outstanding interests, (iv) the Selling Stockholders and (v) all officers and directors as a group, the beneficial ownership of Common Shares before and after the Offering. Percentage amounts represent less than 1% of the outstanding Common Shares unless otherwise indicated.

of	Name of Beneficial Owner	Ownership Before Offering		Ownership After Offering	
		Common Shares	Percent of Common Shares Held	Common Shares	Percent Common Shares
Held					
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Directors and Executive Officers					
O. Gordon Brewer, Jr.	250	--	--	250	--
Harold J. Cornelius	27,770	--	--	27,770	--
Joseph M. Corvino	35,626	--	--	35,626	--
Norman V. Edmonson	440,729	6.9%	-- (1)	440,729	6.4%
Eliot M. Fried	-- (2)	--	--	--	--
Max W. Hillman, Jr.	30,220	--	--	30,220	--
Arnold S. Hoffman	3,250 (2) (3)	--	--	3,250	--
Robert E. Keith, Jr.	2,000	--	--	2,000	--
Donald T. Marshall	698,988	10.9%	--	698,988	10.1%
John P. McDonnell	211,208	3.3%	--	211,208	3.1%
Ernest L. Ransome, III	1,250 (4)	--	--	1,250	--
Donald A. Scott	2,250	--	--	2,250	--
Henri I. Talerman	-- (2)	--	--	--	--
All directors and executive officers as a group (13 persons)	1,453,541 (2)	22.6%	--	1,453,541	21.0%
Selling Stockholders					
Lehman LTD I, Inc.	27,138	--	27,138	--	--
Lehman Brothers Capital Partners I	1,447,031	22.5%	1,447,031	--	--

- -----

- (1) Mr. Edmonson intends to sell 20,000 Common Shares after completion of the Offering.
- (2) Does not include any Common Shares owned by the Selling Stockholders. Messrs. Hoffman and Fried, as limited partners of Lehman Brothers Capital Partners I, together derive economic benefit of approximately 1% from interests held by Lehman Brothers Capital Partners I. An affiliate of Lehman Brothers Inc., of which Messrs. Fried and Talerman are officers, also owns all of the capital stock of Lehman Ltd. I, Inc. and Lehman/SDI, Inc.
- (3) 750 of these Common Shares are owned by Hoffman Investment Co., of which Mr. Hoffman is Managing Partner. In addition, Mr. Hoffman's children own 1,000 Common Shares with respect to which he disclaims beneficial ownership.
- (4) 625 of these Common Shares are held in a trust, of which Mr. Ransome is a trustee.

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The address of Lehman LTD I, Inc., Lehman Brothers Capital Partners I and Lehman/SDI is 3 World Financial Center, New York, NY 10285.

See "Description of Capital Stock - Stockholders Agreement" for a description of certain restrictions with respect to voting and sale of Common Shares held by affiliates of Lehman Brothers and certain officers of the Company.

In connection with the Conversion, the Company entered into a Registration Rights Agreement with affiliates of Lehman Brothers (collectively referred to as "Lehman Brothers") and Messrs. Marshall, McDonnell and Edmonson. The agreement provides that at any time after the Conversion Lehman Brothers may require the Company to file a registration statement with the Securities and Exchange Commission for the sale of Common Shares held by them. Messrs. Marshall, McDonnell and Edmonson are entitled to include up to 20% of the Common Shares held by them in the registration statement. The registration statement of which this Prospectus is a part has been filed pursuant to that demand. The parties have agreed that they will not sell any Common Shares (other than pursuant to the Offering) during such period prior to and after the effective date of the registration statement as may be reasonably requested by the managing underwriters. The Company has also agreed not to sell any Common Shares (other than pursuant to the Offering) prior to the earlier of the closing of this Offering and nine months following the Conversion, except for the issuance of Common Shares in connection with acquisitions where the person receiving the Common Shares agrees to abide by this restriction.

The Company has agreed to pay all expenses incident to the Company's compliance with the Registration Rights Agreement, including registration and filing fees, blue sky expenses, printing expenses and fees and expenses of Company counsel and accountants. The parties have agreed to indemnify each other for certain liabilities including liabilities under the Securities Act of 1933, as amended.

DESCRIPTION OF CAPITAL STOCK

Preferred Stock

The Certificate of Incorporation of the Company authorizes the issuance of 1,000,000 shares of Preferred Stock, par value \$.01 per share, by the Board of Directors in one or more classes or series and with such voting powers, designations, preferences and relative participating, optional or other special rights and such qualifications, limitations, or restrictions thereof as shall be set forth in the resolutions of the Board of Directors authorizing such issuance. There are no shares of Preferred Stock outstanding. There are reserved for issuance 64,189 shares of Series A Junior Participating Preferred Shares pursuant to the Company's Stockholder Rights Plan. See "--Stockholder Rights Plan."

Common Stock

The Certificate of Incorporation of the Company authorizes the issuance of 20,000,000 Common Shares, of which 6,418,936 Common Shares are outstanding.

Holders of Common Shares are entitled to one vote per share on all matters to be voted upon by the stockholders. There are no cumulative voting rights with respect to the election of directors. Subject to preferences that

may be applicable to any outstanding Preferred Stock, holders of Common Shares are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Shares are entitled to share ratably in all assets after satisfaction of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. Common Shares have no preemptive, conversion or other subscription rights and there are no redemption or sinking fund provisions applicable to the Common Shares.

Stockholders Agreement

The Company and certain stockholders have entered into a Stockholders Agreement dated as of July 31, 1997 (the "Stockholders Agreement"), that contains certain restrictions with respect to voting and sale of Common Shares. The Stockholders Agreement provides that Lehman Brothers and each of the following members of management, Donald T. Marshall, John P. McDonnell, Norman V. Edmonson, Harold J. Cornelius, Max W. Hillman and Joseph M. Corvino (the "Senior Executives"), agree with the Company not to sell any Common Shares that they beneficially own, in a single transaction or series of related transactions, to any third person(s) which, to the knowledge of Lehman Brothers and the Senior Executives, after reasonable inquiry, would beneficially own after such transactions more than 10% of the outstanding Common Shares (or more than 15% of the outstanding Common Shares if such third person(s) are eligible to report the acquisition of such shares on Schedule 13G pursuant to clauses (i), (ii) and (iii) of Rule 13d-1(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as such rule is currently in effect.) The Stockholders Agreement also contains provisions that restrict the respective voting power of Lehman Brothers and the Senior Executives. Under the terms of such restriction, such persons agree to vote, in the same proportion as the "Unaffiliated Shares" that are voted on any such matter, that percentage of Excess Voting Shares held by them at such time that equals the percentage of outstanding Unaffiliated Shares that are voted on such matter. "Excess Voting Shares" means the Common Shares beneficially owned by Lehman Brothers and its affiliates and the Senior Executives, at any time, that represents voting power in excess of the respective voting powers immediately prior to the Conversion that they would have had in a vote of the holders of A Interests and B Interests of the Partnership voting together as a single class. See also "--- Anti-takeover Provisions - Bylaw Provisions" below.

The Stockholders Agreement contains a provision regarding nomination of the Board of Directors of the Company. The Board of Directors of the Company will consist of up to nine members, of whom three will be nominated by management, four will be independent and either one or two will be appointed by Lehman Brothers, depending upon the percentage of Common Shares held by Lehman Brothers.

Anti-takeover Provisions

Certain provisions of the Company's Bylaws and the Stockholder Rights Plan could have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Company's Board of Directors and management and in the policies formulated by the Board of Directors and to discourage an unsolicited takeover of the Company if the Board of Directors determines that the takeover is not in the best interests of the Company and its stockholders. However, these provisions could have the effect of discouraging certain attempts to acquire the Company or remove incumbent management even if some or a majority of stockholders deemed such an attempt to be in their best interests.

Bylaws Provisions. The Bylaws provide that stockholders are permitted to call a special meeting or to require that the Board of Directors call a special meeting of stockholders if such meeting is called by holders of at least 25% of outstanding Common Stock. In addition, the stockholders may act by written consent in lieu of a meeting with a number of votes sufficient for such action.

The Bylaws establish an advance notice procedure for the nomination of candidates for election as directors, other than by or at the direction of the Board of Directors, as well as for other stockholder proposals to be considered at annual meetings of stockholders. In general, notice of intent to nominate a director or raise business at such meetings must be received at least 60 days prior to any annual meeting and must contain certain specified information concerning the persons to be nominated or the matters to be brought before the meeting and concerning the stockholder submitting the proposal.

Pursuant to the terms of the Stockholders Agreement, the Bylaws provide that prior to the third anniversary of the date of the Conversion, the approval

of at least a majority of the Company's Independent Directors is required to approve and authorize (i) amendments to the Company's Certificate of Incorporation or Bylaws or any

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stockholder rights plan of the Company (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 anti-takeover statute or other provision applicable to the Company or (ii) any agreement binding the Company in respect of the sale, in a single transaction or a series of related transactions, of all or a substantial part of the Company. In addition, the approval of at least a majority of the Company's Independent Directors is required to approve and authorize (i) any transaction or series of related transactions between the Company or any of its subsidiaries, on the one hand, and SDI Partners I, L.P., Lehman Brothers Capital Partners I, L.P., Lehman Ltd. I, Inc., LB I Group, Inc., Lehman/SDI, Lehman Brothers Holdings Inc. or any affiliate of these entities on the other, so long as any of such entities and its affiliates own, in the aggregate, at least 10% of the outstanding Common Shares, (ii) any amendment to, or waiver of, any provision of the Stockholders Agreement, or (iii) any amendment to the Certificate of Incorporation or Bylaws that would amend these restrictive provisions.

Stockholder Rights Plan. The Company has adopted a Stockholder Rights Plan pursuant to a Rights Agreement between the Company and Registrar and Transfer Company. The Plan is designed to insure that all stockholders of the Company receive fair value for their Common Shares in the event of any proposed takeover of the Company and to guard against the use of partial tender offers or other coercive tactics to gain control of the Company without offering fair value to the Company's stockholders. Under the Rights Plan, each Common Share has attached thereto a Right. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$.01 per share, of the Company (the "Preferred Shares"), or a combination of securities and assets of equivalent value, at a Purchase Price of \$75, subject to adjustment. The Purchase Price may be paid, at the option of the holder, in cash or Common Shares having a value at the time of exercise equal to the Purchase Price.

Until the Distribution Date, ownership of the Rights will be evidenced by and will be transferred with and only with the certificates representing the Common Shares, and no separate Rights Certificates will be distributed. The Distribution Date will occur upon the earlier of (i) ten days following a public announcement that a person or group has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding Common Shares, or (ii) the close of business on a date fixed by the Board of Directors following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of the outstanding Common Shares. The Rights are not exercisable until the Distribution Date and will expire at the close of business on September 30, 2007, unless earlier redeemed by the Corporation as described below. The percentage ownership of Common Shares held by Lehman Brothers after the Conversion will not cause a Distribution Date to occur.

Except in the circumstances described below, after the Distribution Date each Right will be exercisable for one-hundredth of a Preferred Share (a "Preferred Share Fraction"). Each Preferred Share Fraction carries voting and dividend rights that are intended to produce the equivalent of one Common Share. Each Preferred Share Fraction will entitle the holder to receive dividends each calendar quarter in an amount equal to the aggregate per share amount in cash of all dividends or other distributions (other than dividends payable in Common Shares) declared on the Common Shares during the preceding quarter. Each Preferred Share Fraction will entitle the holder to one vote on all matters submitted to a vote of the stockholders of the Company. Each Preferred Share Fraction will have a liquidation preference equal to the greater of \$1.00 per share, plus accrued dividends, or an amount per share equal to the aggregate amount to be distributed per share to holders of Common Shares. The Preferred Share Fractions are not redeemable.

It is unlikely that a holder of a Right will ever exercise the Right to receive Preferred Shares. The Rights may be exercised if a "Flip-in" or "Flip-over" event occurs.

If a "Flip-in" event occurs and the Distribution Date has passed, the holder of each Right, with the exception of the Acquiror, is entitled to purchase \$75 worth of Common Shares for \$37.50. The Rights will no longer be exercisable into Preferred Shares at that time. A "Flip-in" event takes place if one of the following happens:

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- o A person or group acquires 20% or more of the outstanding Common Shares.
- o A 20% stockholder merges with or acquires the Company and an equity security of the Company remains outstanding.
- o A 20% stockholder engages in "self-dealing" transactions with the Company, defined as (i) the receipt of securities from the Company; (ii) the sale of assets by the 20% stockholder to, from or with the Company having a value of more than \$5,000,000 or on terms and conditions less favorable to the Company than the Company would be able to obtain in an arm's length negotiation with an unaffiliated third party; (iii) the receipt by the 20% stockholder of compensation other than for full time employment at regular rates; and (iv) the receipt by the 20% stockholder of the benefit of any loans, guarantees or other financial assistance or tax credits from the Company. The Board of Directors of the Company has the power to administer and interpret the Plan.

If a "Flip-over" event occurs, the holder of Rights is entitled to purchase \$75 worth of the Acquiror's stock for \$37.50 for each Right held. A "Flip-over" event occurs if the Company is acquired or merged and no outstanding shares remain or if 50% of the Company's assets or earning power is sold or transferred. The Rights Plan prohibits the Company from entering into this sort of transaction unless the Acquiror agrees to comply with the "Flip-over" provisions of the Plan.

The Rights can be redeemed by the Company for \$.005 per right until up to ten days after the public announcement that someone has acquired 20% or more of the Company's Common Shares or the Board can extend the redemption period for as long as it determines appropriate. If the Rights are not redeemed or substituted by the Company, they will expire on September 30, 2007.

Limitation of Liability

As permitted by the Delaware General Corporation Law (the "DGCL"), the Company's Certificate of Incorporation provides that directors of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, relating to prohibited dividends or distributions or the repurchase or redemption of stock or (iv) for any transaction from which the director derives an improper personal benefit.

Transfer Agent and Registrar

The transfer agent and registrar for the Common Shares is Registrar and Transfer Company.

UNDERWRITING

Under the terms of, and subject to the conditions contained in, the Underwriting Agreement, the form of which is filed as an exhibit to the Registration Statement of which the Prospectus forms a part, each of the Underwriters named below, for whom Lehman Brothers Inc., Robert W. Baird & Co. Incorporated, Furman Selz LLC and Legg Mason Wood Walker, Incorporated are acting as representatives (the "Representatives"), has severally agreed to purchase from the Company and the Selling Stockholders, and the Company and the Selling Stockholders have agreed to sell to each Underwriter, the aggregate number of Common Shares set forth opposite the name of each such Underwriter below:

Underwriters -----	Number of Shares -----
Lehman Brothers Inc.....	
Robert W. Baird & Co. Incorporated.....	
Furman Selz LLC.....	
Legg Mason Wood Walker, Incorporated.....	

Total..... 2,512,169
=====

The Company and the Selling Stockholders have been advised by the Representatives that the Underwriters propose to offer the Common Shares directly to the public at the public offering price set forth on the cover page of this Prospectus and to certain selected dealers (who may include the Underwriters) at such public offering price less a concession not in excess of \$ per share. The selected dealers may reallocate a concession not in excess of \$ per share to certain other brokers and dealers. After commencement of the public offering, the offering price and other selling terms may be changed by the Representatives.

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Common Shares are subject to certain conditions precedent, including the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Commission, and that there has been no material adverse change in the condition of the Company. The Underwriters will be obligated to purchase all of the Common Shares if any are purchased.

The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act or to contribute to payments that may be required to be made in respect thereof.

The Company has granted the Underwriters an option to purchase up to an aggregate of 375,000 additional Common Shares at the public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. Such option may be exercised at any time until 30 days after the date of the Underwriting Agreement. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase a number of the additional Common Shares proportionate to such Underwriter's initial commitment as indicated in the preceding table. The Company will be obligated, pursuant to such option, to sell such shares to the Underwriters to the extent such option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Common Shares offered hereby.

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Prior to the Offering, Lehman Ltd. I, Inc., Lehman Brothers Capital Partners I and Lehman/SDI, Inc., each an affiliate of Lehman Brothers Inc., beneficially own, in the aggregate, approximately 2,012,169 of the outstanding Common Shares. Because Lehman Brothers Inc. is a member of the National Association of Securities Dealers, Inc. ("NASD") and will act as an underwriter in the Offering, the Offering is subject to the provisions of Section 2720 of the Conduct Rules of the NASD (formerly Schedule E to the Bylaws of the NASD) ("Section 2720"). Although not required by Section 2720 in this instance, it has been determined that Robert W. Baird & Co. Incorporated will serve as a "qualified independent underwriter" and will recommend the public price in compliance with the standard requirements of Section 2720. Robert W. Baird & Co. Incorporated, in its role as qualified independent underwriter, is assuming the responsibilities of acting as a qualified independent underwriter and has performed due diligence investigation and participated in the preparation of this Prospectus and the Registration Statement of which this Prospectus is a part. In addition, in accordance with Section 2720, the Underwriters will not make sales of Common Shares offered hereby to customer's discretionary accounts without the prior specific written approval of such customer.

Until the distribution of the Common Shares is completed, rules of the Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase Common Shares. As an exception to these rules, the Representatives are permitted to engage in certain transactions that stabilize the price of the Common Shares. Such transactions may consist of bids or purchases for the purposes of pegging, fixing or maintaining the price of the Common Shares.

In addition, if the Representatives over-allot (i.e., if they sell more Common Shares than are set forth on the cover page of this Prospectus), and thereby create a short position in the Common Shares in connection with the Offering, the Representatives may reduce that short position by purchasing Common Shares in the open market. The Representatives also may elect to reduce any short position by exercising all or part of the over-allotment option described herein.

In general, purchases of a security for the purpose of stabilization or to reduce a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchase.

Neither the Company nor any of the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Shares. In addition, neither the Company nor any of the Underwriters make any representation that the Representatives will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Company, its officers and directors and certain of its stockholders have agreed that they will not, subject to certain exceptions, for a period of 90 days from the date of this Prospectus, directly or indirectly, offer, sell or otherwise dispose of any Common Shares or any securities convertible into or exchangeable or exercisable for any such Common Shares, without the prior written consent of Lehman Brothers Inc.

Affiliates of Lehman Brothers Inc. will receive a substantial portion of the proceeds from the Offering. In addition, two of the ten members of the Company's Board of Directors are presently employed by Lehman Brothers Inc. and a third is employed by Legg Mason Wood Walker, Incorporated. Lehman Brothers Inc. and Legg Mason Wood Walker, Incorporated have from time to time provided investment banking, financial advisory and other services to the Company, for which services they have received fees.

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LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for the Company by Morgan, Lewis & Bockius LLP, Philadelphia, Pennsylvania. Donald A. Scott, a partner in Morgan, Lewis & Bockius LLP, is a director of the Company. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Simpson Thacher & Bartlett (a partnership which includes professional corporations), New York, New York.

EXPERTS

The consolidated balance sheets of the Partnership at December 31, 1996 and 1995 and the consolidated statements of income, changes in partners' capital and cash flows for the three years in the period ended December 31, 1996 included and incorporated by reference in this Prospectus and the balance sheet of SunSource Inc. at December 31, 1996 included in this Prospectus, have been included and incorporated herein in reliance on the reports of Coopers & Lybrand L.L.P., independent accountants, given on the authority of that firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the Commission. Such reports and other information may be inspected and copied at the public reference facilities maintained by the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at Seven World Trade Center, New York, New York 10048, and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of this material should also be available on-line through EDGAR and may be obtained at the prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. The Commission also maintains a Web site (<http://www.sec.gov>) that contains reports and other information regarding the Company. Such reports and other information concerning the Company can also be inspected at the office of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, the exchange on which the Common Shares are listed.

This Prospectus constitutes a part of a Registration Statement on Form S-2 (the "Registration Statement") filed by the Company with the Commission under the Securities Act. This Prospectus omits certain of the information contained in the Registration Statement in accordance with the rules and regulations of the Commission. Reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Company and the securities offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in such instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

This Prospectus incorporates documents by reference which are not presented herewith. These documents (without exhibits, unless such exhibits are

specifically incorporated by reference herein) are available without charge to each person to whom a copy of this Prospectus is delivered, upon written or oral request addressed to SunSource Inc., 3000 One Logan Square, Philadelphia, Pennsylvania 19103, Attention: Joseph M. Corvino, Secretary, telephone number (215) 282-1290.

The following documents of the Partnership (Commission file no. 1-09375) and the Company (Commission file no. 1-13293) have been filed with the Commission and are incorporated herein by reference:

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- (a) Annual Report on Form 10-K for the Partnership for the fiscal year ended December 31, 1996;
- (b) Quarterly Reports on Form 10-Q for the Partnership for the quarterly periods ended March 31 and June 30, 1997; and
- (c) Quarterly Report on Form 10-Q for the Company for the quarterly period ended September 30, 1997.

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SunSource Inc. and Subsidiaries Pro Forma Consolidated Financial Statements (Unaudited)

The following unaudited pro forma consolidated financial statements of SunSource Inc. ("the Company"), give effect to the closing of this offering of common shares of the Company, (the "Offering"), the conversion of its

predecessor, SunSource L.P. ("the Partnership") to corporate form, including the elimination of non-recurring charges and credits ("the Conversion") and the refinancing of debt in conjunction with the Conversion (the "Refinancing"). The pro forma financial statements include the accounts of the Company and its indirect wholly-owned subsidiary partnership, SDI Operating Partners, L.P. (the "Operating Partnership"). Refer to the unaudited historical financial statements and notes thereto filed by the Company on Form 10-Q for the period ending September 30, 1997 and included elsewhere herein for further information regarding the Conversion.

The pro forma consolidated statements of income assume the Offering and the Refinancing closed and the Conversion occurred at the beginning of the periods presented. The pro forma consolidated income statements are not necessarily indicative of operating results that would have been achieved had the Offering, the Conversion, and the Refinancing occurred on the dates indicated and should not be construed as representative of future operating results.

These pro forma financial statements should be read in conjunction with the unaudited historical financial statements and notes thereto as filed by the Company and the Partnership on Form 10-Q for the nine months ended September 30, 1997 and 1996 and the audited financial statements filed by the Partnership on Form 10-K for the twelve months ended December 31, 1996, and included elsewhere herein.

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SUNSOURCE INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except for per unit data)

<TABLE>
<CAPTION>

Nine Months Ended September 30, 1997				
	Historical	Pro Forma Adjustments Amount	Note*	Pro Forma
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 529,199	\$ --		\$ 529,199
Cost of sales	315,000	--		315,000
Gross profit	214,199	--		214,199
Operating expenses:				
Selling, general and administrative expenses	178,173	--		178,173
Management fee to general partner	2,491	(2,491)	1A	--
Depreciation	3,024	--		3,024
Amortization	1,358	390	1B	1,748
Total operating expenses	185,046	(2,101)		182,945
Transaction and other costs related to Conversion	3,053	(3,053)	1D	--
Income from operations	26,100	5,154		31,254
Interest expense, net	5,507	(136)	1E	5,371
Other income (expense), net	(83)	263	1F	180
Distribution on guaranteed preferred beneficial interests in Corporation's junior subordinated debentures	--	(9,174)	1G	(9,174)
Income before income taxes	20,510	(3,621)		16,889
Provision (benefit) for income taxes	(8,932)	16,508	1H	7,576
Income before extraordinary loss	29,442	(20,129)		9,313
Extraordinary loss from early extinguishment of debt, net of deferred income tax benefit of \$951	(3,392)	3,392	1I	--
Net income	\$ 26,050	\$ (16,737)		\$ 9,313
Net income per common share				\$ 1.35
Weighted average number of outstanding common shares .				6,918,936

*SEE ACCOMPANYING NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except for per unit data)

<TABLE>
<CAPTION>

Nine Months Ended September 30, 1996				
	Historical	Pro Forma Adjustments Amount	Note*	Pro Forma
-				
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 489,517	\$ --		\$ 489,517
Cost of sales	293,748	--		293,748
-				
Gross profit	195,769	--		195,769
-				
Operating expenses:				
Selling, general and administrative expenses	164,231	--		164,231
Management fee to general partner	2,491	(2,491)	1A	--
Depreciation	2,684	--		2,684
Amortization	1,449	390	1B	1,839
-				
Total operating expenses	170,855	(2,101)		168,754
-				
Income from operations	24,914	2,101		27,015
Interest expense, net	5,147	(109)	1E	5,038
Other income, net	470	208	1F	678
Distribution on guaranteed preferred beneficial interests in Corporation's junior subordinated debentures	--	(9,174)	1G	(9,174)
-				
Income before income taxes	20,237	(6,756)		13,481
Provision (benefit) for income taxes	(372)	6,708	1H	6,336
-				
Net income	\$ 20,609	\$ (13,464)		\$ 7,145
Net income allocated to partners:				
General partner	\$ 206			
Class A limited partners	\$ 9,157			
Class B limited partners	\$ 11,246			
Earnings per limited partnership interest:				
-- Class A interest	\$ 0.82			
-- Class B interest	\$ 0.52			
Weighted average number of outstanding limited partnership interests:				
-- Class A interests	11,099,573			
-- Class B interests	21,675,746			
Net income per common share				\$ 1.03
Weighted average number of outstanding common shares.....				6,918,936

*SEE ACCOMPANYING NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except for per unit data)

<TABLE>
<CAPTION>

Twelve Months Ended December 31, 1996				
	Historical	Pro Forma Adjustments Amount	Note*	Pro
Forma				

--				
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 649,254	\$ --		\$ 649,254
Cost of sales	386,251	--		386,251
---	-----	-----		-----
Gross profit	263,003	--		263,003
---	-----	-----		-----
Operating expenses:				
Selling, general and administrative expenses	221,574	--		221,574
Management fee to general partner	3,330	(3,330)	1A	--
Depreciation	3,623	--		3,623
Amortization	1,924	520	1B	2,444
---	-----	-----		-----
Total operating expenses	230,451	(2,810)		227,641
---	-----	-----		-----
Restructuring charges	5,950	(5,950)	1C	--
Transaction costs	2,150	(2,150)	1D	--
---	-----	-----		-----
Income from operations	24,452	10,910		35,362
Interest expense, net	6,875	(149)	1E	6,726
Other income, net	550	195	1F	745
Distribution on guaranteed preferred beneficial interests in Corporation's junior subordinated debentures	--	(12,232)	1G	
(12,232)	-----	-----		-----
---	-----	-----		-----
Income before income taxes	18,127	(978)		17,149
Provision (benefit) for income taxes	(1,140)	9,200	1H	8,060
---	-----	-----		-----
Net income	\$ 19,267	\$ (10,267)		\$ 9,089
=====	=====	=====		
Net income allocated to partners:				
General partner	\$ 193			
Class A limited partners	\$ 12,210			
Class B limited partners	\$ 6,864			
Earnings per limited partnership interest:				
-- Class A interest	\$ 1.10			
-- Class B interest	\$ 0.32			
Weighted average number of outstanding limited partnership inter- ests:				
-- Class A interests	11,099,573			
-- Class B interests	21,675,746			
Net income per common share				\$ 1.31
Weighted average number of outstanding common shares				6,918,936

*SEE ACCOMPANYING NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

F-5

SUNSOURCE INC. AND SUBSIDIARIES
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollars in thousands)

1. Pro Forma Adjustments to Consolidated Statements of Income:

- A. To eliminate, in consolidation, the management fee paid to SDI Partners I, L.P., the "General Partner" or "GP" of the Operating Partnership.
- B. To record amortization of goodwill associated with the exchange of the GP's Minority Interest in the Operating Partnership, using the Partnership's current estimated useful life of goodwill.
- C. To eliminate restructuring charges due to their non-recurring nature.
- D. To eliminate transaction and other costs related entirely to the Conversion which have been recorded by the Company for each period presented.
- E. To adjust interest expense, utilizing for each period presented, (i) an interest rate of 6.98% (equal to current LIBOR rates of 5.73% plus 125 basis points, which reflects interest rates under the new revolving credit facility), and (ii) net proceeds from the offering of \$10,604.

<TABLE>
<CAPTION>

	Nine Months Ended		Year
	9/30/97	9/30/96	1996
<S>	<C>	<C>	<C>
Interest expense reduction as a result of proceeds from the Offering used to repay the Company's bank revolving credit	\$ (555)	\$ (555)	\$ (740)
Interest expense reduction as a result of the Company's Refinancing	(582)	(555)	(744)
Interest expense related to incremental debt used to pay distributions, transaction costs and other items as a result of the Conversion	1,001	1,001	1,335
	-----	-----	-----
Net reduction in interest expense	\$ (136)	\$ (109)	\$ (149)
	=====	=====	=====
Increase or decrease in pro forma interest expense adjustment due to each 1/8 percent (.00125) change in interest rate	\$ 24	\$ 11	\$ 17

</TABLE>

F. Eliminate minority interest expense as a result of the Conversion.

G. Record an expense for the monthly distributions on Trust Preferred Securities; the annual yield is 11.6% on the liquidation amount of the securities of \$105,446, resulting in an approximate charge of \$1,019 per month.

H. Adjust the partnership basis state and foreign provision or benefit for income taxes to reflect a total provision for federal, state and foreign income taxes under corporate form.

I. Eliminate extraordinary loss from early extinguishment of debt as a non-recurring charge.

F-6

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except for per share amounts)

<TABLE>
<CAPTION>

December 31,		September 30, 1997	
	ASSETS	(Unaudited)	1996
	-----	-----	-----
<S>		<C>	<C>
Current assets:			
Cash and cash equivalents		\$ 2,674	\$ 1,666
Accounts and notes receivable, net		90,923	78,578
Inventories		99,872	102,396
Deferred income taxes		11,402	--
Other current assets		4,236	4,672
		-----	-----
--			
Total current assets		209,107	187,312
Property and equipment, net		21,285	21,409
Goodwill		63,118	43,036
Other intangibles		886	667
Deferred income taxes		4,471	5,007
Cash surrender value of life insurance policies		5,535	4,566
Other assets		601	558
		-----	-----
--			
Total assets		\$305,003	\$262,555
		=====	
=====			
	LIABILITIES, PARTNERS' CAPITAL, GUARANTEED PREFERRED BENEFICIAL INTERESTS AND STOCKHOLDERS' DEFICIT		

Current liabilities:			
Accounts payable, trade		\$ 55,385	\$ 48,557
Notes payable		1,099	2,670
Current portion of senior notes		--	6,395
Current portion of capitalized lease obligations		135	107
Distributions payable		17,557	1,857

Accrued expenses:		
Salaries and wages	6,393	5,696
Interest on senior notes	13	473
Management fee due the general partner	--	3,330
Income and other taxes	4,617	2,695
Other accrued expenses	18,551	14,751
--	-----	-----
Total current liabilities	103,750	86,531
Senior notes	60,000	57,539
Bank revolving credit	17,000	11,000
Capitalized lease obligations	573	504
Deferred compensation	9,994	8,644
Other liabilities	792	3,718
--	-----	-----
Total liabilities	192,109	167,936
--	-----	-----
Commitments and contingencies		
Guaranteed preferred beneficial interests in the Corporation's junior subordinated debentures	115,991	--
--	-----	-----
Partners' capital:		
General partner	--	960
Limited partners:		
Class A interests; 11,099,573 outstanding	--	67,642
Class B interests; 21,675,746 outstanding	--	29,040
Class B interests held in treasury	--	
(1,514)		
Cumulative foreign translation adjustment	--	
(1,509)		
--	-----	-----
Total partners' capital	--	94,619
--	-----	-----
Stockholders' deficit:		
Preferred stock, \$.01 par, 1,000,000 shares authorized, none issued.....	--	--
Common stock, \$.01 par, 20,000,000 shares authorized, 6,418,936 shares issued and outstanding	64	--
Accumulated deficit	(1,485)	--
Cumulative foreign translation adjustment	(1,676)	--
--	-----	-----
Total stockholders' deficit	(3,097)	--
--	-----	-----
Total liabilities, partners' capital, guaranteed preferred beneficial interests and stockholders' deficit	\$305,003	\$262,555
=====	=====	

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F-7

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
FOR THE NINE MONTHS ENDED
(dollars in thousands, except for per unit amounts)

<TABLE>
<CAPTION>

	September 30, 1997	September 30, 1996
<S>	<C>	<C>
Net sales	\$529,199	\$ 489,517
Cost of sales	315,000	293,748
	-----	-----
Gross profit	214,199	195,769
	-----	-----
Operating expenses:		
Selling, general and administrative expenses	178,173	164,231
Management fee to general partner	2,491	2,491
Depreciation	3,024	2,684
Amortization	1,358	1,449
	-----	-----
Total operating expenses	185,046	170,855
	-----	-----

Transaction and other costs related to Conversion	3,053	--
Income from operations	26,100	24,914
Interest income	80	60
Interest expense	5,587	5,207
Other income (expense), net	(83)	470
Income before provision for income taxes	20,510	20,237
Income tax benefit	(8,932)	(372)
Income before extraordinary loss	29,442	20,609
Extraordinary loss from early extinguishment of debt, net of deferred income tax benefit of \$951	(3,392)	--
Net income	\$ 26,050	\$ 20,609
Net income allocated to partners:		
General partner	N/A	\$ 206
Class A limited partners	N/A	\$ 9,157
Class B limited partners	N/A	\$ 11,246
Net income per limited partnership interest:		
-- Class A interest	N/A	\$ 0.82
-- Class B interest	N/A	\$ 0.52
Pro forma earnings per common share - See Note 2	\$ 1.35	
Weighted average number of outstanding limited partnership interests:		
-- Class A interests	N/A	11,099,573
-- Class B interests	N/A	21,675,746

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F-8

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE NINE MONTHS ENDED
(dollars in thousands)

<TABLE>
<CAPTION>

	September 30, 1997	September 30, 1996
	----- <C>	----- <C>
<S>		
Cash flows from operating activities:		
Net income	\$ 26,050	\$ 20,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,382	4,133
Extraordinary loss	4,343	--
Increase in cash value of life insurance	(653)	--
Transaction and other costs related to Conversion	3,053	--
Provision for deferred compensation	2,184	898
Deferred income tax benefit	(10,866)	(903)
Changes in current operating items:		
Increase in accounts and notes receivable	(12,062)	(10,580)
Decrease (increase) in inventories	2,643	(2,132)
Decrease in other current assets	436	112
Increase in accounts payable	6,592	10,342
Increase (decrease) in accrued interest	(460)	1,561
Decrease in accrued restructuring charges and transaction costs	(3,402)	--
Increase (decrease) in other accrued liabilities	1,400	(3,675)
Other items, net	(597)	258
Net cash provided by operating activities	23,043	20,623
Cash flows from investing activities:		
Payment for purchase of assets	(704)	(673)
Proceeds from sale of property and equipment	695	39
Investment in life insurance policies	(316)	(100)
Capital expenditures	(3,252)	(2,713)
Other, net	(24)	(80)
Net cash used for investing activities	(3,601)	(3,527)
Cash flows from financing activities:		
Early extinguishment of senior notes	(63,934)	--
Proceeds from issuance of senior notes	60,000	--
Cash distributions to partners	(13,901)	(20,535)
Prepayment penalty	(4,278)	--

Borrowings under bank credit agreements, net	6,000	--
Repayments under other credit facilities, net	(1,571)	(732)
Principal payments under capitalized lease obligations	(104)	--
Other, net	(646)	--
	-----	-----
Net cash used for financing activities	(18,434)	(21,267)
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,008	(4,171)
Cash and cash equivalents at beginning of period	1,666	5,900
	-----	-----
Cash and cash equivalents at end of period	\$ 2,674	\$ 1,729
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F-9

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL/STOCKHOLDERS' DEFICIT
(UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 1997
(dollars in thousands)

<TABLE>
<CAPTION>

	PARTNERS' CAPITAL				
	General Partner	Class A Limited	Class B Limited	Class B Treasury	Cumulative Foreign Translation Adjustment
<S>	<C>	<C>	<C>	<C>	<C>
Partners' Capital -- December 31, 1996	960	67,642	29,040	(1,514)	(1,509)
Net income	260	9,157	16,633		
Cash distributions paid and/or declared to partners	(150)	(8,140)	(6,730)		
Change in Cumulative foreign translation adjustment	--	--	--	--	(167)
	-----	-----	-----	-----	-----
Partners' Capital -- September 30, 1997	\$ 1,070	\$ 68,659	\$ 38,943	\$ (1,514)	\$ (1,676)
Conversion adjustments:					
Common Stock			(64)		
Paid-in capital	(1,070)	(68,659)			
Cumulative foreign translation adjustment...					1,676
Retained Earnings			(38,879)	1,514	
Minority interest (a)					
Class A exchange (b)					
Goodwill -- Minority interest (c)	-----	-----	-----	-----	-----
Stockholders' Deficit -- September 30, 1997	\$ --	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====

</TABLE>
(RESTUBBED TABLE)

<TABLE>
<CAPTION>

	STOCKHOLDERS' DEFICIT				
	Common Stock	Paid-in Capital	Accumulated Deficit	Cumulative Foreign Translation Adjustment	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Partners' Capital -- December 31, 1996	--	--	--	--	94,619
Net income					26,050
Cash distributions paid and/or declared to partners					(15,020)
Change in Cumulative foreign translation adjustment	--	--	--	--	(167)
	-----	-----	-----	-----	-----
Partners' Capital -- September 30, 1997	--	-----	-----	-----	\$ 105,482
Conversion adjustments:					
Common Stock	64				--
Paid-in capital		68,659	1,070		--
Cumulative foreign translation adjustment...				(1,676)	--
Retained Earnings			37,365		--
Minority interest (a)			1,082		1,082
Class A exchange (b)		(68,659)	(61,761)		(130,420)
Goodwill -- Minority interest (c)			20,759		20,759
	-----	-----	-----	-----	-----

Stockholders' Deficit -- September 30, 1997	\$ 64 =====	\$ -- =====	\$ (1,485) =====	\$ (1,676) =====	\$ (3,097) =====
--	----------------	----------------	---------------------	---------------------	---------------------

</TABLE>

- (a) Minority interest included as other liabilities by the Partnership.
- (b) Each Class A limited partnership interest was exchanged for \$1.30 in cash plus .38 share of Trust Preferred Securities recorded at fair value based on the price of the Class A interests upon close of trading on the New York Stock Exchange on September 30, 1997 of \$11.75. This fair value of \$115,991 is recorded by the Corporation as Guaranteed Preferred Beneficial Interests in the Corporation's Junior Subordinated Debentures.
- (c) Goodwill related to the exchange of the GP minority interest (See Note 1).

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

F-10

SUNSOURCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(dollars in thousands)

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of SunSource Inc. (the "Corporation"), its predecessor, SunSource L.P. (the "Partnership"), and its wholly-owned subsidiaries including SDI Operating Partners, L.P. (the "Company") and SunSource Capital Trust (the "Trust"). All significant intercompany balances and transactions have been eliminated. The Company is one of the largest wholesale distributors of industrial products and related services in the United States. The Company's three business segments are Industrial Services, Hardware Merchandising and Glass Merchandising.

On September 25, 1997, the limited partners of the Partnership approved the conversion of the Partnership to a taxable C corporation (the "Conversion") effective at the close of business on September 30, 1997. As a result of the Conversion, each Class A limited partnership interest in the Partnership was converted into \$1.30 of cash and .38 share of 11.6% Guaranteed Preferred Beneficial Interests in the Corporation's Junior Subordinated Debentures (the "Trust Preferred Securities"), each Class B limited partnership interest in the Partnership was converted into .25 share of common stock of the Corporation and the general and limited partnership interests in the GP were exchanged with the Corporation for 1,000,000 shares of its common stock (the "GP Exchange"). In connection with the Conversion, the Company also refinanced all of its outstanding senior notes and bank revolving credit.

The exchange represented by the GP's 1% interest in the Company (the "Minority Interest") is subject to purchase accounting in accordance with Accounting Principles Bulletin ("APB") No. 16. Accordingly, the excess of fair value of the consideration received for the Minority Interest over its book value has been recorded by the Corporation as goodwill at September 30, 1997, calculated as follows:

Fair value of Minority Interest (i)	\$21,841
Less book value of the GP Minority Interest (ii)	1,082

Excess over book value recorded as Goodwill	\$20,759

(i) Represents 92.9% of the GP Exchange (the portion allocable to the Minority Interest) valued at \$23,500 in the aggregate for 1,000,000 shares of common stock, based on the closing price of the Class B interest on the New York Stock Exchange at September 30, 1997 of \$5.875.

(ii) As reported on the pre-conversion balance sheet of the Partnership at September 30, 1997.

The Trust was organized in connection with the Conversion for the purpose of (a) issuing (i) its Trust Preferred Securities to the Corporation in consideration of the deposit by the Corporation of Junior Subordinated Debentures in the Trust as trust assets, and (ii) its Trust Common Securities to the Corporation 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 Corporation and the indenture trustee, the form of which was filed as an exhibit to Registration Statement No. 33319077 of the Corporation and the Trust, as amended (the "Registration Statement") and those made part of the Indenture by the Trust Indenture Act. The Corporation 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 Corporation under the Indenture, the Preferred Securities Guarantee and the Junior Subordinated Debentures in the aggregate constitute a full and unconditional guarantee by the Corporation of the Trust's obligations under the Trust Preferred Securities.

The accompanying consolidated financial statements and related notes are unaudited; however, in management's opinion all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of financial position, income and cash flows for the periods shown have been reflected. Results for the interim period are not necessarily indicative of those to be expected for the full year.

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SUNSOURCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (Continued)
(dollars in thousands)

1. Basis of Presentation: -- (Continued)

Certain information in note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to Form 10-Q requirements although the Corporation believes that disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Partnership's report on Form 10-K for the year ended December 31, 1996, and the Registration Statement.

2. Pro Forma Corporate Basis Financial Information:

As a result of the Conversion, historical net income of the Partnership is not meaningful in the comparison to net income as recorded by the Corporation. In order to present financial information for the current reporting periods that will be comparable prospectively to corporate basis financial information, the table below reconciles the partnership historical basis net income reported on the Statements of Income included herein with corporate pro forma basis net income which assumes the Conversion occurred at the beginning of the year for each period presented and excludes non-recurring charges and credits related solely to the Conversion.

Conversion of Class B Limited Partnership Interests to Common Stock:

<TABLE>	
<CAPTION>	
<S>	
Actual weighted average number of outstanding Class B Interests during all periods before conversion	21,675,746
Conversion ratio -- reverse split of one share of Common Stock for four Class B interests.	X .25

Sub-total -- pro forma outstanding common shares	5,418,936
Common shares received by the general and limited partners of the GP	1,000,000

Pro forma weighted average number of common shares	6,418,936
	=====
</TABLE>	

F-12

SUNSOURCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (Continued)
(dollars in thousands)

2. Pro Forma Corporate Basis Financial Information: -- (Continued)

Reconciliation of historical net income to pro forma basis net income:

<TABLE>	
<CAPTION>	
	Three Months Ended
	September 30,
	Nine Months Ended
	September 30,

	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
PARTNERSHIP BASIS HISTORICAL NET				
INCOME	\$ 12,281	\$ 8,286	\$ 26,050	\$ 20,609
Eliminate extraordinary loss from early extinguishment of debt, net of deferred tax benefit of \$951	3,392	--	3,392	--
Eliminate historical income tax provision (benefit)	(8,960)	97	(8,932)	(372)
	-----	-----	-----	-----
Partnership actual historical income before provision (benefit) for income taxes and extraordinary loss	6,713	8,383	20,510	20,237
PRO FORMA ADJUSTMENTS:				
Eliminate minority interest	124	84	263	208
Incremental interest expense	(331)	(331)	(994)	(994)
Distribution on guaranteed preferred beneficial interests	(3,058)	(3,058)	(9,174)	(9,174)
Eliminate management fee to the GP	840	840	2,491	2,491
Eliminate transaction and other costs related to Conversion	2,428	--	3,053	--
Incremental amortization on goodwill	(130)	(130)	(390)	(390)
	-----	-----	-----	-----
PRO FORMA C CORPORATION BASIS:				
Income before provision for income taxes	6,586	5,788	15,759	12,378
Income tax provision	2,978	2,759	7,125	5,900
	-----	-----	-----	-----
Pro forma net income	\$ 3,608	\$ 3,029	\$ 8,634	\$ 6,478
	=====	=====	=====	=====
Pro forma earnings per common share	\$.56	\$.47	\$ 1.35	\$ 1.01
	=====	=====	=====	=====
Pro forma weighted average common shares outstanding	6,418,936	6,418,936	6,418,936	6,418,936

</TABLE>

3. Lines of Credit and Long-Term Debt:

On September 30, 1997, the Company entered into two new financing commitments which together aggregate \$150,000 from lenders. The new financing commitments consist of a \$60,000 five-year fixed rate senior note at 7.66% and a \$90,000 five-year bank revolver with terms and conditions more favorable than the Corporation's previous senior notes and bank credit lines including less restrictive covenants and an effective interest rate reduction of approximately 1.00%. The Company utilized this debt capacity to fund transaction costs and other payments related to the Conversion, refinance its current outstanding senior notes of \$63,934 as of September 30, 1997, including interest thereon and related make-whole amount of approximately \$4,343, and outstanding bank revolver borrowings of \$17,000 as of September 30, 1997.

The new credit facilities provide working capital for reinvestment in the Company's businesses and acquisition capital for future growth. As of September 30, 1997, the Company had \$70,818 available under its new bank credit facilities. The \$79,182 outstanding balance consisted of Senior Notes totaling \$60,000, bank borrowings totaling \$17,000, and Letter of Credit Commitments aggregating \$2,182.

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SUNSOURCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (Continued)
(dollars in thousands)

3. Lines of Credit and Long-Term Debt: -- (Continued)

The Company has another credit facility available in the amount of \$500 for letter of credit commitments only, of which no amount was outstanding as of September 30, 1997. In addition, an indirect, wholly-owned Canadian subsidiary of the Company has a \$2,500 Canadian dollar line of credit for working capital purposes of which no amount was outstanding at September 30, 1997.

4. Contingencies:

On February 27, 1996, a lawsuit was filed against the Company by the buyer of its Dorman Products division for alleged misrepresentation of certain facts by the Company upon which the buyer allegedly based its offer to purchase Dorman. The complaint seeks damages of approximately \$21,000.

On January 16, 1997, a holder of B Interests filed a purported class action alleging that the terms of the Conversion unfairly transfer substantial

equity to the GP to the detriment of the B Interests and constitute a breach of fiduciary duty. A second complaint containing substantially identical allegations was filed by a limited partner on February 11, 1997. The cases were consolidated and an amended complaint was filed on April 16, 1997, which added claims for breach of contract and breach of covenant of good faith and fair dealing. The Corporation and its co-defendants have reached an agreement in principle to settle the class action.

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 these matters will not have a material effect on the consolidated financial position, operations or cashflows of the Company.

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Report of Independent Accountants

To the Board of Directors
SunSource Inc.

We have audited the accompanying balance sheet of SunSource Inc. as of December 31, 1996. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material aspects, the financial position of SunSource Inc. as of December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
May 1, 1997

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SUNSOURCE INC.

BALANCE SHEET

as of DECEMBER 31, 1996

<TABLE>		<C>	
<S>			
ASSETS			
Receivable from SunSource L.P.		\$ 1,000	
		=====	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Commitments and Contingencies (Note 4)			
Stockholders' Equity:			
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares issued or outstanding		\$ --	
Common stock, \$.01 par value, 20,000,000 shares authorized, 1,000 shares issued and outstanding		10	
Paid-In-Capital		990	

Total liabilities and stockholders' equity		\$ 1,000	
		=====	
</TABLE>			

SUNSOURCE INC.

NOTES TO BALANCE SHEET

as of DECEMBER 31, 1996

1. Organization and Operation:

SunSource Inc. (the "Corporation") is a Delaware corporation which was formed in December 1996 to accomplish the conversion of SunSource L.P. (the "Partnership") to corporate form (the "Conversion"). On December 11, 1996, the Partnership announced the terms of a plan to convert from its current limited partnership structure to a taxable C corporation.

The outstanding shares of the Corporation are presently owned by the Partnership. In the Conversion, the Partnership and a subsidiary of the Partnership will merge with and into the Corporation (the "Merger"). In the Merger, the Class A limited partnership interests in the Partnership will be exchanged for Trust Preferred Securities of SunSource Capital Trust, a newly formed Delaware statutory business trust (the "Trust"), affiliated with the Corporation, and the Class B limited partnership interests in the Partnership will be exchanged for common stock of the Corporation. As a result of the Merger, the interests of the general and limited partners of the General Partner in the Partnership and the Operating Partnership will be indirectly exchanged for common stock of the Corporation.

As a result of the Conversion, subsidiaries of the Corporation will own all of the partnership interests in the Operating Partnership and the General Partner. The Corporation will own, through its wholly-owned subsidiaries, 100% of the equity in the business and operations owned by the Operating Partnership, which will remain in partnership form after the Conversion. The employees of the Operating Partnership will continue as employees after the Conversion.

The Corporation's only asset at December 31, 1996 is a receivable from the Partnership (see Note 3). The Corporation has not conducted any operations and all activities related to the Conversion and the Merger have been conducted by the Partnership and its General Partner.

2. Summary of Significant Accounting Policies:

Income Taxes:

Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", requires the Corporation to recognize deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. The Corporation currently has no deferred taxes.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates; however, management does not believe these differences would have a material effect on operating results.

3. Related Party Transactions:

On December 30, 1996, the Corporation recorded a receivable from the Partnership for the capital contribution to establish the Corporation. On March 11, 1997 the Partnership paid \$1,000 to the Corporation to satisfy the receivable due from the Partnership.

SUNSOURCE INC.

NOTES TO BALANCE SHEET

as of DECEMBER 31, 1996 -- (Continued)

4. Commitments and Contingencies:

On January 16, 1997, a holder of Class B Interests in the Partnership,

filed a purported class action which alleged that the terms of the Conversion unfairly transfer substantial equity to the General Partner of the Partnership to the detriment of the B Interests and constitute a breach of fiduciary duty. A second complaint containing substantially identical allegations was filed by a limited partner on February 11, 1997. The cases have been consolidated and an amended complaint was filed on April 16, 1997 which added claims for breach of contract and breach of a covenant of good faith and fair dealing. The Corporation was named as a defendant in these actions.

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 Partnership or the Corporation.

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Report of Independent Accountants

The Board of Directors
Lehman/SDI, Inc.

We have audited the accompanying consolidated balance sheets of SunSource L.P. and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SunSource L.P. and subsidiary as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

2400 Eleven Penn Center Philadelphia, Pennsylvania
January 29, 1997, except for Note 9 as to which the date
is March 21, 1997 and Note 19 as to which the date
is March 4, 1997

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SUNSOURCE L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (dollars in thousands)

<TABLE>
<CAPTION>

	December 31, 1996	December 31, 1995
	-----	-----
Assets		
- -----		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 1,666	\$ 5,900
Accounts and notes receivable, net of allowance for doubtful accounts of \$2,208 and \$1,827, respectively	78,578	75,824
Inventories	102,396	96,022
Other current assets	4,672	4,742
	-----	-----
Total current assets	187,312	182,488
Property and equipment, net	21,409	20,181
Goodwill (net of accumulated amortization of \$12,879 and \$11,739, respectively)	43,036	44,250
Other intangibles (net of accumulated amortization of \$14,372 and \$13,724, respectively)	667	1,312
Deferred income taxes	5,007	2,844

Cash surrender value of life insurance policies	4,566	3,009
Other assets	558	507
	-----	-----
Total assets	\$ 262,555	\$ 254,591
	=====	=====
Liabilities and Partners' Capital		

Current liabilities:		
Accounts payable	\$ 48,557	\$ 42,437
Notes payable	2,670	2,753
Current portion of senior notes	6,395	6,395
Current portion of capitalized lease obligations	107	--
Distributions payable to partners	1,857	7,819
Accrued expenses:		
Salaries and wages	5,696	5,022
Management fee due the general partner	3,330	3,330
Income and other taxes	2,695	3,398
Other accrued expenses	15,224	15,493
	-----	-----
Total current liabilities	86,531	86,647
Senior notes	57,539	63,934
Bank revolving credit	11,000	--
Capitalized lease obligations	504	--
Deferred compensation	8,644	7,829
Other liabilities	3,718	1,238
	-----	-----
Total liabilities	167,936	159,648
	-----	-----
Commitments and contingencies		
Partners' capital:		
General partner	960	963
Limited partners:		
Class A interests	67,642	67,642
Class B interests	29,040	29,252
Class B interests held in treasury	(1,514)	(1,514)
Cumulative foreign currency translation adjustment	(1,509)	(1,400)
	-----	-----
Total partners' capital	94,619	94,943
	-----	-----
Total liabilities and partners' capital	\$ 262,555	\$ 254,591
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except for partnership interest amounts)

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales	\$ 649,254	\$ 628,935	\$ 735,861
Cost of sales	386,251	375,425	451,785
	-----	-----	-----
Gross profit	263,003	253,510	284,076
	-----	-----	-----
Operating expenses:			
Selling, general and administrative expenses	221,574	213,221	235,845
Management fee to general partner	3,330	3,330	3,330
Depreciation	3,623	3,661	4,502
Amortization	1,924	1,996	2,640
	-----	-----	-----
Total operating expenses	230,451	222,208	246,317
	-----	-----	-----
Restructuring charges	5,950	--	--
Transaction costs	2,150	--	--
	-----	-----	-----
Income from operations	24,452	31,302	37,759
Interest income	69	412	66
Interest expense	6,944	7,332	9,956
Other income (expense), net	550	256	(1,748)
Gain on sale of division (note 5)	--	20,644	3,523
	-----	-----	-----
Income before provision for income taxes	18,127	45,282	29,644
Provision (benefit) for income taxes	(1,140)	537	100
	-----	-----	-----
Income before extraordinary loss	19,267	44,745	29,544

Extraordinary loss from early extinguishment of debt (note 4)	--	(629)	--
Net income	\$ 19,267	\$ 44,116	\$ 29,544
Net income allocated to partners:			
General partner	\$ 193	\$ 441	\$ 295
Class A limited partners	\$ 12,210	\$ 12,210	\$ 12,210
Class B limited partners	\$ 6,864	\$ 31,465	\$ 17,039
Earnings per Limited partnership interest:			
Income before extraordinary loss			
-- Class A interest	\$ 1.10	\$ 1.10	\$ 1.10
-- Class B interest	\$ 0.32	\$ 1.48	\$ 0.79
Extraordinary loss			
-- Class A interest	--	--	--
-- Class B interest	--	\$ (0.03)	--
Net income			
-- Class A interest	\$ 1.10	\$ 1.10	\$ 1.10
-- Class B interest	\$ 0.32	\$ 1.45	\$ 0.79
Weighted average number of outstanding limited partner- ship interests:			
-- Class A interests	11,099,573	11,099,573	11,099,573
-- Class B interests	21,675,746	21,675,746	21,675,746

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

<TABLE>

<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 19,267	\$ 44,116	\$ 29,544
Adjustments to reconcile net income to net cash pro- vided by operating activities:			
Depreciation and amortization:			
-- Existing divisions	5,547	5,319	5,392
-- Divested divisions	--	338	1,750
Decrease (increase) in cash value of life insur- ance	(157)	58	--
Gain on sale of divisions	--	(20,644)	(3,523)
Extraordinary loss	--	629	--
Restructuring charges	5,950	--	--
Transaction costs	2,150	--	--
Provision for deferred compensation	1,071	2,340	3,187
Deferred income tax benefit	(2,163)	(700)	(734)
Changes in current operating items:			
Increase in accounts and notes receivable	(2,465)	(3,666)	(11,783)
Increase in inventories	(7,572)	(8,209)	(9,436)
Decrease in other current assets	70	857	347
Increase in accounts payable	6,062	2,531	1,865
Decrease in accrued interest	(47)	(141)	(42)
Decrease in accrued restructuring charges and transaction costs	(1,899)	--	--
Increase (decrease) in other accrued liabilities	(2,769)	(6,062)	4,836
Other items, net	253	284	(3,699)
Net cash provided by operating activities	23,298	17,050	17,704
Cash flows from investing activities:			
Proceeds from sale of divisions	--	44,873	26,561
Proceeds from sale of property and equipment	62	757	724
Payment for purchase of assets	(683)	(7,385)	--
Capital expenditures	(4,341)	(4,299)	(4,263)
Investment in life insurance policies	(1,400)	(3,067)	--
Other, net	(39)	(93)	228
Net cash provided by (used for) investing activities	(6,401)	30,786	23,250

Cash flows from financing activities:			
Cash distributions to partners	(25,641)	(27,218)	(20,357)
Repayment of senior notes	(6,395)	(18,971)	(5,700)
Borrowings (repayments) under the bank credit agree- ment, net	11,000	--	(10,000)
Prepayment penalties and related costs	--	(629)	--
Borrowings (repayments) under other credit facilities, net	(83)	44	(702)
Principal payments under capitalized lease obligations	(12)	(65)	(619)
Net cash used for financing activities	(21,131)	(46,839)	(37,378)
Net (decrease) increase in cash and cash equivalents	(4,234)	997	3,576
Cash and cash equivalents at beginning of period	5,900	4,903	1,327
Cash and cash equivalents at end of period	\$ 1,666	\$ 5,900	\$ 4,903
	=====	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEARS ENDED
(dollars in thousands)

PARTNERS' CAPITAL

	General	Class A Limited	Class B Limited	Class B Treasury	Cumulative Foreign Translation Adjustment	
Total	-----	-----	-----	-----	-----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1993	\$ 729	\$ 67,642	\$ 6,025	\$ (1,514)	\$ (694)	\$
72,188						
Net income	295	12,210	17,039	--	--	
29,544						
Cash distributions paid and/or declared to partners	(233)	(12,210)	(10,764)	--	--	
(23,207)						
Change in cumulative foreign translation adjustment	--	--	--	--	(644)	
(644)						
Balance, December 31, 1994	791	67,642	12,300	(1,514)	(1,338)	
77,881						
Net income	441	12,210	31,465	--	--	
44,116						
Cash distributions paid and/or declared to partners	(269)	(12,210)	(14,513)	--	--	
(26,992)						
Change in cumulative foreign translation adjustment	--	--	--	--	(62)	
(62)						
Balance, December 31, 1995	963	67,642	29,252	(1,514)	(1,400)	
94,943						
Net income	193	12,210	6,864	--	--	
19,267						
Cash distributions paid and/or declared to partners	(196)	(12,210)	(7,076)	--	--	
(19,482)						
Change in cumulative foreign translation adjustment	--	--	--	--	(109)	
(109)						
Balance, December 31, 1996	\$ 960	\$ 67,642	\$ 29,040	\$ (1,514)	\$ (1,509)	\$
94,619						
	=====	=====	=====	=====	=====	
	=====					

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of SunSource L.P. (the "Partnership") and its subsidiary partnership, SDI Operating Partners, L.P. (the "Operating Partnership"). All significant inter-company balances and transactions have been eliminated.

Nature of Operations:

The Partnership is one of the largest wholesale distributors of industrial products and related services in the United States. The Partnership's three segments are: (1) industrial products and services, primarily maintenance and fluid power products and inventory management services sold to industrial customers for machine and plant maintenance and for manufacturing of original equipment; (2) retail merchandising products and services, primarily fasteners and related products sold to retail hardware stores; and (3) retail glass products and services sold to construction and retail markets. Based on net sales of existing divisions for the year ended December 31, 1996, the Industrial Services Segment provides approximately 70% of the Partnership's sales through its Sun Technology Services divisions (46% of net sales) and the Sun Inventory Management Company ("SIMCO") divisions (24% of net sales). The Hardware Merchandising and Glass Merchandising segments provide approximately 16% and 14%, respectively, of the Partnership's net sales.

Although its sales are primarily industrially-based, the Partnership has over 180,000 customers, the largest of which accounted for less than 5% of net sales for the year ended December 31, 1996. The Partnership's products and services are sold throughout all 50 states as well as in Canada and Mexico. Foreign sales account for less than 5% of total revenues. The average single sale during the year ended December 31, 1996 was less than three hundred dollars. Sales performance is tied closely to the overall performance of the non-defense-goods producing sector of Gross Domestic Product in the United States.

Restructuring Charges:

On December 11, 1996 (the "commitment date"), the Board of Directors of Lehman/SDI, Inc. ("Lehman/SDI"), the general partner of the Partnership's General Partner, approved the Partnership's plan to restructure its Technology Services divisions and its Glass Merchandising business. The Partnership recorded a provision for these charges on the commitment date in the amount of \$5,950, of which \$4,400 related to Technology Services and \$1,550 to Glass Merchandising. The following disclosures are made in accordance with the provisions of Emerging Issues Task Force ("EITF") Abstract No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity."

The following is a summary of the balance sheet classification of the accrued restructuring charges in the accompanying balance sheet at December 31, 1996:

Balance Sheet Classification	Termination Benefits	Other Exit Costs	Total
-----	-----	-----	-----
Current -- other accrued expenses .	\$ 829	\$896	\$1,725
Long-term -- other liabilities	\$2,014	\$573	\$2,587

Restructuring Charges -- Technology Services Divisions

The restructuring charges for the Technology Services Divisions include termination benefits of \$2,955 covering 175 employees, including sales (40), warehouse (27), purchasing (16), branch operations (56) and accounting (36). Other exit costs for Technology Services include legal and consulting costs of \$525 to develop severance agreements and to conduct employee meetings and lease termination and related costs of \$920 to close ten leased warehouse and office facilities. The Board's approval on the commitment date provided the Partnership's management with the authority to involuntarily terminate employees. The Partnership has established the levels of benefits that the terminated employees would receive and informed the employees of their termination benefits prior to December 31, 1996.

SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

1. Basis of Presentation: -- (Continued)

The following table summarizes the restructuring costs charged, the balance sheet classification, and payments or adjustments between the commitment date and December 31, 1996:

Balance Sheet Classification	Termination Benefits	Other Exit Costs	Total
Opening Balance at December 11, 1996:			
Current -- other accrued expense	\$ 941	\$ 872	\$ 1,813
Long-term -- other liabilities	\$ 2,014	\$ 573	\$ 2,587
Payments during period:			
Current -- other accrued expense*	\$ (112)	\$ (55)	\$ (167)
Ending Balance at December 31, 1996:			
Current -- other accrued expense	\$ 829	\$ 817	\$ 1,646
Long-term -- other liabilities	\$ 2,014	\$ 573	\$ 2,587

* Termination benefits paid to 9 employees; other exit costs for legal and consulting charges paid.

Restructuring Charges -- Glass Merchandising Divisions

The restructuring charges for the Glass Merchandising division represent primarily costs to withdraw from certain geographic markets as part of the Partnership's restructuring plan. The largest component of these charges is the write-off of unamortized goodwill from purchase business combinations in the amount of \$1,321, which is not recoverable. The remaining charges represent the excess of undepreciated fixed assets over their fair value, in the amount of \$150, with fair value determined using the estimated prices of similar assets. The Partnership applied the provisions of SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", in connection with the determination of these charges. The decision to withdraw from these markets was primarily strategic based on an overall review of the operations of the Glass Merchandising segment; in the Partnership's view, any recognition of asset impairment prior to the commitment date would not have been appropriate under SFAS No. 121, since the specific locations to be closed were decided upon only in the process of finalizing the restructuring plan. These amounts are included as restructuring charges since they were recognized at the commitment date as part of the overall plan of restructuring. Also included are \$79 of lease termination costs recognized in accordance with EITF No. 94-3 as exit costs.

The following table summarizes other exit costs charged, the balance sheet classification, and payments or adjustments between the commitment date and December 31, 1996:

Balance Sheet Classification	Total
Opening Balance at December 11, 1996:	
Unamortized Goodwill	\$ 1,321
Excess of undepreciated fixed assets	\$ 150
Current -- other accrued expenses	\$ 79
Charges during period:	
Unamortized Goodwill	\$ (1,321)
Excess of undepreciated fixed assets	\$ (150)
Ending Balance at December 31, 1996:	
Current -- other accrued expenses	\$ 79

SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

1. Basis of Presentation: -- (Continued)

Transaction Costs:

On December 11, 1996, the Partnership announced the terms of a plan to convert from its current limited partnership structure to a taxable C corporation, which must be approved by a majority of the holders of the Class A and Class B interests unaffiliated with SDI Partners I, L.P., the General Partner, each voting separately as a class.

In connection with the proposed conversion, the Partnership has incurred certain costs related to the transaction which are included as a separate component of income from operations, due to the infrequent nature of the conversion transaction.

2. Summary of Significant Accounting Policies:

Cash Equivalents:

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

Inventories:

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

Property and Equipment:

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

Depreciation:

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

Goodwill and Other Intangible Assets:

Goodwill related to the excess of acquisition cost over the fair value of net assets acquired is amortized on a straight-line basis over forty years. Other intangible assets arising principally from acquisitions by the Operating Partnership are amortized on a straight-line basis over periods ranging from three to ten years.

Income Taxes:

As a partnership, taxable income and losses are included on the federal tax returns of the partners; accordingly, the Partnership incurs no liability for U.S. federal income taxes. Accordingly, no current provision for federal income taxes is reflected in the accompanying consolidated financial statements. However, the Partnership does incur certain state and local income taxes on its domestic operations and foreign income taxes on its Canadian and Mexican operations. Therefore, a current provision for state, local and foreign income taxes is reflected in the accompanying consolidated financial statements.

The Revenue Act of 1987 provides that certain "existing publicly traded partnerships", such as the Partnership, generally will not be treated as corporations for federal income tax purposes until after December 31, 1997, provided that such partnerships do not add any substantial new line of business before the effective date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

2. Summary of Significant Accounting Policies: -- (Continued)

Statement of Financial Accounting Standards ("SFAS") No. 109 requires the Partnership to recognize deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. The Partnership's deferred taxes are determined from temporary differences expected to reverse after December 31, 1997, or the date of conversion, if earlier, when the Partnership will be taxed as a corporation. Therefore, a deferred provision or benefit for state and federal income taxes is reflected in the accompanying consolidated statements of income.

Retirement Benefits:

Certain employees are covered under profit-sharing retirement plans ("defined contribution plans") for which contributions are determined on an annual basis in accordance with the requirements of each plan.

Defined benefit plan contributions covering certain employees are funded, at a minimum, in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended.

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

Certain employees are covered under post-retirement benefit plans for which benefits are determined in accordance with the requirements of each plan. The Partnership has elected to amortize the accumulated post-retirement benefit liability (transition obligation) resulting in delayed recognition. The impact of the adoption on the Partnership's financial position and results of operations is immaterial.

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 because of the short-term maturity or revolving nature of these instruments. The fair values of the Partnership's debt instruments are disclosed in Note 9.

Translation of Foreign Currencies:

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

Exchange adjustments resulting from foreign currency transactions are recognized in net income and were immaterial for the three years ending December 31, 1996.

Use of Estimates in the Preparation of Financial Statements:

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

3. Ownership Structure:

The General Partner of the Partnership and the Operating Partnership is SDI Partners I, L.P. (the "GP"), a Delaware limited partnership whose sole general partner is Lehman/SDI, formerly known as Shearson/SDI, Inc., an indirect, wholly-owned subsidiary of Lehman Brothers Holdings, Inc. ("Lehman Holdings"), formerly known as Shearson Lehman Brothers Holdings, Inc.

3. Ownership Structure: -- (Continued)

The Partnership's Class A and Class B limited partnership interests outstanding, as of December 31, 1996, are held as follows:

	Class A Interests	Class B Interests
---	-----	-----
<S>	<C>	<C>
Public Investors	11,019,850 (99.3%)	11,633,603 (53.7%)
Lehman Holdings And Affiliates	--	5,896,678 (27.2%)
Executive Officers and Directors (a)	79,723 (0.7%)	4,145,465 (19.1%)
	-----	-----
Total	11,099,573 (100.0%)	21,675,746 (100.0%) (b)
	=====	=====

</TABLE>

(a) Executive officers of the Partnership and the Operating Partnership and Directors of Lehman/SDI, including beneficial ownership.

(b) Net of 523,400 Class B interests held in the Partnership's treasury as of December 31, 1996.

Except as expressly limited by the partnership agreement, the GP has complete and exclusive discretion in the management and control of the affairs and business of the Partnership and its subsidiary partnership. The holders of Class A and Class B interests have certain limited voting rights under the partnership agreement generally regarding the removal of the GP and the sale of all or substantially all of the assets of the Partnership or the Operating Partnership or dissolution of the Partnership.

Holders of Class A interests are entitled to receive, to the extent cash is available, \$1.10 annually (the "priority return") per Class A interest, which is currently paid monthly. On December 19, 1996, the Partnership declared a priority return distribution for the month of January 1997 in the amount of \$1,038 or \$.091666 per Class A interest payable January 31, 1997, to holders of record December 31, 1996. The Class A capital account as of December 31, 1996 and 1995, was \$10.00 per Class A interest.

All items of income and loss and cash distributions of the Operating Partnership are allocated 99% to the Partnership and 1% to the GP. The GP is allocated 1% of the Partnership's share of income or loss and cash distributions, with the remaining 99% allocated to the limited partners.

Income for federal income tax purposes is allocated to the holders of Class A interests, until the Class A capital account of each holder is equal to the sum of their initial capital investment (\$10.00 per Class A interest), plus any unpaid priority return. For years 1996, 1995, and 1994, federal taxable income per Class A interest amounted to \$1.10 per year, all of which represented ordinary income. Any remaining income after the Class A allocation is allocated to the holders of Class B interests. The holders of Class B interests receive an allocable share of loss until the Class B capital account (as defined in the partnership agreement) of each holder is reduced to zero. Thereafter, any unallocated loss is allocated to the holders of Class A interests.

For 1996, 1995 and 1994, federal taxable income amounted to \$.70, \$1.6923 and \$1.1146 per Class B interest, respectively. In 1996, federal taxable income consisted of ordinary income only. Federal taxable income in 1995 consisted of ordinary income of \$.5326 per Class B interest and a combined capital gain of \$1.1597 per Class B interest related to the sale of the Dorman Products and Downey Glass divisions (see Note 5, Acquisitions/Divestitures). Federal taxable income in 1994 consisted of ordinary income of \$.7069 per Class B interest and a capital gain of \$.4077 per Class B interest related to the sale of the Electrical Products Group divisions. The Class B capital account as of December 31, 1996 and 1995, was approximately \$2.89 and \$2.54 per Class B interest, respectively.

Holders of Class B interests are entitled to receive annual cash distributions sufficient to cover their tax liabilities on taxable income allocated to the Class B interests (the "Class B Tax Distribution"). For 1996, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

3. Ownership Structure: -- (Continued)

Class B Tax Distribution amounted to \$7,663 or \$.3465 per Class B interest which was partially paid in the amount of \$.02 per Class B interest per month for the period January through April 1996 and \$.03 for the period May through December 1996. On March 31, 1997, the Partnership intends to distribute the balance of the tax distribution due of \$.0265 per Class B interest to holders of record for the entire year.

For 1995, the Class B Tax Distribution amounted to \$14,807 or \$.6695 per Class B interest which was partially paid in the amount of \$.02 per Class B interest per month for the period January through December 1995 and a partial distribution of \$.15 paid on April 10, 1995 to holders of record on December 30, 1994, related to the taxable gain on the sale of the Dorman Products division on January 3, 1995. On March 29, 1996, the Partnership distributed the balance of the tax distribution of \$.2795 per Class B interest, as follows: approximately \$.1745 to holders of record on December 30, 1994 for the balance due on the taxable gain on the sale of Dorman Products; \$.00197 per month to holders of record of Class B interests on the first day of the month during January through December 1995 for the balance due on ordinary income; and \$.0814 to holders of record on September 29, 1995 related to the taxable gain on the sale of the Downey Glass division (see Note 5, Acquisitions/Divestitures).

For 1994, the Class B Tax Distribution amounted to \$10,895 or \$.492619 per Class B interest which was partially paid in the amount of \$.009352 per Class B interest per month for the period January through March 1994 and \$.02 per Class B interest per month during the period April through December 1994. The monthly tax distributions were paid to holders of record on the first day of each month during 1994 and aggregated \$.208056 per Class B interest for the full year 1994. On March 31, 1995, the Partnership paid the balance of the tax distribution due of \$.284563 per Class B interest, as follows: approximately \$.01981 per month to holders of record of Class B interests on the first day of the month during January through March 1994, \$.00916 per month for April through November 1994, and \$.15185 for December 1994 which includes \$.14269 related to the capital gain on the sale of the Electrical Products Group divisions. (See Note 5, Acquisitions/Divestitures.)

On December 19, 1996, the Partnership in anticipation of its conversion to corporate form, suspended payment of the monthly tax-related distributions to Class B interest holders effective January 1, 1997, through March 31, 1997. Due to the delay in completion of the proposed corporate conversion, the Partnership intends to resume payment of monthly advance Class B tax distributions in April 1997 in the amount of \$.03 per B Interest. On March 20, 1997, the Partnership declared a B tax distribution in the amount of \$.03 per B Interest payable April 30, 1997, to holders of record April 1, 1997. The Partnership intends to pay this monthly rate to Class B holders until the effective date of the conversion since it expects to allocate sufficient Class B taxable income in the shortened tax year from January 1, 1997, through the effective date to require the B tax distribution payment. The balance of the required 1997 Class B tax distribution, if any will be paid on or before March 31, 1998.

4. Extraordinary Loss:

In 1995, the Partnership recorded an extraordinary loss of \$629 or approximately \$.03 per Class B limited partnership interest, due to early extinguishment of a portion of the Operating Partnership's Series A 9.08% and Series B 8.44% Senior Notes (See Note 9, Long-Term Debt).

5. Acquisitions/Divestitures:

On April 11, 1996, the Partnership's Industrial Services segment, through its Warren Fluid Power division purchased certain assets of Hydraulic Depot, Inc., of Reno, Nevada, for an aggregate purchase price of \$700. Annual sales of Hydraulic Depot, Inc., are approximately \$2,500.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

5. Acquisitions/Divestitures: -- (Continued)

In November 1995, the Partnership's Hillman Fastener division purchased certain assets of the Retail division of Curtis Industries of Eastlake, Ohio,

for an aggregate purchase price of \$8,011 and the assumption of certain liabilities. The aggregate purchase price includes goodwill of \$3,442. The purchase price and goodwill amounts include post-closing adjustments recorded in 1996. This acquisition has been accounted for as a purchase and, accordingly, the results of operations have been included in the accompanying consolidated financial statements from the date of acquisition.

On October 27, 1995, the Operating Partnership sold certain assets of its Downey Glass division for a cash consideration, net of expenses, of approximately \$6,237 (subject to certain post-closing adjustments) and the assumption of certain liabilities. The Operating Partnership recorded a gain on the sale in the amount of \$4,144 or \$.19 per Class B interest included in the 1995 consolidated statement of income. The aggregate assets sold, net of liabilities, in connection with the sale of the Downey Glass division was approximately \$2,093.

On January 3, 1995, the Operating Partnership sold certain assets of its Dorman Products division for a cash consideration, net of expenses, of approximately \$36,600 (subject to certain post-closing adjustments) and the assumption of certain liabilities. The Operating Partnership recorded a gain on the sale in the amount of \$16,500 or \$.75 per Class B interest included in the 1995 consolidated statement of income. The aggregate assets sold, net of liabilities, in connection with the sale of Dorman Products was approximately \$20,100.

On December 5, 1994, the Operating Partnership sold certain assets of its Electrical Products Group divisions for a cash consideration, net of expenses, of approximately \$27,800 (subject to certain post-closing adjustments) and the assumption of certain liabilities. The Operating Partnership recorded a gain on the sale in the amount of \$3,523 or \$.16 per Class B interest included in the 1994 consolidated statement of income. The aggregate assets sold, net of liabilities, in connection with the sale of the Electrical Products Group divisions was approximately \$24,300.

6. Related Party Transactions:

The GP earns a management fee annually from the Operating Partnership equal to 3% of the aggregate initial Capital Investment of the holders of Class A interests (\$110,996). The management fee will be paid only after cumulative outstanding priority returns and additional required cash distributions are paid. In addition, the management fee can be paid only if the Partnership complies with covenants required by the credit agreements (see Note 8, Lines of Credit, and Note 9, Long-Term Debt). Management fees earned but not paid accumulate until paid. Management fees earned in each of years 1996, 1995 and 1994 were \$3,330. The management fees for the years 1995 and 1994 were paid in full in March 1996 and 1995, respectively. Management expects to pay in full the 1996 management fee due March 31, 1997.

7. Property and Equipment:

Property and equipment consist of the following at December 31, 1996 and 1995:

	1996	1995
	-----	-----
Land	\$ 3,289	\$ 3,319
Buildings and leasehold improvements	18,642	18,048
Machinery and equipment	18,680	16,290
Furniture and fixtures	10,368	9,208
	-----	-----
	50,979	46,865
Less accumulated depreciation	29,570	26,684
	-----	-----
	\$21,409	\$20,181
	=====	=====

8. Lines of Credit:

On December 22, 1992, the Operating Partnership entered into a \$50,000 bank credit agreement with three lenders. This agreement provides borrowings on a revolving credit basis at interest rates based on the London Interbank Offered Rate ("LIBOR") plus 1 and 3/4% and prime. Letters of credit commitments are issued at varying rates. The bank credit agreement's original termination date of December 22, 1995 has been extended to December 31, 1997. The credit facility requires a commitment fee of 1/2 of 1% per year on the average daily unused portion of the commitment and an annual agent's fee. There is no compensating balance requirement under this facility. As of December 31, 1996, the Operating Partnership had \$33,152 available under this Credit Agreement. The \$16,848 outstanding consists of bank borrowings amounting to \$11,000 as reflected on the Partnership's consolidated balance sheet at December 31, 1996, and letter of credit commitments aggregating \$5,848.

The bank credit agreement contains covenants restricting distributions from the Operating Partnership to the Partnership and the GP. Amounts available for distribution in accordance with the bank credit agreement at December 31, 1996, were \$4,164. The agreement also requires the maintenance of specific coverage ratios and levels of financial position and restricts incurrence of additional debt and the sale of assets. The bank credit agreement did not permit the Partnership to consummate acquisitions in 1994. Amendments to the agreement were negotiated in March and December of 1994 to ease certain coverage ratios and other financial requirements in 1994 and future years. The December 1994 amendment allows for acquisition spending in 1995 and future years up to \$15,000 in any calendar year, absent a default or event of default as defined in the bank credit agreement.

In connection with the sale of operating divisions (see note 5, Acquisitions/ Divestitures), the Operating Partnership was required to reduce permanently the bank revolver commitment under the bank credit agreement by approximately \$13,000. However, the banks waived this permanent reduction and maintained the existing bank credit commitment of \$50,000. For 1995 and future years, the lenders have agreed to revise certain covenant tests to exclude the impact of cash distributions to holders of Class B interests related solely to tax gains on divisions sold.

The Operating Partnership has another credit facility available in the amount of \$500 for letters of credit of which no amount was outstanding at December 31, 1996. The letters of credit commitments are issued at varying rates. This facility, renewable annually, is not subject to compensating balance requirements or unused commitment fees.

An indirect, wholly-owned Canadian subsidiary of the Operating Partnership has a \$2,500 Canadian dollar line of credit with a local lender for working capital purposes of which \$557 USD was outstanding at December 31, 1996. This facility, which is renewable annually, provides bank borrowings at an interest rate of prime plus 1/4 of 1%. There are no compensating balance requirements or commitment fees associated with this facility.

Notes payable consisted of the following at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
Short-term bank borrowings drawn on working capital lines of credit	\$ 557	\$ 463
Trade notes payable in accordance with glass inventory financing arrangements	1,193	1,474
Notes payable in accordance with insurance financing arrangements	920	816
	-----	-----
	\$2,670	\$2,753
	=====	=====

</TABLE>

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

8. Lines of Credit: -- (Continued)

The weighted average interest rate on the outstanding notes payable borrowings at December 31, 1996 and 1995 was 3.05% and 3.01%, respectively.

9. Long-Term Debt:

On December 22, 1992, the Operating Partnership issued \$95,000 of senior notes with a final maturity of December 1, 2002, through a private placement with several institutional investors.

The new senior notes were issued in two series, as follows: \$65,000 Series A notes at 9.08% and \$30,000 Series B notes at 8.44%. Interest is required to be paid semiannually on June 1 and December 1 on the outstanding principal of the senior notes. The Operating Partnership repaid \$4,375, \$3,282 and \$3,900 in Series A notes, and \$2,020, \$1,514 and \$1,800 in Series B notes in 1996, 1995 and 1994, respectively. Principal repayments required on the senior notes during each of the five years subsequent to December 31, 1996, are as follows:

	Series A	Series B
	-----	-----
December 1, 1997	\$4,375	\$2,020
December 1, 1998	5,468	2,522
December 1, 1999	6,562	3,030
December 1, 2000	8,201	3,786
December 1, 2001	9,297	4,290

Optional prepayments, in multiples of \$100, may be made at anytime, as a whole or in part, with accrued interest thereon plus a penalty ("make-whole amount"), if any, as defined in the note agreement.

If the Partnership sells a significant amount of assets as defined in the note agreement, it must make an offer of prepayment of note principal to the senior noteholders determined on an applicable share basis with the bank credit agreement. The prepayment offer also must include accrued interest thereon plus a make-whole amount, if any, as defined in the note agreement. Related to the sale of operating divisions in December 1994 and January 1995 (see Note 5, Acquisition/Divestitures), the Operating Partnership was required to offer the noteholders prepayment of senior notes in the amount of \$14,175. The noteholders accepted the prepayment offer which the Operating Partnership paid on March 14, 1995, including accrued interest thereon of \$360 and a prepayment penalty of \$629 (see Note 4, Extraordinary Loss).

The senior note agreement contains covenants restricting distributions from the Operating Partnership to the Partnership and the GP. Additionally, the note agreement restricts the incurrence of additional debt and the sale of assets and requires the maintenance of specific coverage ratios and levels of financial position. Also, the senior note agreement did not permit the Partnership to consummate acquisitions in 1994. For 1994 and future years, the senior noteholders have agreed to ease certain coverage ratios and other financial requirements.

Provisions made during the year for restructuring charges and transaction costs (Note 7) rendered the Operating Partnership unable to comply with certain financial covenants of the bank credit agreement and the senior note agreement. On March 21, 1997, the Partnership received the final consent in which the banks and senior note holders agreed to a modification of these covenants effective for the fiscal quarters ending December 31, 1996 through: (i) June 30, 1997 for the bank credit agreement; and (ii) September 30, 1997 for the senior note agreement. The Partnership is in compliance with the modified covenants.

As of December 31, 1996, the fair value estimate of the Partnership's senior notes is approximately \$65,000 as determined in accordance with SFAS No. 107. The Partnership discounted the future cash flows of its senior notes based on borrowing rates for debt with similar terms and remaining maturities. The fair value estimate is made at a specific point in time and is subjective in nature and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

10. 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, 1996:

Capital	Operating
---------	-----------

	Leases	Leases
	-----	-----
1997	\$ 151	\$ 9,210
1998	151	7,696
1999	151	5,475
2000	151	4,204
2001	134	2,875
Later years	--	10,692
	-----	-----
Total minimum lease payments	\$ 738	\$40,152
		=====
Less amounts representing interest	(127)	

Present value of Net Minimum Lease payments (including \$107 currently payable)	\$ 611	
	=====	

Total rental expenses for all operating leases amounted to \$15,239 in 1996, \$14,232 in 1995, and \$15,153 in 1994.

11. Deferred Compensation Plans:

Certain officers and employees earn performance-based compensation, payment of which is deferred until future periods.

The Partnership adopted a new deferred compensation plan for its officers effective January 1, 1994. Under this plan, awards are earned based on operating performance over a five-year period which vest and are paid in cash only at the end of the fifth year. At the end of any year within the five-year program, the cumulative award is subject to reduction or forfeiture if performance goals are not achieved. Upon a change in control of the Operating Partnership, participants are entitled to payment of awards earned through completion of the most recent plan year. The amounts charged to income under this plan were \$378 in 1996, \$1,186 in 1995 and \$850 in 1994. The portion of the Operating Partnership's deferred compensation liability attributable to this plan is \$2,414 as of December 31, 1996.

For a plan adopted in 1987 and amended thereafter, certain employees earned awards which vest at the rate of 20% per year over the 5-year period following the year in which the award was earned. The awards will be paid at age 60, if elected by the employee, or upon death, disability or retirement and accrue investment earnings until paid. Upon a change in control of the Operating Partnership, participants are entitled to payment of all vested and non-vested amounts including accrued interest. The full award is charged to operations in the year earned. The amounts charged to income under the plan were \$677, \$1,135 and \$2,295 in 1996, 1995 and 1994, respectively. During the three years ended December 31, 1996, distributions from the plan amounted to \$1,160 in 1996, \$1,422 in 1995, and \$240 in 1994. The deferred compensation liability attributable to the plan amounted to \$5,998 at December 31, 1996 of which \$564 is included in other accrued expenses.

Under a former plan, effective through December 31, 1986, certain employees and officers earned deferred compensation amounts which unconditionally vested at the rate of 20% per year over the 5-year period following the year in which the award was earned. Participants of the former plan have elected to defer all outstanding awards until retirement. Upon a change in control of the Operating Partnership, participants are entitled to

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (dollars in thousands)

11. Deferred Compensation Plans: -- (Continued)

payment of their total account balance including accrued interest. Amounts charged to income and distributions related to the former plan for the three years ended December 31, 1996 were immaterial. The portion of the Operating Partnership's deferred compensation liability attributable to this plan is \$796 at December 31, 1996.

In December 1995, the Operating Partnership established a Rabbi trust to assist in funding the liabilities of the Deferred Compensation plans described above. This trust purchased insurance policies on the lives of certain participants in the Deferred Compensation plans. The Operating Partnership is the sole beneficiary of these insurance policies. The cash surrender value of

these insurance policies was \$4,566 at December 31, 1996.

The change of control provision in the deferred compensation plans is triggered upon a sale of all of the Operating Partnership's business, a change in the GP including its reorganization or a change, other than due to death or retirement, in a majority of the directors of Lehman/SDI during any one-year period.

The Partnership adopted a new deferred compensation plan effective December 1, 1996, to offer key employees an opportunity to defer a portion of their compensation including bonuses and any amounts credited to the accounts of such employees which otherwise may become payable to such employees under other incentive compensation programs maintained by the Partnership. This new plan would allow participants eligible for accelerated payments under the change in control provision of the Partnership's deferred compensation plans an election to continue to defer their balances.

Net periodic pension cost (income) in 1996, 1995, and 1994 for non-contributory defined benefit plans consists of:

<TABLE>
<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Service cost during the period	\$ 879	\$ 675	\$ 1,102
Interest cost on projected benefit obligations	1,656	1,578	1,534
Actual return on assets	(3,432)	(3,503)	(2,100)
Net amortization and deferral	917	1,509	(270)
	-----	-----	-----
Net periodic pension cost	\$ 20	\$ 259	\$ 266
	=====	=====	=====

</TABLE>

Significant assumptions used in determining pension cost (income) include:

<TABLE>
<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Discount rate	7.25%	8.25%	7.00%
Rates of increase in compensation levels	6.50%	6.50%	6.50%
Expected long-term rate of return on plan assets	9.75%	8.50%	9.50%

</TABLE>

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (dollars in thousands)

11. Deferred Compensation Plans: -- (Continued)

The following table sets forth the defined benefit plans' funded status and amounts recognized in the Partnership's balance sheets at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	December 31, 1996		December 31, 1995	
	Assets	Accumulated	Assets	Accumulated
	Exceed	Benefit	Exceed	Benefit
	Accumulated	Obligations	Accumulated	Obligations
	Benefit	Exceed	Benefit	Exceed
Actuarial present value of	Obligations	Assets	Obligations	Assets
beneficial obligations:	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Vested benefit obligation	\$ 19,019	\$ -0-	\$ 17,304	\$ 1,016
	=====	=====	=====	=====
Accumulated benefit obligation	\$ 19,290	\$ -0-	\$ 17,450	\$ 1,016
	=====	=====	=====	=====
Projected benefit obligation	\$ 23,716	\$ -0-	\$ 21,467	\$ 1,016
Plan assets at fair value	26,519	-0-	24,220	897
	-----	-----	-----	-----

Projected benefit obligation less than (in excess of) plan assets	2,803	-0-	2,753	(119)
Unrecognized net loss	(1,247)	-0-	(668)	161
Prior service cost not yet recognized in net periodic pension cost	(328)	--	(352)	--
Unamortized balance of unrecognized net transition asset established at January 1, 1987	(1,648)	-0-	(1,693)	(189)
	-----	-----	-----	-----
Prepaid pension cost (pension liability) recognized in the balance sheet	\$ (420)	\$ -0-	\$ 40	\$ (469)
	=====	=====	=====	=====

</TABLE>

The discount rate assumptions used in determining actuarial present value of benefit obligations at December 31, 1996 and 1995 was 7.25%.

Certain employees of the Partnership's Kar Products, J.N. Fauver Co., and its divested Dorman Products and American Electric Co. divisions are covered by these defined benefit retirement plans. Assets of the defined benefit plans consist of insurance contracts and assets managed under a commingled trust agreement. The trust assets are invested primarily in equity and fixed income holdings.

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

	1996	1995	1994
	-----	-----	-----
Defined contribution plans	\$1,327	\$2,693	\$3,498
Multi-employer pension plans	189	374	362
Defined benefit plans	20	259	266
	-----	-----	-----
Total	\$1,536	\$3,326	\$4,126
	=====	=====	=====

Management estimates that its share of unfunded vested liabilities under multi-employer pension plans is not material.

For the years ended December 31, 1996, 1995 and 1994, the costs of post-retirement benefits charged to income were \$87, \$81 and \$115, respectively. The 1996 and 1995 charges were determined in accordance with SFAS No. 106 on an accrual basis with costs recognized in prior years upon payment of the post-retirement obligations. The Partnership's unrecognized accumulated post-retirement benefit liability as of December 31, 1996, 1995 and 1994 was \$477, \$516 and \$744, respectively.

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(dollars in thousands)

13. Income Taxes:

Deferred tax assets are comprised of the following at December 31, 1996 and 1995:

	1996	1995
	-----	-----
Gross deferred tax assets:		
Deferred compensation	\$3,292	\$2,936
Deferred restructuring changes	1,034	--
Casualty Loss Insurance Program	548	--
Prepayment penalties related to early extinguishment of debt	304	299
	-----	-----
	5,178	3,235
Valuation allowance for deferred tax assets	(171)	(391)
	-----	-----
Net deferred tax asset	\$5,007	\$2,844
	=====	=====

Management has determined, based on the Partnership's history of prior operating earnings and its expectations for the future, that operating income of the Partnership will more likely than not be sufficient to recognize fully these net deferred tax assets. The Partnership has no deferred tax liability at December 31, 1996 or December 31, 1995.

As of December 31, 1996, the Partnership's tax basis of its assets and liabilities was greater than its financial statement basis by approximately \$77,000.

The provision (benefit) for income taxes consists of the following:

	1996	1995	1994
	-----	-----	-----
Current income taxes			
State and local	\$ 605	\$ 608	\$ 276
Foreign	418	629	558
	-----	-----	-----
	1,023	1,237	834
	-----	-----	-----
Deferred income taxes			
Federal	(1,897)	(627)	(657)
State and local	(266)	(73)	(77)
	-----	-----	-----
	(2,163)	(700)	(734)
	-----	-----	-----
Total income taxes	\$ (1,140)	\$ 537	\$ 100
	=====	=====	=====

14. Commitments and Contingencies:

Performance and bid bonds are issued on the Partnership's behalf during the ordinary course of business through surety bonding companies as required by certain contractors. As of December 31, 1996, the Partnership had outstanding performance and bid bonds aggregating \$234. As required by sureties, the Partnership has standby letters of credit outstanding in the amount of \$650 as of December 31, 1996.

Letters of credit are issued by the Partnership 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, 1996, the Partnership had outstanding letters of credit in the aggregate amount of \$1,872 related to these activities.

As of December 31, 1996 the Partnership has guaranteed approximately \$1,181 worth of lease obligations, principally relating to businesses previously divested. The Partnership is not currently aware of any existing conditions which would cause a financial loss related to these guarantees.

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(dollars in thousands)

14. Commitments and Contingencies: -- (Continued)

Under the Partnership's insurance programs, commercial umbrella coverage is obtained for catastrophic exposure and aggregate losses in excess of normal claims. Beginning in 1991, the Partnership has retained risk on certain expected losses from both asserted and unasserted claims related to workman'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, 1996, the Partnership has provided insurers letters of credit aggregating \$3,326 related to certain insurance programs.

On February 27, 1996, a lawsuit was filed against the Operating Partnership by the buyer of its Dorman Products division for alleged misrepresentation of certain facts by the Partnership upon which the buyer allegedly based its offer to purchase Dorman. The complaint seeks damages of approximately \$21,000.

On January 16, 1997, a holder of B Interests filed a purported class action alleging that the terms of the Conversion unfairly transfer substantial equity to the General Partner to the detriment of the B Interests and constitute a breach of fiduciary duty. A second complaint containing substantially identical allegations was filed by a limited partner on February 11, 1997.

In the opinion of management, the ultimate resolution of these matters will not have a material effect on the consolidated financial position, operations or cash flows of the Partnership.

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

15. Statements of Cash Flows:

Supplemental disclosures of cash flow information are presented below:

<TABLE> <CAPTION>			
	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash paid during the period for:			
Interest	\$6,769	\$ 7,304	\$10,097
	-----	-----	-----
Income taxes	\$1,189	\$ 1,190	\$ 792
	-----	-----	-----
Supplemental schedule of non-cash investing activities:			
Assumed liabilities in connection with the purchase of assets (See Note 5, Acquisitions/Divestitures)	\$ --	\$ 232	\$ --
	-----	-----	-----
</TABLE>			

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (dollars in thousands)

16. Quarterly Data (unaudited):

<TABLE>					
<CAPTION>					
	1996	First	Second	Third	Fourth
	----	-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>
Net sales		\$ 154,892	\$ 167,500	\$ 167,125	\$159,737
Gross profit		62,464	67,104	68,029	65,406
Net income		4,010	8,313	8,286	(1,342) *
Net income (loss) per limited partnership interest					
-- Class A		\$.27	\$.28	\$.27	\$.28
-- Class B		\$.04	\$.24	\$.24	\$.20)
</TABLE>					

- -----

* Includes non-recurring restructuring charges and transaction costs of \$5,950 and \$2,150, respectively.

<TABLE>					
<CAPTION>					
	1995	First	Second	Third	Fourth
	----	-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>
Net sales		\$ 154,792	\$ 163,820	\$ 163,214	\$ 147,109
Gross profit		61,441	65,902	66,510	59,657
Income before extraordinary loss		19,862**	8,377	7,828	8,678***
Extraordinary loss (Note 4)		(629)	--	--	--
Net income		19,233	8,377	7,828	8,678
Net income per limited partnership interest:					
Income before extranordinary loss:					
-- Class A		\$.27	\$.28	\$.27	\$.28
-- Class B		\$.77	\$.24	\$.22	\$.25
Extraordinary loss:					
-- Class A		\$ --	\$ --	\$ --	\$ --
-- Class B		\$ (.03)	\$ --	\$ --	\$ --
Net Income:					

-- Class A	\$.27	\$.28	\$.27	\$.28
-- Class B	\$.74	\$.24	\$.22	\$.25

</TABLE>

- -----

** Includes gain on sale of Dorman Products division of \$16,500.

*** Includes gain on sale of Downey Glass division of \$4,144.

17. Concentration of Credit Risk:

Financial instruments which potentially subject the Partnership to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Partnership 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 Partnership's customer base, and their dispersion across many different industries and geographies. The Partnership performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (dollars in thousands)

18. Segment Information:

The following are the segment disclosures required under SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," with respect to the Partnership's reportable segments as identified in Note 1, "Basis of Presentation" under "Nature of Operations":

<TABLE>

<CAPTION>

Industry Segment Data:	Year Ended December 31,		
	1996	1995	1994
- -----	----	----	----
<S>	<C>	<C>	<C>
Net Sales			
Industrial Services	\$ 456,798	\$ 424,978	\$ 532,719
Hardware Merchandising	103,503	84,720	72,841
Glass Merchandising	90,369	120,650	132,063
Adjustments and eliminations	(1,416)	(1,413)	(1,762)
	-----	-----	-----
Consolidated Net Sales	\$ 649,254	\$ 628,935	\$ 735,861
- -----	-----	-----	-----
Income from Operations			
Industrial Services	\$ 33,437	\$ 31,834	\$ 39,773
Hardware Merchandising	9,074	9,592	7,096
Glass Merchandising	3,037	3,387	5,756
Corporate Expenses	(21,096) *	(13,511)	(14,866)
	-----	-----	-----
Consolidated Income from Operations	\$ 24,452	\$ 31,302	\$ 37,759
- -----	-----	-----	-----
Identifiable Assets			
Industrial Services	\$ 166,849	\$ 162,681	\$ 181,545
Hardware Merchandising	46,331	36,340	24,357
Glass Merchandising	37,734	42,041	53,058
Corporate Assets	13,140	13,635	7,352
Adjustments and Eliminations	(1,499)	(106)	(126)
	-----	-----	-----
Consolidated Assets	\$ 262,555	\$ 254,591	\$ 266,186
- -----	-----	-----	-----
Capital Expenditures			
Industrial Services	\$ 2,180	\$ 2,315	\$ 2,736
Hardware Merchandising	1,985	539	339
Glass Merchandising	640	1,254	1,094
Corporate	159	191	94
	-----	-----	-----
Consolidated Capital Expenditures	\$ 4,964	\$ 4,299	\$ 4,263
- -----	-----	-----	-----
Depreciation and Amortization			
Industrial Services	\$ 3,448	\$ 3,339	\$ 4,458
Hardware Merchandising	639	401	364
Glass Merchandising	1,355	1,839	2,271
Corporate	105	78	49
	-----	-----	-----

Consolidated Total	\$ 5,547	\$ 5,657	\$ 7,142
--------------------------	----------	----------	----------

</TABLE>

* Includes non-recurring restructuring charges and transaction costs of \$5,950 and \$2,150, respectively.

19. Subsequent Event:

On March 4, 1997, the Operating Partnership received the last of two financing commitments which together aggregate \$150,000 from lenders. These commitments are available to the Partnership until May 30, 1997. The Partnership intends to utilize the debt capacity to fund transaction costs and other payments related to its conversion to corporate form, refinance its current outstanding senior notes of \$63,934 as of December 31, 1996, including interest thereon and related make-whole amount of approximately \$5,000, and outstanding bank

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SUNSOURCE L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(dollars in thousands)

19. Subsequent Event: -- (Continued)

revolver borrowings of \$11,000 as of December 31, 1996. Also, the new credit facilities will provide working capital for reinvestment in its businesses and acquisition capital for future growth. The new financing commitments consist of a \$60,000 five-year fixed rate note at 7.66% and a \$90,000 five-year bank revolver with terms and conditions more favorable than the Partnership's existing senior notes and bank credit lines including less restrictive covenants and an effective interest rate reduction of approximately 1.00%.

Consummation of the refinancing with the new credit facilities is contingent upon approval of the Partnership's conversion into corporate form and certain other terms and conditions of closing being satisfied in a manner acceptable to the lenders.

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[Photograph of STS technician servicing equipment]

[Photograph of SIMCO's operations]

[Photograph of Hillman display racks]

[Photograph of Harding glass operations]

=====

No dealer, salesperson, or any other individual has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, the Selling Stockholders or any of the Underwriters. This Prospectus does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such offer or solicitation would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

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=====

2,512,169 Shares

[LOGO]

Common Shares

PROSPECTUS

, 1998

LEHMAN BROTHERS

ROBERT W. BAIRD & CO.
INCORPORATED

FURMAN SELZ

LEGG MASON WOOD WALKER
INCORPORATED

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses of the issuance and distribution of the securities being registered hereby, all of which are being borne by the Company. All costs and expenses, other than the SEC registration fee, the New York Stock Exchange Listing Fee and the NASD filing fee, are estimated.

SEC Registration Fee.....	\$19,962
NASD Filing Fee.....	*
Legal Fees and Expenses.....	*
Accounting Fees and Expenses.....	*
Blue Sky Fees and Expenses.....	*
Printing Expenses.....	*
Transfer Agent's Fees.....	*
New York Stock Exchange Listing Fee.....	*
Miscellaneous Expenses.....	*

Total.....	\$ *
	=====

- -----
* To be completed by amendment.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Company's By-laws contain provisions permitted by the Delaware General Corporation Law (under which the Company is organized) that provide that directors and officers will be indemnified by the Company to the fullest extent permitted by law for all losses that may be incurred by them in connection with any action, suit or proceeding in which they may become involved by reason of their service as a director or officer of the Company. In addition, the Company's Certificate of Incorporation contains provisions permitted by the Delaware General Corporation Law that limit the monetary liability of directors of the Company for certain breaches of their fiduciary duty, and its By-laws provide for the advancement by the Company to directors and officers of expenses incurred by them in connection with a proceeding of a type to which the duty of indemnification applies. The Company maintains directors' and officers' liability insurance to insure its directors and officers against certain liabilities incurred in their capacity as such, including claims based on breaches of duty, negligence, error and other wrongful acts. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in that Act and is therefore unenforceable.

Reference is also made to the indemnification provisions of the Underwriting Agreement to be filed as Exhibit 1 and to the first undertaking contained in Item 17 of this Registration Statement.

ITEM 16. EXHIBITS.

EXHIBIT NO.	DESCRIPTION
- - - - -	- - - - -
1	Form of Underwriting Agreement*
4	Rights Agreement between the Company and the Registrar and Transfer Company***

legality of securities being registered*

- 10.1 Amended and Restated Credit Agreement dated September 30, 1997, among CoreStates Bank, N.A., for itself and as agent, The Bank of Nova Scotia, for itself and as documentation agent, and SDI Operating Partners, L.P., SDI Partners I, L.P., SunSource Inc., SunSub A Inc. and SunSub B Inc. **
- 10.2 Note Purchase Agreement dated September 30, 1997 between Teachers Insurance and Annuity Association and SDI Operating Partners, L.P., SDI Partners I, L.P., SunSource Inc., SunSub A Inc. and SunSub B Inc.**
- 23.1 Consent of Coopers & Lybrand L.L.P.**
- 23.2 Consent of Morgan, Lewis & Bockius LLP (contained in its opinion to be filed as Exhibit 5)*
- 24 Powers of Attorney (included in signature page)**
- 27 Financial Data Schedule **

- -----

*To be filed by amendment.

**Filed herewith.

***Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-4 (No. 333-19077).

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Company hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Company pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Philadelphia, Pennsylvania on January 22, 1998.

SUNSOURCE INC.

BY: /s/ Joseph M. Corvino

Name: Joseph M. Corvino
Title: Vice President - Finance,

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned does hereby constitute and appoint Norman V. Edmonson and Joseph M. Corvino, or either of them acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution and revocation for him and in his name, place and stead, in any and all capacities, to sign this Registration Statement on Form S-2 of SunSource Inc. (and any Registration Statement filed pursuant to Rule 462(b) under the Securities Act), relating to the offer and sale of its Common Shares and any and all amendments (including post-effective amendments) to the Registration Statement and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons, in the capacities indicated, on January 22, 1998.

<TABLE>

<CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ Donald T. Marshall ----- Donald T. Marshall	<C> Chairman and Chief Executive Officer (Principal Executive Officer) and Director	<C> January 22, 1998
/s/ Joseph M. Corvino ----- Joseph M. Corvino	Vice President-Finance, Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer)	January 22, 1998
/s/ John S. Dabrowski ----- John J. Dabrowski	Controller (Principal Accounting Officer)	January 22, 1998
/s/ O. Gordon Brewer, Jr. ----- O. Gordon Brewer, Jr.	Director	January 22, 1998
/s/ Norman V. Edmonson ----- Norman V. Edmonson	Director	January 22, 1998
/s/ Eliot M. Fried ----- Eliot M. Fried	Director	January 22, 1998

</TABLE>

<TABLE>

<CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ Arnold S. Hoffman ----- Arnold S. Hoffman	<C> Director	<C> January 22, 1998
/s/ Robert E. Keith, Jr. ----- Robert E. Keith, Jr.	Director	January 22, 1998
/s/ John P. McDonnell ----- John P. McDonnell	Director	January 22, 1998
/s/ Ernest L. Ransome, III ----- Ernest L. Ransome, III	Director	January 22, 1998
/s/ Donald A. Scott ----- Donald A. Scott	Director	January 22, 1998

Henri I. Talerman

</TABLE>

INDEX TO EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
1	Form of Underwriting Agreement*
4	Rights Agreement between the Company and the Registrar and Transfer Company***
5	Opinion of Morgan, Lewis & Bockius LLP regarding legality of securities being registered*
10.1	Amended and Restated Credit Agreement dated September 30, 1997, among CoreStates Bank, N.A., for itself and as agent, The Bank of Nova Scotia, for itself and as documentation agent, and SDI Operating Partners, L.P., SDI Partners I, L.P., SunSource Inc., SunSub A Inc. and SunSub B Inc. **
10.2	Note Purchase Agreement dated September 30, 1997 between Teachers Insurance and Annuity Association and SDI Operating Partners, L.P., SDI Partners I, L.P., SunSource Inc., SunSub A Inc. and SunSub B Inc.**
23.1	Consent of Coopers & Lybrand L.L.P.**
23.2	Consent of Morgan, Lewis & Bockius LLP (contained in its opinion to be filed as Exhibit 5)*
24	Powers of Attorney (included in signature page)**
27	Financial Data Schedule **

*To be filed by amendment.

**Filed herewith.

***Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-4 (No. 333-19077).

AMENDED AND RESTATED
CREDIT AGREEMENT

AMONG

SDI OPERATING PARTNERS, L.P.,
AND ITS SUBSIDIARIES AS SET FORTH
ON SCHEDULE 1 ATTACHED HERETO
("BORROWERS"),

SDI PARTNERS I, L.P.,
SUNSOURCE INC., SUNSUB A INC. and
SUNSUB B INC.
("GUARANTORS"),

CORESTATES BANK, N.A.
for itself and as Agent,

THE BANK OF NOVA SCOTIA
for itself and as Documentation Agent

and

THE BANKS SET FORTH ON SCHEDULE 2 ATTACHED HERETO

("BANKS")

September 30, 1997

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Schedule 2: The Lenders, their respective addresses and Maximum Principal Amounts

Exhibit A: Advance/Credit Request Form

Exhibit B: Form of Promissory Note(s)

Exhibit C: Funding Costs and Loss of Earnings Calculation

Exhibit D: Agent's Letter of Credit Application

Exhibit E: Disclosure Pursuant to Representations and Warranties

Exhibit F: Form of Covenant Compliance Certificate

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AMENDED AND RESTATED
CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT is made this 30th day of September, 1997, by and among SDI OPERATING PARTNERS, L.P. (the "Company"), a Delaware limited partnership with offices at 3000 One Logan Square, Philadelphia, Pennsylvania 19103, and its subsidiaries identified on Schedule 1 attached hereto on a joint and several basis (the "Subsidiaries") (the Company and the Subsidiaries, collectively, the "Borrowers"); SDI PARTNERS I, L.P. ("SDIPI"), a Delaware limited partnership with offices at 501 Silverside Road, Suite 17, Wilmington, DE 19809, the sole general partner of the Company, SUNSOURCE INC., a Delaware corporation with offices at 3000 One Logan Square, Philadelphia, PA 19103, SUNSUB A INC. ("SunSub A") a Delaware corporation with offices at 3000 One Logan Square, Philadelphia, PA 19103, and SUNSUB B INC., ("SunSub B") a Delaware corporation with offices at 3000 One Logan Square, Philadelphia, PA 19103 (SDIPI, SunSource Inc., SUNSUB A and SUNSUB B collectively, the "Guarantors"); and CORESTATES BANK, N.A., a national banking association with offices at Broad and Chestnut Streets, Philadelphia, Pennsylvania 19107, for itself and as administrative agent for the Banks identified below ("Agent"); THE BANK OF NOVA SCOTIA, a Canadian chartered bank, with offices at 1 Liberty Plaza, New York, New York 10006 (the "Documentation Agent"), and the banks identified on Schedule 2 attached hereto (the Agent, the Documentation Agent and the banks identified on Schedule 2, individually a "Bank" and collectively the "Banks").

W I T N E S S E T H:

WHEREAS, the Company is a limited partnership, the sole general partner of which is SDIPI and the sole limited partner of which is SunSub A Inc.,

WHEREAS, as of the partner vote of September 25, 1997, effective on September 30, 1997 (the "Effective Time"), the partners of SunSource L.P., a Delaware limited partnership, agreed to convert said limited partnership to corporate form in the manner and as set forth in the Securities and Exchange Commission Form S-4 Registration Statement dated December 31, 1996, as amended, at the Effective Time, and SunSource L.P. will be known as SunSource Inc., a Delaware corporation (the "Conversion");

WHEREAS, the Company, SDIPI, the Agent and certain of the Banks (the "Existing Banks") are parties to that certain Credit Agreement dated December 22, 1992 (as amended, the "Existing Credit Agreement"), and the Company issued Ninety-Five Million Dollars (\$95,000,000) in privately-placed notes pursuant to note purchase agreements (the "Existing Note Purchase Agreements");

WHEREAS, the Company has requested, and Agent and the Banks have agreed, to amend and restate the Existing Credit Agreement to accommodate the Conversion, to increase the aggregate availability under the Commitment to Ninety Million Dollars (\$90,000,000), which may be increased by an additional Twenty Million Dollars (\$20,000,000) upon the request of

Borrowers and agreement of the Banks, to add certain Banks as lenders, to amend the covenants and to revise the Existing Credit Agreement in certain additional respects, all on the terms and conditions as set forth herein;

WHEREAS, SunSource Inc. is a newly-formed Delaware corporation beneficially owned by (i) the former public holders of B interests of SunSource

L.P., (ii) Lehman/SDI, Inc., a Delaware corporation, which is an indirect wholly-owned subsidiary of Lehman Brothers Holdings Inc., a Delaware corporation, and (iii) the current or former management employees of SunSource Inc. and the Company;

WHEREAS, SunSub A is the sole limited partner of the Company and the sole limited partner of SDIPI;

WHEREAS, SunSub B a Guarantor, is a Delaware corporation, a wholly-owned subsidiary of SunSource Inc., and the sole general partner of SDIPI;

WHEREAS, the Company is one of the largest wholesale distributors of industrial products and services in the United States, and it is organized in three segments: industrial services, hardware merchandising and glass merchandising;

WHEREAS, the Conversion will include the issuance of: (i) common stock by SunSource Inc.; and (ii) Trust Preferred Securities and Trust Common Securities of SunSource Capital Trust (the "Trust"), a Delaware statutory business trust;

WHEREAS, the assets of the Trust are the Junior Subordinated Debentures (as defined below) to be issued by SunSource Inc.;

WHEREAS, payments of interest and principal on the Junior Subordinated Debentures to the Trust will be used to make distributions on the Trust Preferred Securities and Trust Common Securities in accordance with the terms set forth in the Declaration of Trust of the Trust and the "Terms of Common Securities" for the Trust and "Terms of Preferred Securities" for the Trust;

WHEREAS, in connection with its issuance on the date hereof by the Company of Sixty Million Dollars (\$60,000,000) in privately-placed notes pursuant to a Note Purchase Agreement dated the date hereof, Borrowers desire to obtain a NINETY MILLION DOLLAR (\$90,000,000) revolving credit facility, which amount may be increased by up to an additional TWENTY MILLION DOLLARS (\$20,000,000) upon the request of Borrowers and agreement of the Banks pursuant to certain terms and conditions set forth herein, such facility to be used for general corporate purposes including working capital, the financing of acquisitions, transaction expenses, payments of up to approximately \$14,500,000 to the former holders of the A interests of SunSource L.P. pursuant to the Conversion; and the repayment of debt, including under the

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Existing Credit Agreement and under Existing Note Purchase Agreements and make whole payments thereunder; and

WHEREAS, the Banks are willing to provide a revolving credit commitment and to participate in the issuance by Agent of letters of credit for the account of Borrowers in the maximum principal amount of NINETY MILLION DOLLARS (\$90,000,000), which amount may be increased by up to an additional TWENTY MILLION DOLLARS (\$20,000,000) upon the request of the Company and the agreement of the Banks, subject to the terms and conditions hereof;

NOW THEREFORE, in consideration of the foregoing background and the promises and the agreements hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

SECTION ONE DEFINITIONS

1.1. Definitions. When used in this Agreement, the following terms shall have the respective meanings set forth below. Certain terms relating to interest rates are defined in Paragraph 2.6 and shall have the respective meanings set forth therein.

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

"Additional Commitment" shall have the meaning set forth in Paragraph 2.1(d) (i) hereof.

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

"Advance/Credit Request Form" means the certificate in the form attached hereto as Exhibit A to be delivered by the Company to Agent as a condition of each Advance and the issuance of each Letter of Credit.

"Advance" means a borrowing under the Commitment pursuant to Paragraph 2.7 hereof.

"Affiliate" means: (i) any person who or entity which directly or indirectly owns, controls or holds ten percent (10%) or more of the outstanding common stock in SunSource Inc.; (ii) any entity of which ten percent (10%) or more of the outstanding common stock or beneficial interest is directly or indirectly owned, controlled, or held by SunSource Inc. or an Affiliate; (iii)

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

"Agent" means CoreStates Bank, N.A. in its capacity as administrative agent for the Banks hereunder, and its successors and assigns in such capacity.

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

"Bank" means individually and "Banks" means, collectively, the banks identified on Schedule 2 attached hereto as such Schedule may be amended from time to time, their respective successors and assigns and any additional banks which become parties to this Agreement after the date hereof in accordance with Paragraph 12.2 hereof, but shall not include any such Bank which is replaced pursuant to the terms hereof after the date hereof.

"Banks' Applicable Share" means, as of any date of determination, with respect to any Net Cash Proceeds which are required or permitted to be used by Borrowers to reduce the Commitment pursuant to this Agreement, (i) the portion of such Net Cash Proceeds which bears the same relationship to the entire amount of such Net Cash Proceeds as the amount of the Commitment on the date of determination bears to the sum of the outstanding principal amount of the Senior Notes plus the amount of the Commitment on the date of determination, plus (ii) such amount of the Net Cash Proceeds which has been offered to the holders of the Senior Notes pursuant to Paragraph 4.8 of the Note Purchase Agreement as a prepayment, but as to which such offer has not been accepted.

"Borrowers" mean, jointly and severally, SDI Operating Partners, L.P., a Delaware limited partnership and its Subsidiaries as set forth on Schedule 1 hereto.

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

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

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

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

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

"Change of Control" means if at any time after the date of this Agreement: (a) SunSource Inc. ceases to own, directly or indirectly, all of the general and limited partnership interests in the Company and SDIPI; or (b) (i) any person or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and the rules and regulations promulgated thereunder shall have beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of SunSource Inc. (or other securities convertible into such securities) representing twenty percent (20%) or more of the combined voting power of all securities of SunSource Inc. entitled to vote in the election of directors, other than Lehman Affiliates and the management group of Norman V. Edmonson, Donald T. Marshall, John P. McDonnell, Harold J. Cornelius, Max W. Hillman and

Joseph M. Corvino (hereinafter called a "Controlling Person"); or (ii) a majority of the Board of Directors of SunSource Inc. shall cease for any reason to consist of (1) individuals who on the date hereof are serving as directors of SunSource Inc. or (2) individuals who subsequently become members of the Board if such individuals' nomination for election or election to the board is recommended or approved by a majority of the Board of Directors of SunSource Inc. For purposes of clause (b)(i) above, a person or group shall not be a Controlling Person if such person or group holds voting power in good faith and not for the purpose of circumventing Paragraph 9.1(f) as an agent, bank, broker, nominee, trustee, or holder of revocable proxies given in response to a solicitation pursuant to the 1934 Act, for one or more beneficial owners who do not individually, or, if they are a group acting in concert, as a group, have the voting power specified in clause (b)(i) above.

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

"Commitment" means the sum of (i) the maximum aggregate principal amount which Banks, on a several basis, have agreed to advance under Section Two hereof, including the Swing Line Commitment (subject to the \$5,000,000 sublimit set forth therein) and (ii) the available amount under Letters of Credit issued pursuant to Section Three hereof (subject to the \$20,000,000 sublimit set forth therein) in which Banks have agreed to participate, such Commitment being in the aggregate Ninety Million Dollars (\$90,000,000) on the date hereof subject to increase at the Company's request and agreement of the Banks pursuant to Paragraph 2.1(d) hereof.

"Conversion" means the conversion of SunSource L.P., a Delaware limited partnership, to the corporate form of SunSource Inc., a Delaware corporation as set forth in

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SunSource Inc.'s Registration Statement on Form S-4, filed with the Securities and Exchange Commission on December 31, 1996, as amended.

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

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

"Documentation Agent" shall mean The Bank of Nova Scotia.

"EBITDA" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, Net Income plus (i) GP Management Fees, (ii) Interest Expense (including all interest paid on the Junior Subordinated Debentures (whether paid in cash or in kind)), (iii) all provisions for income taxes, (iv) depreciation and amortization expense, and (v) extraordinary losses, minus extraordinary gains, as each such item is determined in accordance with GAAP. For purposes of this definition, extraordinary losses shall include the restructuring charge of Four Million Nine Hundred Thousand Dollars (\$4,900,000), net of deferred income tax benefits and Conversion transaction charges of Two Million One Hundred Fifty Thousand Dollars (\$2,150,000) incurred during 1996, and Conversion transaction charges (including make whole provisions and other costs), not to exceed Eight Million Dollars (\$8,000,000) to be incurred in 1997.

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

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

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

"ERISA Affiliate" means, when used with respect to an Employee Benefit Plan, ERISA, the PBGC or a provision of the Code pertaining to employee benefit plans, any Person

that is a member of any group of organization within the meaning of Code Section 414(b), (c), (m) or (o) of which any Borrower or Guarantor is a member.

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

"Event of Default" means an event described in Paragraph 9.1 hereof.

"Existing Credit Agreement" means that certain Credit Agreement among the Company, SDIPI, the Agent and certain of the Banks dated December 22, 1992, as amended.

"Existing Note Purchase Agreement(s)" means those note purchase agreements dated December 15, 1992, as amended, issued by the Company for Ninety-Five Million Dollars (\$95,000,000) in privately-placed notes.

"Financial Standby Letter of Credit" means a Letter of Credit pursuant to which the beneficiary may draw following a default under an obligation to pay money to the beneficiary.

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

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

"Funded Debt" means, at any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the sum of the following in such period, without duplication: (i) Indebtedness for borrowed money; (ii) Indebtedness evidenced by notes, debentures or similar instruments; (iii) Capital Leases; (iv) guarantees of Indebtedness or Capital Leases; and (v) Letters of Credit and letter of credit reimbursement obligations. For purposes of this definition, Funded Debt does not include the Junior Subordinated Debentures.

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

consistent basis shall mean that the accounting principles observed in a current period are comparable in all material respects to those applied in a preceding period except such changes in accounting principles approved by the Guarantor's outside auditors.

"GP Management Fees" shall mean management fees due SDIPI from the Company which arose or accrued prior to the Conversion notwithstanding that any such amount may not be due or payable until after the Conversion.

"Guarantors" means collectively SunSource Inc., a Delaware corporation, SDIPI, SunSub A and SunSub B.

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

"Indebtedness" of any person means and includes all obligations of such person which, in accordance with GAAP, shall be classified on a balance sheet of such person as liabilities of such person and in any event shall include all (i) obligations of such person for borrowed money or which have been incurred in connection with acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, notwithstanding that such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property

acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capital Leases, (v) guarantees and (vi) letters of credit and letter of credit reimbursement obligations.

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

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

"Junior Subordinated Debentures" means the unsecured subordinated obligations of SunSource Inc. which will be deposited in the Trust as trust assets upon the Conversion and the terms of which are included in the Indenture.

"Letters of Credit" means each Performance Standby Letter of Credit and each Financial Standby Letter of Credit, issued pursuant to Section Three of this Agreement by the Agent and in which the Banks shall participate, with such terms as may be agreed by Borrowers, the applicable beneficiary and Agent at the time of issuance thereof.

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"Lehman Affiliates" means Lehman Brothers Capital Partners I, L.P., LBI Group, Inc., Lehman Ltd. I Inc., Lehman/SDI, Inc. and Lehman Brothers Holdings Inc.

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

"Loan" or "Loans" means the outstanding principal balance of Indebtedness for Advances, plus the outstanding principal balance of Indebtedness for Advances on Swing Line Loans under Paragraph 2.13 of this Agreement, plus the unreimbursed amount of any draws on Letters of Credit, in each case, together with interest accrued thereon and fees and expenses incurred in connection therewith.

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

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

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

"Maximum Principal Amount" means the maximum principal amount of the Commitment which each Bank has agreed to lend or to participate in the issuance of Letters of Credit as set forth on Schedule 2 attached hereto.

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

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

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"Net Worth" means, as of any date of determination, Total Assets minus Total Liabilities in SunSource Inc. and its Consolidated Subsidiaries, as stated on the financial statements most recently delivered to Banks pursuant to Paragraphs 5.1(e) (i), 6.2, and 6.3 hereof, as applicable.

"Note Purchase Agreement" means the Note Purchase Agreement dated as of the date hereof between the Company and Teachers Insurance and Annuity Association of America providing for the issuance of the Senior Notes,

as amended, modified or supplemented from time to time pursuant to the terms thereof and hereof.

"Partnership Agreement" means individually, as noted, and "Partnership Agreements" means collectively the Amended and Restated Agreement of Limited Partnership of the Company dated February 1, 1987, and the Amended and Restated Agreement of Limited Partnership of SDIPI dated February 5, 1987, as each may be amended to date and from time to time hereafter in accordance with its terms and the provisions hereof.

"Partnership Distributions" means amounts payable by the Company to SunSource Inc. and SDIPI pursuant to Section 5.02 of the Company's Partnership Agreement, to fund Tax Distributions, including without limitation those which arose or accrued prior to the Conversion notwithstanding that any such amounts may not be due or payable until after the Conversion.

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

"Performance Standby Letter of Credit" means a Letter of Credit pursuant to which the beneficiary may draw following a default by Borrowers under an obligation, other than an obligation to pay money, owed to the beneficiary.

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

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

"Pro Rata Share" means as to a Bank the ratio which the outstanding principal balance of its portion of the Loan hereunder bears to the aggregate outstanding principal balance of the Loan at any time; or if no indebtedness is outstanding hereunder, its percentage share of the Commitment.

"Promissory Notes" means collectively the Promissory Notes in the form of Exhibit B attached hereto to be delivered by Borrowers to Banks pursuant to Paragraph 5.1(a) hereof, as the same may be amended or modified or extended or restated from time to time.

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

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

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

"Sale of Material Assets" means any sale, transfer or other disposition of Borrowers' assets in transactions in which the total consideration paid or payable to Borrowers (including without limitation all cash, liabilities assumed and the fair market value of any stock provided in such transaction) is, in the aggregate, as to all such transactions after the date of this Agreement, greater than Fifteen Million Dollars (\$15,000,000).

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

"Subsidiary" or "Subsidiaries" means any corporation of which

the Company, directly or indirectly, owns more than fifty percent (50%) of any class or classes of securities. The Subsidiaries of the Company on the date hereof are set forth on Schedule 1 attached hereto. The Subsidiaries, collectively with the Company, are the Borrowers.

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

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"Swing Line Commitment" means the obligation of the Agent to make the Swing Line Loan pursuant to Paragraph 2.13 hereof in the aggregate principal amount of Five Million Dollars (\$5,000,000).

"Swing Line Loan" means an Advance under the Swing Line Commitment made by the Agent on behalf of the Banks pursuant to Paragraph 2.13 hereof.

"Tax Distributions" shall mean those distributions which are payable to the former B interest holders in SunSource L.P. pursuant to the Company's Partnership Agreement, including any payments which are due and payable after the Conversion.

"Termination Date" means the earlier of (i) September 30, 2002 or (ii) the date on which the Commitment is terminated pursuant to Paragraphs 2.8 and 9.2 hereof.

"Total Assets" means, as of any date of determination, all assets of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc.'s financial statements most recently delivered to Banks pursuant to Paragraphs 5.1, 6.2 and 6.3 hereof, as defined in accordance with GAAP.

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

"Total Liabilities" means, as of any date of determination, all liabilities and deferred items of SunSource Inc. and its Consolidated Subsidiaries, as set forth on SunSource Inc.'s financial statements most recently delivered to Banks pursuant to Paragraphs 5.1, 6.2 and 6.3 hereof, as defined in accordance with GAAP.

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

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

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

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

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1.2. Rules of Construction.

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

(b) Use of Term "Consolidated". Any term defined in Paragraph 1.1 hereof, when modified by the word "Consolidated," shall have the meaning given to such term herein as to SunSource Inc. on a consolidated basis with its Subsidiaries and all other entities whose accounts, financial results or position, for either federal income tax or financial accounting purposes, are

consolidated with those of SunSource Inc. in accordance with GAAP.

SECTION TWO
REVOLVING CREDIT LOAN

2.1. (a) The Facility. From time to time prior to the Termination Date, subject to the provisions below, each Bank on a several basis up to its Maximum Principal Amount shall make Advances to Borrowers on a joint and several basis and Borrowers may repay and reborrow under the Commitment an aggregate principal amount not to exceed at any time outstanding the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any Swing Line advances outstanding under Paragraph 2.13 hereof; and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit.

(b) Amendment and Restatement. This Agreement amends and restates, replaces and supersedes the Existing Credit Agreement; provided, however, that the execution and delivery of this Agreement shall not in any circumstance be deemed to have terminated, extinguished, or discharged the Company's Indebtedness under the Existing Credit Agreement, all of which Indebtedness and the guaranties therefor shall continue under and be governed by this Agreement and the other Loan Documents. This Agreement IS NOT A NOVATION.

(c) Authority of the Company. Each of the Borrowers hereby irrevocably authorizes and requests that SunSource Inc. execute all Advance/Credit Request

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Forms, make all elections as to interest rates and take any other actions required or permitted of Borrowers hereunder, on its respective behalf, in each case with the same force and effect as if such Borrower had executed such Advance/Credit Request Form, made such election or taken such other action itself.

(d) Optional Increase of Commitment.

(i) For a period of up to one hundred twenty (120) days after the date of this Agreement, and in the absence of a Default or Event of Default hereunder, Borrowers shall have the right to request that the Commitment be increased by up to Twenty Million Dollars (\$20,000,000) (the "Additional Commitment"). Borrowers shall request such Additional Commitment from Agent in writing thirty (30) days before the requested date of such increase. Agent shall first offer such Additional Commitment to the Banks on the basis of their respective Pro Rata Shares. Banks shall respond to Agent's offer within five (5) Business Days. Any amount of the Additional Commitment not agreed to be loaned by Banks shall then be offered to those Banks which have agreed to increase their respective Commitments on a pro rata basis. Such Banks shall respond to Agent's offer within five (5) Business Days. Any portion of the Additional Commitment not agreed to be loaned by such Banks may then be offered to other banks not party to this Agreement on such terms and conditions as Borrowers and Agent may agree.

(ii) Banks shall have no obligation to agree to increase their Pro Rata Share of the Commitment. Banks hereby acknowledge that the Commitment may be increased by the Additional Commitment, and that no approval of any Bank is required for such increase. Appropriate amendment documentation, amended promissory notes, resolutions, certificates and opinions will be executed to make available the Additional Commitment.

2.2. Promissory Notes. The Indebtedness of Borrowers to each Bank under the Loan will be evidenced by a Promissory Note executed by Borrowers in favor of such Bank in the form of Exhibit B hereto. The original principal amount of each Bank's Promissory Note will be the amount identified in Schedule 2 attached hereto as its respective Maximum Principal Amount; provided, however, that notwithstanding the face amount of each such Promissory Note, Borrowers' liability under each such Promissory Note shall be limited at all times to its actual indebtedness, principal, interest and fees, then outstanding hereunder.

2.3. Banks' Participation. Banks shall participate in the Loan in the Maximum Principal Amounts and percentages set forth in Schedule 2 attached hereto.

2.4. Use of Proceeds. Funds advanced under the Loan shall be used by the Borrowers solely for general corporate purposes, including working capital, acquisition financing, transaction expenses, payments of up to \$14,500,000 to the former holders of the A interests in SunSource L.P. pursuant to the Conversion, and repayment of certain Indebtedness,

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including Indebtedness under the Existing Credit Agreement and Existing Note Purchase Agreements and make whole payments under the Existing Note Purchase

Agreements.

2.5. Repayment. The aggregate outstanding principal balance under the Loan on the Termination Date shall be due and payable in full on the Termination Date, subject to earlier payments required pursuant to Paragraph 2.8(c) and (d) hereof in connection with reductions of the amount of the Commitment (including voluntary reductions, reductions by Banks following an Event of Default and reductions required in connection with certain sales of assets). Notwithstanding the immediately preceding sentence, the aggregate outstanding balance of the Promissory Notes shall be due and payable on the date of Banks' notice to Borrowers of the occurrence of an Event of Default, termination of the Commitment and acceleration of the Loan.

2.6. Interest. Portions of the Loan shall bear interest on the outstanding principal amount thereof in accordance with the following provisions:

Definitions. As used in this Paragraph 2.6, the following words and terms shall have the meanings specified below:

"Adjusted Libor Rate" shall mean, for any Interest Period, as applied to a Portion, the rate per annum (rounded upwards, if necessary to the next 1/100 of 1%) determined pursuant to the following formula:

$$\text{Adjusted Libor Rate} = \frac{\text{Libor Rate}}{1 - \text{Reserve Percentage}}$$

For purposes hereof, "Libor Rate" shall mean, as applied to a Portion, the rate which appears on the Telerate page 3750 at approximately 9:00 a.m. Philadelphia time two (2) London Business Days prior to the commencement of such Interest Period for the offering to leading banks in the London Interbank Market of deposits in United States Dollars or alternate currency ("Eurodollars") or, if such rate does not appear on the Telerate page 3750, the rate which appears (or, if two or more such rates appear, the average rounded up to the nearest 1/100 of 1% of the rates which appear) on the Reuters Screen LIBO Page as of 11:00 a.m. London time two (2) London Business Days prior to the commencement of the Interest Period in amounts substantially equal to such Portion as to which Borrowers may elect the Adjusted Libor Rate to be applicable with a maturity of comparable duration to the Interest Period selected by Borrowers.

"Applicable Margin" shall mean, with respect to each Portion bearing interest at the Adjusted Libor Rate, the percentage per annum set forth in the appropriate column below that corresponds to the Leverage Ratio; provided, however, that Borrowers shall be deemed to be in Level I as of the date of this Agreement, and shall not be eligible for Levels II and III until Agent shall have received SunSource Inc.'s and its Consolidated Subsidiaries' financial statements for the period ended December 31, 1997 to be delivered pursuant to Paragraph 6.2 hereof.

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Level - - - - -	Leverage Ratio -----	Applicable Margin -----
I	less than 3.25 to 1 but greater than or equal to 2.75 to 1	1.50%
II	less than 2.75 to 1 but greater than or equal to 2.25 to 1	1.25%
III	less than 2.25 to 1	1.00%

The Applicable Margin shall adjust automatically, as appropriate, on the day following delivery of a quarterly Compliance Certificate in accordance with Paragraph 6.2 or 6.3 hereof, provided, that in the event that a quarterly compliance certificate has not been delivered within ten (10) days after the date required by Paragraph 6.2 or 6.3, then the Applicable Margin shall adjust to Level I as of the latest date of required delivery; provided, further, however, that the Applicable Margin shall readjust retroactively to the date such certificate was required to be delivered by Paragraph 6.2 or 6.3 if the Applicable Margin shall increase based on such Compliance Certificate and shall readjust on the day after delivery of such delinquent Compliance Certificate if the Applicable Margin shall decrease or remain the same based on the ratio set forth in such Compliance Certificate.

"Base Rate" shall mean the highest of (i) the Federal Funds Rate plus one half of one percent (1/2%) per annum, or (ii) the Prime Rate.

"Federal Funds Rate" means for any day the effective rate of interest for such day, as announced from time to time by the Board of Governors of the Federal Reserve System as shown in publication H.15 as the "Federal Funds

Rate."

"Interest Period" means a period of one (1), two (2), three (3) or six (6) months' duration, as Borrowers may elect, during which the Adjusted Libor Rate is applicable; provided, however, that (a) interest shall accrue from and including the first day of each Interest Period to, but excluding, the day on which any Interest Period expires; (b) any Interest Period which would otherwise end on a day which is not a London Business Day shall be extended to the next succeeding London Business Day unless such London Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding London Business Day; and (c) with respect to an Interest Period which begins on the last London Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period), the Interest Period shall end on the last London Business Day of a calendar month.

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"London Business Day" shall mean any Business Day on which banks in London, England are open for business.

"Portion" shall mean a portion of a Loan as to which Borrowers have elected a specific interest rate and, in the case of a Portion bearing interest at a rate based upon the Adjusted Libor Rate, an Interest Period.

"Prime Rate" shall mean the rate of interest announced by Agent from time to time as its prime rate.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, comprising Part 204 of Title 12, Code of Federal Regulations, as amended and as may be amended from time to time, and any successor thereto.

"Reserve" shall mean, for any day, that reserve (expressed as a decimal) which is in effect (whether or not actually incurred) with respect to a Bank on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor or any other banking authority to which a Bank is subject including any board or governmental or administrative agency of the United States or any other jurisdiction to which a Bank is subject), for determining the maximum reserve requirement (including without limitation any basic, supplemental, marginal or emergency reserves) for Eurocurrency liabilities as defined in Regulation D.

"Reserve Percentage" shall mean, for a Bank on any day, that percentage (expressed as a decimal) prescribed by the Board of Governors of the Federal Reserve System (or any successor or any other banking authority to which a Bank is subject, including any board or governmental or administrative agency of the United States or any other jurisdiction to which a Bank is subject), for determining the reserve requirement (including without limitation any basic, supplemental, marginal or emergency reserves) for deposits of United States Dollars in a nonUnited States or an international banking office of a Bank used to fund a Portion bearing interest based on the Adjusted Libor Rate or any loan made with the proceeds of such deposit. The Adjusted Libor Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

(a) Interest on Loan.

(i) At the Company's election in accordance with the provisions of Paragraph 2.6(c) below, in the absence of an Event of Default or Default hereunder, and prior to maturity, any Portion of the Loan shall bear interest at any one of the following rates:

(A) Base Rate. The Base Rate, such rate to change when and as the Base Rate changes.

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(B) Adjusted Libor-Based Rate. The Adjusted Libor Rate plus the Applicable Margin.

(ii) Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default or Default hereunder, including after maturity and before and after judgment, Borrowers hereby agree to pay to Banks interest on the outstanding principal balance of the Loan at the rate of two percent (2%) per annum in excess of the rates then available to and elected by the Company for each Portion then outstanding, and with respect to Portions bearing interest based on the Adjusted Libor Rate, at the end of the applicable Interest Periods and thereafter, such Portions shall bear interest at the rate of two percent (2%) per annum in excess of the Base Rate, such rate to change when and as the Base Rate changes.

(b) Procedure for Determining Interest Periods and Rates of Interest.

(i) If the Company elects the Base Rate to be applicable to a Portion, the Company must notify Agent of such election prior to one o'clock (1:00) p.m. Philadelphia time one (1) Business Day prior to the date of the proposed application of such rate. If the Company elects the Adjusted Libor Rate to be applicable to a Portion, the Company must notify Agent of (A) such election and (B) the Interest Period selected prior to one o'clock (1:00) p.m. Philadelphia time at least three (3) London Business Days prior to such Advance or the commencement of the proposed Interest Period. If Company does not provide the applicable notice for the Adjusted Libor Rate, then the Borrowers shall be deemed to have requested that the Base Rate apply to any Portion as to which the Interest Period is expiring and to any new Advance of the Loan until Borrowers shall have given proper notice of a change in or determination of the rate of interest in accordance with this Paragraph 2.6(b).

(ii) Borrowers shall not elect more than five (5) different Portions (other than Portions bearing interest at the Base Rate) to be applicable to the Loan at one time.

(c) Payment and Calculation of Interest. Interest shall be due and payable on the last day of each Interest Period for each Portion bearing interest based on the Adjusted Libor Rate; provided, however, that with respect to Portions which bear interest at the Adjusted Libor Rate having Interest Periods in excess of three (3) months, the Borrowers shall pay interest on the ninetieth (90th) day of the Interest Period and on the last day of the Interest Period. With respect to Portions which bear interest at the Base Rate, the Borrowers shall pay interest on the last Business Day of each month commencing on the first such date after the first Advance which bears interest at the Base Rate. Interest shall be calculated in accordance with the provisions of Paragraph 2.6(b) hereof; interest based on the Base Rate shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as the case may be, and interest based on the Adjusted Libor Rate shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days.

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(d) Reserves. If at any time when a Portion is subject to the Adjusted Libor Rate, and a Bank is subject to and incurs a Reserve, Borrowers hereby agree to pay within five (5) Business Days of demand thereof from time to time, as billed by Agent on behalf of itself or a Bank, such additional amount as is necessary to reimburse such Bank for its costs in maintaining such Reserve to the extent such costs are not reflected in the Reserve Percentage used to determine the Adjusted Libor Rate. Such amount shall be computed by taking into account the cost incurred by the Bank in maintaining such Reserve in an amount equal to such Bank's ratable share of the Portion on which such Reserve is incurred. The determination by Agent on behalf of any Bank of such costs incurred and the allocation, if any, of such costs among Borrowers and other customers which have similar arrangements with such Bank shall be prima facie evidence of the correctness of the fact and the amount of such additional costs. Upon notification to Borrowers of any payment required pursuant to this Paragraph 2.6(d), Borrowers may, subject to the payment of all amounts due under this provision as of such date and the provisions of Paragraph 2.10, repay the Portion with respect to which such payment is required.

(e) Special Provisions Applicable to Adjusted Libor Rate. The following special provisions shall apply to the Adjusted Libor Rate:

(i) Change of Adjusted Libor Rate. The Adjusted Libor Rate may be automatically adjusted by Agent on a prospective basis to take into account the additional or increased cost of maintaining any necessary reserves for Eurodollar deposits or increased costs due to changes in applicable law or regulation or the interpretation thereof occurring subsequent to the commencement of the then applicable Interest Period, including but not limited to changes in tax laws (except changes of general applicability in corporate income tax laws) and changes in the reserve requirements imposed by the Board of Governors of the Federal Reserve System (or any successor), excluding the Reserve Percentage, and any Reserve which has resulted in a payment pursuant to Paragraph 2.6(d), that increase the cost to Banks of funding the Loan or a Portion thereof bearing interest at the Adjusted Libor Rate. Agent shall give the Borrowers notice of such a determination and adjustment, which determination shall be prima facie evidence of the correctness of the fact and the amount of such adjustment. Borrowers may, by notice to Agent, (A) request Agent to furnish to Borrowers a statement setting forth the basis for adjusting such Adjusted Libor Rate and the method for determining the amount of such adjustment; and/or (B) repay the Portion of the Loan with respect to which such adjustment is made, subject to the requirements of Paragraph 2.10 hereof.

(ii) Unavailability of Eurodollar Funds. In the event that Borrowers shall have requested the rate based on the Adjusted Libor

Rate in accordance with Paragraph 2.6(c) hereof and any Bank shall have reasonably determined that Eurodollar deposits equal to the amount of the principal of the Portion and for the Interest Period specified are unavailable, or that the rate based on the Adjusted Libor Rate will not adequately and fairly reflect the cost of making or maintaining the principal amount of the Portion specified by the Borrowers during the Interest Period specified or that by reason of circumstances affecting

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Eurodollar markets, adequate and reasonable means do not exist for ascertaining the Adjusted Libor Rate applicable to the specified Interest Period, Agent shall promptly give notice of such determination to the Borrowers that the rate based on the Adjusted Libor Rate is not available. A determination by such Bank hereunder shall be prima facie evidence of the correctness of the fact and amount of such additional costs or unavailability. Upon such a determination, the Banks' obligation to advance or maintain Portions at the Adjusted Libor Rate shall be suspended until Agent shall have notified the Borrowers and Banks that such conditions shall have ceased to exist, and the Base Rate shall be applicable to all Portions.

(iii) Illegality. In the event that it becomes unlawful for a Bank to maintain Eurodollar liabilities sufficient to fund any Portion of the Loan bearing interest at the rate based on the Adjusted Libor Rate, then such Bank shall immediately notify the Borrowers thereof (with a copy to Agent) and such Bank's obligations hereunder to make or maintain Advances bearing interest based on the Adjusted Libor Rate shall be suspended until such time as such Bank may again cause the rate based on the Adjusted Libor Rate to be applicable to its share of any Portion of the outstanding principal balance of the Loan and such Bank's share of any Portion shall then be subject to the Base Rate.

2.7. Advances.

(a) At the time the Company provides the requisite notices set forth in Paragraph 2.6(b) hereof relating to the election of interest rates, the Company shall give Agent written notice of each requested Advance under the Commitment, specifying the date, amount and purpose thereof. The Company shall give Agent three (3) London Business Days notice of an Advance for an Adjusted Libor Rate Loan, one (1) Business Day notice of an Advance for a Base Rate Loan, and same day notice of an Advance for a Swing Line Loan. Such notices shall be in the form of the Advance/Credit Request Form attached hereto as Exhibit A, shall be certified by the chief financial officer or controller of SunSource Inc. and shall contain the following information and representations, which shall be deemed affirmed and true and correct as of the date of the requested Advance:

(i) the aggregate amount of the requested Advance, which for Base Rate Loans and Adjusted Libor Rate Loans shall be in multiples of \$100,000 but not less than the lesser of \$2,000,000 or the unborrowed balance of the Commitment;

(ii) confirmation of the interest rate(s) the Borrowers have elected to apply to the above Advance and, if more than one interest rate has been elected, the amount of the Portion as to which each interest rate shall apply;

(iii) confirmation of Borrowers' compliance with Paragraphs 6.13 through 6.15 and Section Seven hereof after giving effect to such Advance of the Loan;

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(iv) statements that the representations and warranties set forth in Section Four hereof are true and correct in all material respects as of the date thereof; no Event of Default or Default has occurred and is then continuing; and there has been no Material Adverse Change since the date of the quarterly and audited annual financial statements most recently delivered by Borrowers to Banks pursuant to Paragraphs 5.1(e), 6.2 and 6.3 of this Agreement; and

(b) (i) Upon receiving a request for an Advance in accordance with subparagraph (a) above, Agent shall request by written notice to Banks that each Bank advance funds to Agent so that each Bank participates in the requested Advance in the same percentage as it participates in the Commitment. Each Bank shall advance its applicable percentage of the requested Advance to Agent by delivering federal funds immediately available at Agent's offices prior to twelve o'clock (12:00) noon Philadelphia time on the date of the Advance. Subject to the satisfaction of the terms and conditions hereof, Agent shall make the requested Advance available to the Borrowers by crediting such amount to the Company's or applicable Borrowers' deposit account with Agent not later than two o'clock (2:00) p.m. Philadelphia time on the day of the requested Advance; provided, however, that in the event Agent does not receive a

Bank's share of the requested Advance by such time as provided above, Agent shall not be obligated to advance such Bank's share.

(ii) Unless Agent shall have been notified by a Bank prior to the date such Bank's share of any such Advance is to be made by such Bank that such Bank does not intend to make its share of such requested Advance available to Agent, Agent may assume that such Bank has made such proceeds available to Agent on such date, and Agent may, in reliance upon such assumption (but shall not be obligated to), make available to the Borrowers a corresponding amount. If such corresponding amount is not in fact made available to Agent by such Bank on the date the Advance is made, Agent shall be entitled to recover such amount on demand from such Bank together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Borrowers and ending on (but excluding) the date Agent recovers such amount, at a rate per annum, equal to the effective rate for overnight federal funds in New York as reported by the Federal Reserve Bank of New York for such day (or, if such day is not a Business Day, for the next preceding Business Day). If such Bank fails to pay such amount to Agent upon demand, Agent may demand repayment thereof from Borrowers, together with interest accrued thereon at the rate per annum applicable to the Advance which such Bank failed to fund.

(c) Each request for an advance pursuant to this Paragraph 2.7 shall be irrevocable and binding on the Borrowers. In the case of any requested Advance which is to be based upon the Adjusted Libor Rate, the Borrowers shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date of the requested Advance the applicable conditions thereto set forth in Section Five hereof, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or redeployment of deposits or other funds acquired by such

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Bank to fund the requested Advance when such Advance, as a result of such failure, is not made on such date, as calculated by Agent in accordance with Exhibit C attached hereto.

2.8. Reduction and Termination of Commitment; Voluntary and Mandatory Prepayment.

(a) Voluntary. Borrowers shall have the right at any time and from time to time, upon three (3) Business Days prior written notice to Agent, to reduce the Commitment in whole or in part to be shared among the Banks based on each Bank's respective Pro Rata Share in increments of Five Million Dollars (\$5,000,000) without penalty or premium.

(b) Default. Pursuant to Paragraph 9.2 hereof, upon the occurrence of any Event of Default hereunder Required Banks shall have the right to terminate the Commitment at any time, in their discretion and upon notice to Borrowers (and the Commitment shall terminate automatically without notice if an Event of Default described in Paragraph 9.1(h) shall occur).

(c) Mandatory Prepayments; Sale of Assets. In connection with any Sale of Material Assets, the Commitment shall be automatically and permanently reduced by the Banks' Applicable Share of the amount by which the Net Cash Proceeds thereof exceed the amounts permitted to be sold pursuant to Paragraph 7.7 hereof; provided that in connection with any amounts due under this provision, the holder of the Senior Notes is simultaneously offered a prepayment so that the amount paid to the Banks equals the Banks' Applicable Share of the Net Cash Proceeds required to be paid as set forth above.

(d) Payments. On the effective date of each reduction permitted or required by clauses (a) and (c) of this Paragraph 2.8, Borrowers shall make a payment of the Loan in an amount, if any, by which the aggregate outstanding principal balance of the Loan plus the undrawn amount of all Letters of Credit exceeds the amount of the Commitment as then so reduced, together in all cases with accrued interest on the amount so paid, and if a Portion is paid prior to the last day of an Interest Period, Borrowers shall also pay any funding costs and loss of earnings and anticipated profits which may arise in connection with such prepayment or repayment, as required by Paragraph 2.10 hereof.

(e) Reductions Permanent. Any termination or reduction of the Commitment shall be permanent, and the Commitment cannot thereafter be restored or increased without the written consent of all Banks.

2.9. Prepayment. Borrowers may prepay the outstanding Advances at any time without premium or penalty and may reborrow under the Commitment upon the terms and conditions set forth therein; provided, however, that (i) Borrowers shall give Agent one (1) Business Days' notice of a payment on a Portion bearing interest at the Base Rate; and (ii)

Portions bearing interest at the Adjusted Libor Rate may only be paid on the last day of the applicable Interest Period.

2.10. Funding Costs; Loss of Earnings. In connection with any prepayment or repayment of a Portion bearing interest based on the Adjusted Libor Rate made on other than the last day of the applicable Interest Period, whether such prepayment or repayment is voluntary, mandatory, by demand, acceleration or otherwise, Borrowers shall pay to Banks all funding costs and loss of earnings and anticipated profits which may arise in connection with such prepayment or repayment, as calculated by Agent in accordance with Exhibit C attached hereto.

2.11. Payments. All payments of principal, interest, fees and other amounts due hereunder, including any prepayments thereof, shall be made by Borrowers to Agent in immediately available funds before twelve o'clock (12:00) noon Philadelphia time on any Business Day at the principal office of Agent set forth at the beginning of this Agreement. Borrowers hereby authorize Agent to charge Borrowers' accounts with Agent for all payments of principal, interest and fees when due hereunder.

2.12. Commitment Fee. Borrowers shall pay to Agent for the benefit of Banks a commitment fee on the average daily amount of the unused portion of the Commitment at the rate of .375 percent per annum. Such fee shall be paid from the date hereof through the Termination Date, which fee shall be payable at the offices of Agent quarterly in arrears on the last day of each January, April, July and October, as billed by Agent. Banks shall share in such commitment fee in the same proportion as they participate in the Commitment. The Commitment fee shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days.

2.13. Swing Line Loans.

(a) Swing Line Commitment. Subject to the terms and conditions hereof, Agent, on behalf of the Lenders, may in Agent's discretion from the date hereof through and including the Termination Date make Swing Line Loans to Borrowers on a joint and several basis from time to time in an aggregate principal amount at any one time outstanding not to exceed Five Million Dollars (\$5,000,000), provided, that, no Swing Line Loan shall be made if after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, such Swing Line Loan shall exceed the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any prior Swing Line advances outstanding under this Paragraph, and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit. Except as otherwise may be agreed upon from time to time between the Company and the Agent, Borrowers shall give Agent written notice of each requested Advance of a Swing Line Loan. Such notice of a requested Advance of a Swing Line Loan shall be certified by chief financial officer or controller of SunSource Inc. and shall be in the form of the Advance/Credit Request Form attached hereto as Exhibit A. Within

the foregoing limits, the Borrowers may repay and reborrow under the Swing Line Commitment prior to the Termination Date, subject to and in accordance with the terms and limitations hereof.

(b) Interest. The interest rate applicable to a Swing Line Loan shall be the Base Rate and shall be paid to the Agent for its own account on the last day of each month.

(c) Payment. Each Swing Line Loan shall be due and payable on the earlier of: (i) the Termination Date and (ii) one (1) Business Day after the date on which Agent shall have demanded payment thereof; provided, however, that the Borrowers may pay the Swing Line Advance on any date in their discretion with same day notice to the Agent without premium or penalty.

(d) Procedure for Swing Line Loans. Subject to the terms and conditions hereof, the Borrowers may borrow under the Swing Line Commitment on any Business Day prior to the Termination Date. Except as otherwise may be agreed upon from time to time between the Company and the Agent, the Borrowers shall give Agent irrevocable notice, which notice must be received by the Agent prior to one o'clock (1:00) p.m., Philadelphia time, on the requested date, specifying in the notice (a) the amount requested to be borrowed and (b) the requested borrowing date. The proceeds of each Swing Line Loan will be made available by the Agent to the Borrowers by the Agent crediting the account of the Borrowers with such proceeds on the requested borrowing date.

(e) Allocating Swing Line Loans; Swing Line Loan Participation.

(i) The Agent, may in its sole and absolute discretion, direct that all Swing Line Loans owing to it be refunded by delivering a notice (a "Notice of Swing Line Refunding") to each Bank and, unless an Event of Default described in Paragraph 9.1(h) (an "Insolvency Event of Default") in respect of a Borrower has occurred, to the Borrowers, each such Notice of Swing Line Refunding shall be deemed to constitute delivery by the Company of an Advance/Credit Request Form of a Loan to bear interest at the Base Rate in an amount equal to the amount of the Swing Line Loans outstanding on such date. Unless an Insolvency Event of Default shall have occurred (in which case the procedures of Paragraph 2.13(e)(ii) shall apply), each Bank (including the Agent in its capacity as a Bank) shall (i) make a Loan to Borrowers in an amount equal to such Bank's percentage share of the Commitment of the aggregate principal amount of the Swing Line Loans outstanding on the date of delivery of the applicable Notice of Swing Line Refunding and (ii) make the proceeds of its Loan available to the Agent for the account of the Agent at the office of the Agent prior to twelve o'clock (12:00) noon, Philadelphia time, in funds immediately available to the Agent on the Business Day next succeeding the date such notice is given. The proceeds of such Loans shall be immediately applied to repay the outstanding Swing Line Loans.

(ii) If an Insolvency Event of Default occurs prior to an Advance pursuant to a Notice of Swing Line Refunding, each Bank (other than the Agent) shall,

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on the date a Loan would have been made pursuant to such Notice of Swing Line Refunding (the "Refunding Date"), purchase an undivided participating interest in the outstanding Swing Line Loans in an amount equal to (i) such Bank's Pro Rata Share times (ii) the aggregate principal amount of the Swing Line Loans then outstanding which were to have been repaid with Loans (the "Swing Line Participation Amount"). On the Refunding Date, each Bank shall transfer to the Agent, in immediately available funds, such Bank's Swing Line Participation Amount.

(iii) Whenever, at any time after the Agent has received from any Bank such Bank's Swing Line Participation Amount, the Agent receives any payment on account thereof, the Agent will distribute to such Bank its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded) in like funds as received; provided, however, that in the event such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it in like funds as such payment is required to be returned by the Agent.

(iv) Each Bank's obligation to make Loans pursuant to Paragraph 2.13(a) and to purchase participating interests shall be absolute and unconditional and shall not be affected by any circumstances including, without limitation, (i) any setoff counterclaim, recoupment, defense or other right which such Bank may have against any other Bank or any Borrower, or any Borrower may have against any Bank or any other person, as the case may be, for any reason whatsoever; (ii) the occurrence or continuance of a Default or Event or Event of Default; (iii) any adverse change in the condition (financial or otherwise) of the Borrowers or the Guarantors; (iv) any breach of this Agreement by any party hereto; (v) the failure to satisfy any condition to the making of any Loan hereunder; or (vi) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.14. Regulatory Changes in Capital Requirements. If any Bank shall have determined that the adoption or the effectiveness after the date hereof of any law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Bank (or any lending office of such Bank) or such Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company if any, as a consequence of this Agreement, the Commitment, Advances, Letters of Credit or the Loan made by such Bank pursuant hereto to a level below that which such Bank or its holding company would have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrowers shall pay to such Bank, within five (5) Business Days after receiving such

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Bank's demand therefor and the certificate referred to below, such additional amount or amounts as will compensate such Bank or its holding company for any

such reduction suffered, which amount, if not paid within such period of five (5) Business Days, shall bear interest from the date due until payment in full thereof at the rate provided in Paragraph 2.6(a)(ii) hereof. Such Bank will notify the Borrowers of any event occurring after the date of this Agreement that will entitle such Bank to compensation pursuant to this Paragraph 2.14 as promptly as practicable after it obtains knowledge thereof.

A certificate of such Bank setting forth in detail such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified above and describing the calculation of such amount shall be delivered to the Borrowers and shall be conclusive absent manifest error. For purposes of the application of this Paragraph 2.14 to Borrowers and in calculating any amount that may be necessary to compensate a Bank under this Paragraph 2.14, such Bank shall determine the applicability of this provision to Borrowers and calculate the amount payable to such Bank hereunder in a manner consistent with the manner in which it shall apply and calculate similar compensation payable to it by other borrowers having provisions in their credit agreements comparable to this Paragraph 2.14.

Failure on the part of any Bank to demand compensation for increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to any other period.

2.15. Taxes.

(a) Net Payment by Borrowers. Except as provided below, all payments by Borrowers hereunder shall be made without deduction for and free and clear of all taxes, levies, imposts, or charges and all liabilities (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto.

(i) U. S. Withholding Taxes. Borrowers and Agent shall be entitled to deduct and withhold United States withholding taxes with respect to all payments to be made hereunder to a Bank as may be required by United States law. Within (30) days after the date of any payment of withheld taxes by Borrowers to the applicable taxing authority, Borrowers will furnish to Agent the original or a certified copy of a receipt or other documents reasonably acceptable to Agent evidencing such payment. Any Bank that is (or that has granted an assignment or participation to any lender that is) organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof) shall provide on the date of this Agreement and from time to time thereafter if requested by Borrowers or Agent or required by the Internal Revenue Service of the United States, (i) a facially complete Internal Revenue Service Form 4224 (or any successor form) certifying that all payments made to such Bank are effectively connected with its conduct of a trade or business in the United States and will be includible in its gross income, (ii) a facially complete Internal Revenue Service Form 1001 (or

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any successor form) certifying as to its status for purposes of determining the applicability of a reduced rate of United States withholding taxes with respect to all payments to be made hereunder to such Bank pursuant to a double tax treaty obligation of the United States, or (iii) other facially complete documents satisfactory to Agent and Borrowers indicating that all payments that will be made to such Bank are exempt from or subject to a reduced rate of United States withholding tax. Unless the Borrowers and Agent have received such forms or such documents validly indicating that payments hereunder are not subject to United States withholding tax or are subject to such withholding tax at a reduced rate, Borrowers or Agent shall withhold taxes from such payments to such Bank at the applicable statutory rate.

(ii) Other Taxes. The general prohibition against reduction of payments contained in this Paragraph 2.15(a) shall exclude any tax imposed on or measured by the net income of a Bank pursuant to the laws of the jurisdiction in which the principal office or applicable lending office of such Bank is located or under the laws of any political subdivision or taxing authority of any such jurisdiction in which the principal office or applicable lending office of such Bank is located (all such non-excluded taxes, levies, imposts, charges and liabilities being hereinafter referred to as "Taxes"). If any Taxes shall be required by law to be deducted or paid from or in respect of any sum payable hereunder or under any Promissory Note to any Bank, then Borrowers shall be required to pay an additional amount such that after making all required deductions or payments for such Taxes (including deductions and payments applicable to additional sums payable under this Paragraph 2.15(a)(ii)), but taking into account any credit, deduction or offset available in any other jurisdiction as a result of such payment (as determined and certified by such Bank's tax or accounting department to Borrowers in good faith), such Bank receives an amount equal to the sum it would have received had no such deductions or payments been made. Payment of any additional amounts required by this Paragraph 2.15(a)(ii) shall be made at the time of payment of the amounts otherwise required to be paid by Borrowers if the Taxes have been withheld by Borrowers, or otherwise within thirty (30) days from the date such Bank makes written demand therefor.

(b) Participants and Assignees. Any Bank that enters into any participation or assignment permitted by Paragraph 12.2 hereof shall give Borrowers and Agent immediate notice of such assignment or participation, describing the terms thereof and indicating the identity and country of residence of each of the participants or assignees. Notwithstanding any other provision contained herein to the contrary, the Borrowers and the Agent shall be entitled to deduct and withhold United States withholding taxes with respect to all payments to be made hereunder to or for such Bank or Assignee as may be required by United States law due to such assignment or participation. Each Bank hereby indemnifies and holds harmless Borrowers and Agent from and against any tax, interest, penalty or other expense that Borrowers or Agent may incur as a consequence of any failure to withhold United States taxes applicable because of any participation or assignment that is not fully disclosed to them as required hereunder.

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SECTION THREE LETTERS OF CREDIT

3.1. (a) Availability of Letters of Credit. Subject to the terms and conditions set forth herein, Banks shall from time to time prior to the Termination Date participate in the issuance by Agent of Letters of Credit for the account of Borrowers on the following terms and conditions:

(i) at the time of the issuance of each Letter of Credit, the face amount of such Letter of Credit together with the undrawn amount of any outstanding Letters of Credit and the amount of any unreimbursed draws under Letters of Credit shall not exceed Twenty Million Dollars (\$20,000,000);

(ii) at the time of the issuance of each Letter of Credit, the face amount of such Letter of Credit shall not exceed the aggregate Commitment as from time to time in effect less (i) outstanding Advances, (ii) the amount of any Swing Line advances outstanding under Paragraph 2.13 hereof, and (iii) the aggregate amount of all amounts available under and unreimbursed draws with respect to Letters of Credit.

(iii) the final expiration date of each Letter of Credit shall be on or before the earlier of (A) the date one (1) year from the date of its issuance or (B) the Termination Date;

(iv) there shall not exist at the time of issuance of the Letter of Credit, or as a result thereof, any Default or Event of Default; and

(v) each Letter of Credit issued under this Section Three shall be required by Borrowers in their ordinary course of business.

(b) Evergreen Letters of Credit. Notwithstanding the provisions of Paragraph 3.1(a)(iii) which requires that the final expiration of each Letter of Credit be within one year of issuance, Banks hereby agree that Agent may issue, upon the Borrowers' request if required by a proposed beneficiary, a Letter of Credit which by its terms may be extended for additional periods of up to one year each provided that (x) the final expiration date of each such Letter of Credit is on or before the Termination Date and (y) extensions of such Letters of Credit shall be available upon request from Borrowers to Agent at least forty-five (45) days before the then-effective expiration date.

(c) Existing Letters of Credit. Reference is made to certain letters of credit issued by CoreStates Bank prior to the date of execution hereof, as identified on the Advance/Credit Request Form delivered on the date of this Agreement (the "Existing Letters of Credit"). Borrowers and Banks agree that as of the date of this Agreement, subject to receipt by Agent of the Advance/Credit Request Form dated the date hereof duly completed and executed

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with respect thereto, all such Existing Letters of Credit shall hereafter be Letters of Credit under this Agreement, as if originally issued hereunder.

3.2. Commitment Availability. The Commitment as from time to time in effect shall be reduced by the undrawn amount of all outstanding Letters of Credit. Such Commitment amount shall be restored but simultaneously reduced by the amount of any Advances under Paragraph 2.7 which are made to Borrowers to reimburse Agent for draws under the Letters of Credit as required pursuant to Paragraph 3.4 hereof.

3.3. Approval and Issuance.

(a) Borrowers shall provide Agent not less than five (5)

Business Days' prior written notice of each request for the issuance of a Financial Standby Letter of Credit or a Performance Standby Letter of Credit by delivery of an Advance/Credit Request Form and Agent's Letter of Credit Application in the form attached hereto as Exhibit D. Each Advance/Credit Request Form submitted by Borrowers to Agent requesting the issuance of a Performance or Financial Standby Letter of Credit shall be certified by the chief financial officer or controller of SunSource Inc. and represent as to the matters set forth in Paragraph 2.7(a) hereof.

(b) Agent will promptly provide to Banks written or telephonic notice of Agent's receipt of the Advance/Credit Request Form and the Letter of Credit Application which shall state (i) the amount of the Performance or Financial Standby Letter of Credit requested and (ii) the expiration date of the Performance or Financial Standby Letter of Credit.

3.4. Obligations of the Borrowers.

(a) Borrowers agree to pay to Agent in connection with each Letter of Credit issued hereunder: (i) immediately upon the demand of Agent on behalf of all Banks, the amount paid by each Bank with respect to such Letter of Credit; (ii) immediately upon demand of Agent, the amount of any draft presented purporting to be drawn under such Letter of Credit provided that the draft and accompanying documents conform to the terms of the Letter of Credit but subject to the terms of Paragraph 3.7 hereof (whether or not Agent has at such time honored such draft) and any other amounts paid thereunder (it being understood that Agent is not required to make demand upon or proceed against any Bank or other party or to resort to any collateral before obtaining payment from Borrowers); (iii) on the date of issuance thereof and quarterly thereafter in advance, a fee for the benefit of Banks, in accordance with each Bank's Pro Rata Share, of a rate equal to the then Applicable Margin under Paragraph 2.6 hereof, on the face amount of each Financial Standby Letter of Credit and each Performance Standby Letter of Credit, provided, however, that if a Letter of Credit is canceled, the Agent shall rebate to Borrowers any portion of the applicable LC Fee (as defined below) paid on account of any quarter after the quarter in which the Letter of Credit is terminated; (iv) on the date of issuance of each Letter of Credit a fee (the "LC Fee") to the Agent on its own behalf equal to one-eighth of

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one percent (1/8%) per annum of the face amount of such Letter of Credit; and (v) interest on any Indebtedness outstanding with respect to such Letter of Credit, whether for funds paid on drafts on such Letter of Credit, or otherwise (but such indebtedness shall not include undrawn balances of such Letter of Credit issued hereunder) calculated at the rate and paid at the times and in the manner set forth for the calculation of interest and payment thereof on the Loan in Paragraph 2.6(a)(i)(A) hereof based on the Base Rate. Interest under clause (v) above shall accrue on amounts paid on a Letter of Credit (if not reimbursed by Borrowers on the same day) from the date of payment by Agent, whether or not demand is made, until such amounts are reimbursed by Borrowers whether before, at or after demand.

(b) In the absence of a Default or an Event of Default and subject to the provisions of Paragraph 2.7 hereof, Banks hereby agree to make Advances to Borrowers under the Commitment to fund the payments required under Paragraphs 3.4(a)(i) and (ii) hereof. If any payment by the Agent of a draft drawn under a Letter of Credit is for any reason (including without limitation the occurrence or continuation of a Default or an Event of Default hereunder) not reimbursed prior to or on the date such payment is made, the Agent in its sole and absolute discretion may direct that all amounts due under drafts drawn under a Letter of Credit be refunded by delivery of a notice (a "Drawing Refunding") to each Bank and to Borrowers and such Drawing Refunding shall constitute delivery by the Company of an Advance/Credit Request Form in an amount equal to the drawings to be refunded, which shall bear interest at the rate set forth in Paragraph 2.6(a)(i)(A) for Advances bearing interest based on the Base Rate until paid in full.

3.5. Payment by Banks on Letters of Credit.

(a) With respect to each Letter of Credit issued hereunder, each Bank agrees that it is irrevocably obligated to pay to Agent, for each such Letter of Credit, such Bank's Pro Rata Share of each and every payment made or to be made by Agent under such Letter of Credit (each such payment to be made, a "LOC Contribution"). Each Bank's LOC Contribution shall be due from such Bank immediately upon, and in any event no later than the same day as, receipt of written notice (which may be sent by telex) from Agent that (i) it has made a payment or (ii) a draft has been presented purporting to be drawn on a Letter of Credit issued hereunder. Such payment shall be made at Agent's offices in immediately available federal funds.

(b) The obligation of each Bank to make its LOC Contribution hereunder is absolute, continuing and unconditional, and Agent shall not be required first to make demand upon or proceed against Borrowers or any guarantor or surety, or any others liable with respect to the applicable

Letter of Credit and shall not be required first to resort to any collateral. LOC Contributions shall be made without regard to termination of this Agreement or the Commitment, the existence of a Default or an Event of Default, the acceleration of indebtedness hereunder or any other event or circumstance.

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3.6. Collateral.

(a) If Borrowers shall have deposited with Agent cash collateral or U.S. Treasury securities with maturities no more than ninety (90) days from the date of deposit ("U.S. Treasury Bills") (discounted in accordance with customary banking practice to present value to determine amount) in an amount equal at all times to one hundred three percent (103%) of the outstanding undrawn amount of all Letters of Credit, such cash or U.S. Treasury Bills and all interest earned thereon to constitute cash collateral for all such Letters of Credit, on or before the Termination Date and shall have irrevocably paid in full the Loan and all other indebtedness, liabilities and obligations of Borrowers to Banks under this Agreement (including all indebtedness and fees due and owing under this Section Three other than for undrawn balances of Letters of Credit and other fees and liabilities not yet accrued thereunder), Borrowers shall be entitled upon the termination of the Commitment to the termination of all covenants of Borrowers under this Agreement (except under this Section Three).

(b) On the Termination Date, the termination of the Commitment (other than voluntary termination of the Commitment by Borrowers in compliance with subparagraph (a) above) or the occurrence of an Event of Default, the Agent may require (and in the case of an Event of Default occurring under Paragraph 9.1(h) it shall be required automatically) that Borrowers deliver to Agent, unless previously delivered to Agent under subparagraph (a) above, cash or U.S. Treasury Bills with maturities of not more than ninety (90) days from the date of delivery (discounted in accordance with customary banking practice to present value to determine amount) in an amount equal at all times to one hundred three percent (103%) of the outstanding undrawn amount of all Letters of Credit, such cash or U.S. Treasury Bills and all interest earned thereon to constitute cash collateral for all such Letters of Credit. At such time as such cash collateral or U.S. Treasury Bills is required to be and has not been deposited, Agent in its sole and absolute discretion on behalf of Banks shall be entitled to (x) liquidate such collateral it may hold at such time as is necessary or appropriate in its sole judgment so as to create such cash collateral, and (y) direct by delivery of a notice (a "Cash Collateral Notice") to each Bank and to Borrowers and such Cash Collateral Notice shall constitute delivery by the Company of an Advance/Credit Request Form in an amount equal to the Cash Collateral due under this Paragraph 3.6(b) which shall bear interest at the rate set forth in Paragraph 2.6(a)(ii) for Advances bearing interest based on the Base Rate.

(c) Any cash collateral deposited under subparagraphs (a) and (b) above, and all interest earned thereon, shall be held by Agent and invested and reinvested at the expense and the written direction of Borrowers, in U.S. Treasury Bills with maturities of no more than thirty (30) days from the date of investment.

3.7. General Terms of Credits. The following terms and conditions apply with respect to each Letter of Credit (a "Credit") notwithstanding anything to the contrary contained herein:

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(a) Borrowers assume all risks of the acts or omissions of the beneficiary of each Credit with respect to the use of the Credit or with respect to the beneficiary's obligations to Borrowers. None of the Banks nor any of their officers or directors shall be liable or responsible for (and the Banks hereby agree to indemnify and hold the Agent and any issuer of a Credit harmless (subject to Paragraph 10.8 hereof) with respect to): (i) the use which may be made of the Credit or for any acts or omissions of the beneficiary in connection therewith; (ii) the accuracy, truth, validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects false, misleading, inaccurate, invalid, insufficient, fraudulent or forged; (iii) any other circumstances whatsoever in making or failing to make payment under a Credit; or (iv) any inaccuracy, interruption, error or delay in transmission or delivery of correspondence or documents by post, telegraph or otherwise. In furtherance and not in limitation of the foregoing, Agent may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

(b) To the extent any failure to comply with the provisions of this Section 3.7(b) could have a Material Adverse Effect, Borrowers agree to procure or to cause the beneficiaries of each Letter of Credit to procure promptly any necessary import and export or other licenses for

the import or export or shipping of any goods referred to in or pursuant to a Credit and to comply and to cause the beneficiaries to comply with all foreign and domestic governmental regulations with respect to the shipment and warehousing of such goods or otherwise relating to or affecting such Credit, including governmental regulations pertaining to transactions involving designated foreign countries or their nationals, and to furnish such certificates in that respect as Agent may at any time reasonably require, and to keep such goods adequately covered by insurance in amounts, with carriers and for such risks as shall be customary in the industry and to cause Banks' interest to be endorsed on such insurance and to furnish Agent at its request with reasonable evidence thereof. Should such insurance (or lack thereof) upon said goods for any reason not be reasonably satisfactory to Agent, Agent may (but is not obligated to) obtain, at Borrowers' expense, insurance satisfactory to Agent.

(c) In connection with each Credit, neither any Bank nor any of their correspondents shall be responsible for: (i) the existence, character, quality, quantity, condition, packing, value or delivery of the property purporting to be represented by documents; (ii) any difference in character, quality, quantity, condition or value of the property from that expressed in documents; (iii) the time, place, manner or order in which shipment of the property is made; (iv) partial or incomplete shipment referred to in such Credit; (v) the character, adequacy or responsibility of any insurer, or any other risk connected with insurance; (vi) any deviation from instructions, delay, default or fraud by the beneficiary or any one else in connection with the property or the shipping thereof; (vii) the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; (viii) delay in arrival or failure to arrive of either the property or any of the documents relating thereto; (ix) delay in giving or failure to give notice of arrival or any other notice; (x) any breach of contract between

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the Letter of Credit beneficiaries and Borrowers; (xi) any laws, customs, and regulations which may be effective in any jurisdiction where any negotiation and/or payment of such Credit occurs; (xii) failure of documents (other than documents required by the terms of the Credit) to accompany any draft at negotiation; or (xiii) failure of any person to note the amount of any document or draft on the reverse of such Credit or to surrender or to take up such Credit or to forward documents other than documents required by the terms of the Credit. In connection with each Credit, no Bank shall be responsible for any error, neglect or default of any of their correspondents. None of the above shall affect, impair or prevent the vesting of any of the Banks' rights or powers hereunder. If a Credit provides that payment is to be made by the issuing Bank's correspondent, neither the issuing Bank nor such correspondent shall be responsible for the failure of any of the documents specified in such Credit to come into the Agent's hands, or for any delay in connection therewith, and Borrowers' obligation to make reimbursements shall not be affected by such failure or delay in the receipt of any such documents.

(d) Notwithstanding but without limiting any of the foregoing, with respect to any Credit, Borrowers shall have a claim against Agent, and Agent shall be liable to Borrowers, to the extent, but only to the extent, of any direct, as opposed to indirect or consequential, damages suffered by Borrowers caused by the Agent's willful misconduct or gross negligence.

(e) To the extent not inconsistent with this Agreement, the Uniform Customs and Practices for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, are hereby made a part of this Agreement with respect to obligations in connection with each Credit.

SECTION FOUR REPRESENTATIONS AND WARRANTIES

Each of the Borrowers and each of the Guarantors represents and warrants, as follows:

4.1. Organization and Good Standing. Each of the Company and SDIPI is a limited partnership duly formed and validly existing under the laws of the state of Delaware, and has the power and authority to carry on its business as now conducted. Each Subsidiary and each Guarantor (other than SDIPI) is duly organized and existing and in good standing, under the laws of the jurisdiction of its incorporation, and has the power and authority to carry on its business as now conducted. Each of the Borrowers and Guarantors is qualified to do business in all other states in which the failure to qualify would have a Material Adverse Effect.

4.2. Power and Authority; Validity of Agreement. Each of the Borrowers and Guarantors has the power and authority under Delaware law and under its organizational documents to enter into and perform this Agreement, the Promissory Notes and all other

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agreements, documents and actions required hereunder, to the extent each is a party thereto; and all actions necessary or appropriate for Borrowers' and Guarantors' execution and performance of this Agreement, the Promissory Notes, and all other agreements, documents and actions required hereunder, to the extent it is a party hereto, have been taken, and, upon their execution, the same will constitute the valid and binding obligations of Borrowers and Guarantors to the extent each is a party thereto, enforceable in accordance with their terms.

4.3. No Violation of Laws or Agreements. The making and performance of this Agreement, the Promissory Notes, and the other documents, agreements and actions required of Borrowers and Guarantors hereunder, to the extent it is a party thereto, will not violate any provisions of any law or regulation, federal, state or local, or the respective organizational documents of Borrowers or Guarantors or result in any breach or violation of, or constitute a default under, any agreement or instrument by which either Borrowers, Guarantors or their respective property may be bound, including without limitation the Note Purchase Agreement and the Indenture.

4.4. Material Contracts. None of the Guarantors or Borrowers is a party to or in any manner obligated under any contracts material to their respective business except this Agreement, their organizational documents, the Senior Notes and the Note Purchase Agreement pursuant to which they were issued, the Indenture, and the agreements identified on Exhibit E hereto and there exists no material default under any of such contracts.

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

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

4.7. Title to Assets. Except as set forth on Exhibit E hereto, each Borrower and Guarantor has good and marketable title to substantially all of its properties and assets as

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reflected in the financial statements of SunSource Inc. and its Consolidated Subsidiaries most recently delivered to Banks pursuant to Paragraphs 5.1(e), 6.2 and 6.3 hereof, free and clear of any liens and encumbrances, except the security interests permitted pursuant to Paragraph 7.4 hereof and all such assets are in good order and repair and fully covered by the insurance required pursuant to Paragraph 6.7 hereof.

4.8. Partnership Interests. The number and percentage of partnership interests in the Company and SDIPI and the ownership thereof are accurately set forth on Exhibit E attached hereto; all such interests are validly existing and the creation and sale thereof are in compliance with all applicable federal and state securities and other applicable laws; the ownership thereof is free and clear of any liens and encumbrances or other contractual restrictions except as set forth in the Partnership Agreements, and SDIPI is the general partner of the Company.

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

4.10. Accuracy of Information; Full Disclosure.

(a) All information furnished to Banks concerning the financial condition of SunSource Inc. and its Consolidated Subsidiaries, including SunSource L.P. and its Consolidated Subsidiaries', SDIPI's, and the Guarantors' respective annual financial statements for the period ending December 31, 1996, and SunSource L.P. and its Consolidated Subsidiaries' consolidated interim financial statement for the period ending June 30, 1997, copies of which have been furnished to Banks, have been prepared in accordance with GAAP (except that the annual financial statements of SDIPI were prepared on a tax basis, not a GAAP basis) and fairly present the financial condition of SDIPI, Guarantors and SunSource L.P. and its Consolidated Subsidiaries as of the dates and for the periods covered and discloses liabilities of SDIPI, Guarantors and SunSource L.P. and its Consolidated Subsidiaries required to be disclosed under GAAP and, except on the date hereof for the effect of the Conversion, there has been no Material Adverse Change from the date of such statements to the date hereof; and

(b) All financial statements and other documents furnished by SunSource L.P., SDIPI, Guarantors and SunSource Inc. and its subsidiaries to the Banks in connection with this Agreement and the Promissory Notes do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading. Borrowers and Guarantors have disclosed to the Banks in writing any and all facts which materially and adversely affect the business, properties, operations or condition, financial or otherwise, of Guarantors and Borrowers or the Borrowers' or

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Guarantors' ability to perform their respective obligations under this Agreement and the Promissory Notes.

4.11. Taxes and Assessments.

(a) Each of Guarantors and the Company has duly and timely filed all information and tax returns and reports with all federal, state, local or foreign governmental taxing authorities, bodies or agencies; and all taxes, including without limitation income, gross receipt, sales, use, excise and any other taxes, and any governmental charges, penalties, interest or fines with respect thereto, due and payable by Guarantors, the Company and the other Borrowers, have been paid, withheld or reserved for in accordance with GAAP or, to the extent they relate to periods on or prior to the date of the financial statements delivered from time to time pursuant to Paragraphs 5.1(e), 6.2 and 6.3 hereof (the "Financial Statements"), are reflected as a liability on the Financial Statements in accordance with GAAP.

(b) Each of the Guarantors and the Borrowers has properly withheld all amounts determined by them to be required by law to be withheld for income taxes and unemployment taxes including without limitation, all amounts required with respect to social security and unemployment compensation, relating to its employees, and has remitted such withheld amounts in a timely manner to the appropriate taxing authority, agency or body.

(c) As of the date of this Agreement, none of the federal income tax information returns of SDIPI or the Company has been audited. Except as set forth on Exhibit E hereto, neither Guarantors nor Borrowers have entered into any agreements for the extension of time for the assessment of any tax or tax delinquency, nor has any of them received outstanding and unresolved notices from the Internal Revenue Service or any other state, local or foreign taxing authority, agency or body of any proposed examination or of any proposed change in reported information which may result in a deficiency or assessment against Guarantors or Borrowers and there are no suits, actions, claims, investigations, inquiries or proceedings now pending against Guarantors or Borrowers in respect of taxes, governmental charges or assessments.

4.12. Indebtedness. Guarantors and Borrowers have no presently outstanding Indebtedness or obligations including contingent obligations and obligations under leases of property from others, except the Senior Notes, the Junior Subordinated Debentures, the Indebtedness and obligations described either on Exhibit E hereto or in Guarantors' or Borrowers' financial statements which have been furnished to Banks and Indebtedness permitted to be incurred pursuant to Paragraph 7.1 hereof. There exists no default with respect to the payment of principal or interest under any such outstanding Indebtedness. The Indebtedness under the Senior Notes ranks *pari passu* and equal to the Indebtedness to Banks hereunder, without any priority. The Junior Subordinated Debentures rank junior and are subordinated to the Indebtedness to Banks, and all other Indebtedness of the Borrowers and Guarantors ranks either *pari passu* or junior to the Indebtedness to the Banks.

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4.13. Management Agreements. The Company is a party to no other material management or consulting agreements for the provision of services to the Company, except as described in Exhibit E hereto.

4.14. Subsidiaries and Investments. Borrowers have no Subsidiaries or Affiliates, or investments in or loans to any other individuals or business entities, except as described in Exhibit E hereto and except as are permitted to be acquired or created pursuant to Paragraph 7.8 hereof.

4.15. ERISA. Each Plan maintained by Guarantors or Borrowers and each ERISA Affiliate is, as of its most recently completed annual report, in compliance in all material respects with all applicable provisions of ERISA and the regulations promulgated thereunder; and, except as set forth in Exhibit E hereto:

(a) Neither Guarantors, Borrowers nor any ERISA Affiliate maintains or contributes to or has maintained or contributed to any multiemployer plan (as defined in Section 4001 of ERISA) under which Guarantors, Borrowers, or any ERISA affiliate could have any withdrawal liability;

(b) Neither Guarantors, Borrowers, nor any ERISA Affiliate, sponsors or maintains any Plan under which there is an Accumulated Funding Deficiency, whether or not waived;

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

(d) Neither Guarantors, Borrowers nor any ERISA Affiliate has liability arising out of or relating to a failure of any Plan to comply with the provisions of ERISA or the Code;

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

(f) The matters described on Exhibit E attached hereto referencing clauses (a) through (e) of this Paragraph 4.15, would not, either singly or in the aggregate, have a Material Adverse Effect.

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4.16. Fees and Commissions. Borrowers owe no fees or commissions of any kind, and know of no claim for any fees or commissions, in connection with Borrowers' obtaining the Commitment or the Loan from Banks, except those provided herein or the letters with the Agent and the Documentation Agent referred to in Paragraph 5.1(g) hereof.

4.17. No Extension of Credit for Securities. Guarantors and Borrowers are not now, nor at any time have they been, engaged principally, or as one of their important activities, in the business of extending or arranging for the extension of credit, for the purpose of purchasing or carrying any margin stock or margin securities; nor will the proceeds of the Loan be used by Borrowers directly or indirectly, for such purposes.

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

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

(b) Neither Guarantors nor Borrowers have given any written or oral notice, nor has it failed to give required notice, to the Environmental Protection Agency ("EPA") or any state or local agency with regard to any actual or imminently threatened removal, spill, release or discharge of Hazardous Substances on properties owned, leased or operated by SDIPI, Guarantors or Borrowers or used in connection with the conduct of its business and operations.

(c) Neither Guarantors nor Borrowers have received notice that it is potentially responsible for the performance of or payment of costs relating to clean-up or remediation of any actual or imminently threatened spill, release or discharge of Hazardous Substances pursuant to any Environmental Control Statute.

4.19. Solvency. To the best of SunSource Inc.'s knowledge, SunSource Inc. and its Consolidated Subsidiaries are, on a consolidated basis, upon the Conversion and after receipt and application of the first Advance will

be, solvent such that (i) the fair value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is greater than the total amount of their liabilities, including without limitation, contingent liabilities, (ii) the present fair salable value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is not less than the amount that will be required to pay the probable liability on their debts as they become absolute and matured, and (iii) they are able to realize upon their assets and pay their debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business. SunSource Inc. and its Consolidated Subsidiaries (i) do not intend to, and do not

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believe that they will, incur debts or liabilities beyond their ability to pay as such debts and liabilities mature, or (ii) are not engaged in a business or transaction, or about to engage in a business or transaction, for which their property would constitute unreasonably small capital after giving due consideration to the prevailing practice and industry in which they are engaged. For purposes of this Paragraph 4.19, in computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual matured liability.

4.20. Foreign Assets Control Regulations. Neither the borrowing by the Borrowers of the Loan nor their use of the proceeds of any Advance thereof will violate the Foreign Assets Regulations, the Foreign Funds Control Regulations, the Transactions Control Regulations, the Cuban Assets Control Regulations, the Iranian Transaction Regulations, or the Iraqi Sanctions Regulations of the United States Treasury Department (31 C.F.R. Subtitle B, Chapter V, as amended).

4.21. Investment Company Act. Neither the Borrowers nor Guarantors are directly or indirectly controlled by or acting on behalf of any person which is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION FIVE CONDITIONS

5.1. First Advance. The obligation of Banks to make the first Advance under the Loan or issue a Letter of Credit shall be subject to Banks' receipt of the following documents, each in form and substance satisfactory to Banks:

(a) Promissory Notes. The Promissory Notes duly executed by Borrowers in favor of Banks.

(b) Authorization Documents. A certificate of the secretary (or secretary of the general partner, as applicable) of (i) the Company, (ii) each Subsidiary, and (iii) each Guarantor, attaching and certifying as to (i) the certificate or articles of incorporation and bylaws or partnership agreement, as applicable, of such entity; (ii) resolutions or other evidence of authorization by the board of directors of such entity, if applicable, authorizing its execution and full performance of this Agreement, the Promissory Notes, and all other documents and actions required hereunder; and (iii) incumbency certificates setting forth the name, titles and specimen signature of each officer of such entity (or each officer of the general partner of such entity, as applicable) who is authorized to execute the Loan Documents on behalf of such entity.

(c) Opinion of Counsel. An opinion letter from counsel for Borrowers and Guarantors in form and substance reasonably satisfactory to Banks.

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(d) Insurance. Certificates of insurance with respect to all of Borrowers' fire, casualty, liability and other insurance covering its respective property and business.

(e) Financial Information. A certificate signed by the chief financial officer or controller of SunSource Inc. attaching (i) A pro forma schedule of assets and liabilities of SunSource Inc. and its Consolidated Subsidiaries setting forth all SunSource Inc.'s and its Consolidated Subsidiaries' Indebtedness, certified as accurate by the chief financial officer of SunSource Inc.; (ii) cash flow projections for SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis, for the three (3) year period immediately following the date hereof, satisfactory to Agent and certified as reasonable by the chief financial officer or controller of SunSource Inc. (such cash flow projections shall take into account the transactions contemplated by

this Agreement and shall identify the sources of cash the Company intends to use to meet its cash needs during such three year period); and (iii) financial projections for SunSource Inc. and its Consolidated Subsidiaries for the period from closing through December 31, 2001 on a consolidated basis satisfactory to Agent; and with respect to the matters set forth in Paragraph 4.19 hereof.

(f) Advance Request. A completed Advance/Credit Request Form required under Paragraph 2.7(a), hereof, and any other documents or information reasonably required by Banks in connection therewith.

(g) Fees. Payment of the fees required by Section 2 hereof; and execution by the Borrowers of letters of agreement with the Agent and the Documentation Agent with respect to payment of an annual administrative agency and certain other fees.

(h) Officer's Certificate. A certificate signed by the chief financial officer or controller of SunSource Inc. stating: (i) that there exists no Default or Event of Default hereunder, (ii) except for the Conversion, that there has been no Material Adverse Change in the financial condition, assets, nature of the assets, operations or prospects of the Borrowers and Guarantors since June 30, 1997, and (iii) that there exists no default under any Indebtedness of Borrowers or Guarantors.

(i) The Conversion. A certificate of the chief financial officer or controller of SunSource Inc. with respect to the completion of the Conversion as outlined in SEC Form S-4 Registration Statement dated December 31, 1996, as amended, simultaneously with the first Advance under the Loan.

(j) Senior Notes. Borrowers shall, simultaneously with the Conversion, have executed the Note Purchase Agreement, issued the Senior Notes, received Sixty Million Dollars (\$60,000,000) in proceeds thereof, and provided copies of the Note Purchase Agreement to Banks.

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(k) Tax Forms. A facially complete Internal Revenue Service Form 4224 from each of The Bank of Nova Scotia and each other non-U.S. Bank certifying as to such Bank's entitlement to exemption from, or reduction of, United States withholding tax on payments to be made hereunder or under the Promissory Notes.

(l) Other Documents. The Declaration of Trust of the Trust, the Indenture, and such additional documents as Banks reasonably may request.

5.2. Subsequent Advances. The obligation of Banks to make additional Advances under the Loan shall be subject to Banks' receipt of a completed Advance/Credit Request Form.

5.3. Additional Condition to Banks' Obligations. It shall be a condition to Banks' obligation hereunder to make any Advance that the representations and warranties set forth herein shall be true and correct as if made on the date of such Advance, that no Event of Default or Default shall have occurred and be continuing on the date of such Advance or be caused by such Advance, that all fees required pursuant to Section 5 hereof have been paid as and when due, and there shall have been no Material Adverse Change since the date hereof.

SECTION SIX AFFIRMATIVE COVENANTS

Guarantors and Borrowers covenant and agree that so long as the Commitment of Banks to Borrowers or any indebtedness of Borrowers to Banks is outstanding hereunder, each of the Guarantors and Borrowers will (and with respect to Paragraph 6.12, Borrowers will cause each ERISA Affiliate) to:

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

6.2. Quarterly Financial Statements. Furnish Banks within forty-five (45) days of the end of each quarterly fiscal period hereafter, other than the last quarterly fiscal period in the fiscal year, with unaudited quarterly consolidated financial statements of SunSource Inc. and its Consolidated Subsidiaries, in form and substance as required by GAAP, including for each such quarter (i) a consolidated balance sheet, (ii) a consolidated statement of income, (iii) a consolidated statement of cash flow and (iv) a certificate in the form of Exhibit F attached hereto executed by the chief financial officer or controller of SunSource Inc. showing the calculation of the covenants set forth in Paragraphs 6.13 through 6.15 and Section Seven hereof prepared in accordance with GAAP consistently applied and stating that the

present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date and for the periods covered and that as of the date of such certificate there exists no violation of any provision of this Agreement or the happening of any Event of Default or Default.

6.3. Annual Financial Statements. Furnish Banks within ninety (90) days after the close of each fiscal year commencing with fiscal 1997 with audited consolidated annual financial statements of SunSource Inc. and its Consolidated Subsidiaries, including the financial statements, certificate in the form of Exhibit F attached hereto and information required under Paragraph 6.2 hereof, which consolidated financial statements shall be prepared in accordance with GAAP. The financial statements delivered pursuant to the preceding sentence shall be certified without qualification (except with respect to changes in GAAP as to which SunSource Inc.'s independent certified public accountants have concurred) by an independent certified public accounting firm satisfactory to Banks; and SunSource Inc. shall cause Banks to be furnished, at the time of the completion of the annual audit, with a certificate signed by such accountants showing the calculation of the covenants set forth in Paragraphs 6.13 through 6.15 hereof and stating that to the best of their knowledge there exists no violations of any provisions of this Agreement or the happening of any Event of Default or Default hereunder.

6.4. Cash Flow Projections. Furnish to Banks, on or before March 31 of each year, commencing with fiscal year 1998, cash flow projections of SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis for the twelve (12) month period ending on December 31 of such year.

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

6.6. Books and Records. Keep and maintain satisfactory and adequate books and records of account in accordance with GAAP and make or cause the same to be made available to Banks or their agents or nominees at any reasonable time during normal business hours upon reasonable notice for inspection and to make extracts thereof and permit Agent or any Bank to discuss contents of same with senior officers of SunSource Inc., Borrowers or a Guarantor and also with outside auditors and accountants of SunSource Inc., Borrowers or a Guarantor.

6.7. Properties; Insurance. Keep and maintain all of its property and assets in good order and repair and materially covered by insurance with reputable and financially sound insurance companies against such hazards and in such amounts as is customary in the industry,

under policies requiring the insurer to furnish reasonable notice to Banks and opportunity to cure any non-payment of premiums prior to termination of coverage; and, as required above, furnish Banks with certificates of such insurance.

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

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

6.10. Costs and Expenses. Pay or reimburse Agent for all reasonable out-of-pocket costs and expenses (including but not limited to reasonable attorneys' fees and disbursements) Agent may pay or incur in connection with the preparation and review of this Agreement and all waivers,

consents and amendments in connection therewith and all other documentation related thereto and the making of the Loan hereunder; and pay or reimburse Banks for all reasonable out-of-pocket costs and expenses (including but not limited to reasonable attorneys' fees and disbursements) Banks may pay or incur in connection with the collection or enforcement of the same, including without limitation any fees and disbursements incurred in defense of or to retain amounts of principal, interest or fees paid. All obligations provided for in this Paragraph 6.10 shall survive any termination of this Agreement or the Commitment and the repayment of the Loan.

6.11. Compliance; Notification.

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

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or grants of authority, except to the extent that such matter would not have a Material Adverse Effect.

(b) With respect to the Environmental Control Statutes, promptly notify Agent when, in connection with the conduct of Borrowers' businesses or operations, any person (including, without limitation, EPA or any state or local agency) provides oral or written notification to Borrowers or Guarantors or Borrowers or Guarantors otherwise become aware of a condition with regard to an actual or imminently threatened removal, spill, release or discharge of hazardous or toxic wastes, substances or petroleum products that requires notification to the applicable governmental authority under an Environmental Control Statute and would have an Environmental Material Adverse Effect; and notify Banks in detail promptly upon the receipt by Borrowers or Guarantors of an assertion of liability under the Environmental Control Statutes, of any actual or alleged failure to comply with or perform, breach, violation or default under any such statutes or regulations or of the occurrence or existence of any facts, events or circumstances which with the passage of time, the giving of notice, or both, could create such a breach, violation or default and would have an Environmental Material Adverse Effect.

(c) With respect to each disclosure previously made to Agent pursuant to Exhibit E attached hereto or Paragraph 6.11(b) hereof regarding alleged or actual liability under Environmental Control Statutes, not later than twenty (20) days after the last day of each fiscal quarter, deliver to Agent a report describing (i) the estimated dollar amount, when initially determined, of any such liability (including costs of investigation and remediation) and if any such initial estimate with respect to a disclosed matter shall be modified thereafter by more than \$1,000,000, the modified dollar amount; and (ii) any information or change in circumstances regarding actual or alleged liability under Environmental Control Statutes of Borrowers or Guarantors, if the effect thereof would be to increase liability in connection with the investigation or remediation with respect thereto by more than \$1,000,000.

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

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

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

Period -----	Minimum Ratio -----
Date of Agreement through 3/31/98	1.00
6/30/98 through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

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

6.16. Management Changes. Notify Banks in writing within thirty (30) days after any change of its management group as described in the "Change of Control" definition.

6.17. Subsequent Credit Terms.

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

(b) Borrowers and Guarantors hereby agree promptly to execute and deliver any and all such documents and instruments and to take all such further actions as Agent may, in its sole discretion, deem necessary or appropriate to effectuate the provisions of this Paragraph 6.17.

6.18. Use of Proceeds. Use the proceeds of the Loan only for the purposes set forth in Paragraph 2.4 hereof.

6.19. Successor Agent. In the event of the appointment of any successor Agent pursuant to Paragraph 10.15 hereof, execute and deliver any documents reasonably requested by

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Banks to effectuate and confirm the transfer to such successor Agent of all rights, powers, duties, obligations and property vested in its predecessor Agent hereunder.

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

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

SECTION SEVEN NEGATIVE COVENANTS

So long as the Commitment or any Indebtedness of Borrowers to Banks remains outstanding hereunder, each of Borrowers and Guarantors covenants and agrees that it will not:

7.1. Indebtedness. Borrow any monies or create any Indebtedness except (i) borrowings from Banks hereunder; (ii) Indebtedness evidenced by the Senior Notes not to exceed Sixty Million Dollars (\$60,000,000) aggregate principal amount outstanding at any time, which shall rank equally and are pari passu with the obligations to the Banks hereunder; (iii) Indebtedness under the Junior Subordinated Debentures, not to exceed One Hundred Five Million Five Hundred Thousand Dollars (\$105,500,000) principal amount outstanding at any time (but not including any amounts which constitute Compounded Interest, as defined in the Indenture), which shall be subordinate and junior to the obligations to the Banks hereunder; (iv) trade Indebtedness in the normal and ordinary course of business for value received, of which no more than Five

Million Dollars (\$5,000,000) shall be outstanding at any time under Trade Notes; (v) Indebtedness and obligations incurred or assumed to purchase or lease fixed or capital assets, provided, however, that the total principal amount of such Indebtedness and obligations incurred in any calendar year shall not exceed in the aggregate Seven Million Five Hundred Thousand Dollars (\$7,500,000); (vi) borrowings from the Company by its Subsidiaries to the extent the Company is permitted to make such loans pursuant to Paragraph 7.3(i) hereof; (vii) Indebtedness outstanding on the date hereof and disclosed on Exhibit E hereto, but without any increase in the outstanding principal amount thereof; (viii) up to an additional Ten Million Dollars (\$10,000,000) aggregate principal amount outstanding at any time (which shall include the revolving credit facility with the Bank of Nova Scotia); and (ix) unsecured promissory notes in favor of sellers of assets or stock in acquisitions otherwise permitted pursuant to Paragraph 7.8 hereof not to exceed Ten Million Dollars (\$10,000,000); provided, however, that Indebtedness of Subsidiaries under clauses (v) and (viii) hereof shall in no event exceed in the aggregate outstanding at any time Five Million Dollars (\$5,000,000).

7.2. Guaranties. Guarantee or assume or agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liability of others (except

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hereunder and with respect to the Senior Notes and to endorse checks or drafts in the ordinary course of business), except that (i) Borrowers may guarantee Indebtedness which in the aggregate shall not exceed Five Million Dollars (\$5,000,000) outstanding at any time and (ii) any entity may guarantee debt of another entity otherwise permitted hereunder.

7.3. Loans. Make any loans or advances to others provided that the Company may make loans and advances to (i) the Subsidiaries not to exceed Seven Million Five Hundred Thousand Dollars (\$7,500,000) in aggregate outstanding principal amount at any time, and (ii) to its sales personnel in the ordinary course of business.

7.4. Liens and Encumbrances. Create, permit or suffer the creation of any liens, security interests, or any other encumbrances on any of its property, real or personal, except (i) liens arising in favor of sellers or lessors for indebtedness and obligations incurred to purchase or lease fixed or capital assets permitted under Paragraph 7.1(v) hereof, provided, however, that such liens secure only the indebtedness and obligations created thereunder and are limited to the assets purchased or leased pursuant thereto; (ii) liens for taxes, assessments or other governmental charges, federal, state or local, which are then being currently contested in good faith by appropriate proceedings and are covered by appropriate reserves maintained in cash or cash equivalents and in accordance with GAAP; (iii) pledges or deposits to secure obligations under workmen's compensation, unemployment insurance or social security laws or similar legislation; (iv) deposits to secure performance or payment bonds, bids, tenders, contracts, leases, franchises or public and statutory obligations required in the ordinary course of business; (v) deposits to secure surety, appeal or custom bonds required in the ordinary course of business and (vi) liens and security interests securing up to Five Million Dollars (\$5,000,000) of Indebtedness outstanding under Trade Notes.

7.5. Additional Negative Pledge. Agree or covenant with or promise any person or entity other than Banks and the holders of the Senior Notes that it will not pledge its assets or properties or otherwise grant any liens, security interests or encumbrances on its property on terms similar to those set forth in Paragraph 7.4 hereof.

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

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7.7. Transfer of Assets. Sell, lease, transfer or otherwise dispose of all or any portion of its assets, real or personal, other than such transactions made on an arm's length basis in the normal and ordinary course of business for value received; provided, however, that in the absence of a Default or an Event of Default, and, if a Default or Event of Default would not result therefrom, Borrowers may (i) sell assets other than in transactions made on an arm's length basis in the normal and ordinary course of business for value

received in the aggregate after the date hereof for all such transactions up to Fifteen Million Dollars (\$15,000,000) and (ii) consummate a Sale of Material Assets, provided that the Commitment shall be permanently reduced and the Loan shall be repaid in connection therewith pursuant to Paragraphs 2.8(c) and (d) hereof by an amount equal to the Banks' Applicable Share received by Borrowers on account of such sale(s), to the extent such sale(s), in the aggregate, exceed Fifteen Million Dollars (\$15,000,000).

7.8. Acquisitions and Investments. (a) Purchase or otherwise acquire any part or amount of the capital stock or assets of, or make any investments in, any other entity or corporation, except Permitted Investments; (b) create, acquire or maintain any Subsidiary not listed on Schedule I hereto, except: (i) A & H Holding Company, Inc., (ii) if the Subsidiary is either directly or indirectly owned by A & H Holding Company, Inc. or (iii) if the Subsidiary executes a joinder to this Agreement and the Promissory Notes to become a joint and several obligor hereunder and delivers such opinions and certificates as Agent shall reasonably request; (c) enter into any new business activities or ventures not directly related to its present business; or (d) merge or consolidate with or into any other entity or corporation, except that SunSub A, SunSub B, SunSource Inc. or SDIPI may be merged into the Company if the Company is the surviving entity; provided, however, that in the absence of a Default or an Event of Default hereunder, and if a Default or Event of Default would not result therefrom, Borrowers may make acquisitions (by merger or purchase) of substantially all but not less than substantially all of other entities or corporations in the same or substantially the same business as Borrowers. Borrowers shall provide to Agent a cash flow projection from the date of any proposed acquisition with a purchase price exceeding Ten Million Dollars (\$10,000,000), showing prospective compliance with Paragraphs 6.13 through 6.15 and Section Seven of this Agreement through the Termination Date.

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

7.10. Amendment of Documents. (a) Without the consent of Agent, which consent shall not be withheld unreasonably, amend or permit any amendments to: Borrowers' or Guarantors' organizational documents (including without limitation the Partnership Agreements); the Declaration of Trust; the Indenture; the Terms of Common Securities of the Trust; the Terms of Preferred Securities of the Trust; the Preferred Securities Guaranty; and (b) with respect to those provisions of the Note Purchase Agreement relating to financial covenants

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(Paragraph 5.12 through 5.14), events of default (Section 8), mandatory or voluntary prepayments (Paragraphs 4.2, 4.3, 4.4, 4.7 and 4.8) and all definitions related thereto, any amendment, waiver or consent thereto shall require the simultaneous amendment, waiver or consent of the Banks or Required Banks, as applicable, to the corresponding provision in this Agreement.

7.11. Payment of Senior Notes. Make any payment of principal on the Senior Notes except if simultaneously with such payment a reduction of Commitment and prepayment to the extent of Bank's Applicable Share of such payment is made pursuant to Paragraph 2.8 hereof.

SECTION EIGHT RIGHT OF SETOFF

After and during the continuation of any Event of Default hereunder, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Borrowers against any and all of the obligations of the Borrowers now or hereafter existing under this Agreement and the Promissory Note held by such Bank; provided that to the extent not prohibited by applicable law or affecting the Banks' or holder of the Senior Notes' right to retain such funds, Banks shall retain Banks' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the holder of the Senior Notes. Each Bank agrees promptly to notify the Borrowers and Agent after any such setoff and application made by such Bank; provided, however, that the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Bank under this Section Eight are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

SECTION NINE DEFAULT

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

(a) If any Borrower or Guarantor shall fail to pay (i) any installment of principal, or interest when due or (ii) fees, costs, expenses or any other sum payable to Banks hereunder or otherwise within 5 days after notice from Agent it is due;

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

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

(d) If there shall be a default in or failure to observe at any test date the covenants set forth in Paragraphs 6.13 through 6.15 or Section Seven hereof;

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

(f) If a Change of Control shall occur;

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

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

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

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

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

9.2. Remedies. Upon the happening and during the continuation of any Event of Default, at the election of Required Lenders, and by notice by Agent to Borrowers (except if an Event of Default described in Paragraph 9.1(h) shall occur in which case acceleration shall occur automatically without notice), Required Lenders may declare the entire unpaid balance, principal, interest and fees, of all indebtedness of Borrowers to Banks, hereunder or otherwise, to be immediately due and payable. Upon such declaration, the Commitment shall immediately and automatically terminate and Banks shall have no further obligation to make any advances and the immediate right to enforce or realize on any collateral security granted therefor in any manner or order they deem expedient without regard to any equitable principles of marshaling or otherwise. In addition to any rights granted hereunder or in any documents delivered in connection herewith, Banks shall have all the rights and remedies granted by any applicable law, all of which shall be cumulative in nature.

SECTION TEN THE BANKS

This Section sets forth the relative rights and duties of Agent, Documentation Agent and Banks respecting the Loan and does not confer any enforceable rights on Borrowers against Banks or create on the part of Banks any duties or obligations to the Borrowers.

10.1. Application of Payments. Agent shall apply all payments of principal, interest, commitment fee or other amounts hereunder made to Agent by or on behalf of Borrowers, to Banks on the basis of their Pro Rata Shares of the outstanding principal balance of

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the Loan hereunder, and shall apply the fees paid to the Agent on its own behalf upon the issuance of each Letter of Credit in Paragraph 3.4 hereof.

10.2. Setoff. In the event a Bank, by exercise of its right of setoff, or otherwise, receives any payment of the indebtedness owing to it hereunder in an amount greater than its Pro Rata Share of such payment based upon the Banks' respective shares of the Loan outstanding immediately before such payment, such Bank shall purchase a portion of the Loan hereunder owing to each other Bank so that after such purchase each Bank shall hold its Pro Rata Share of Loan then outstanding hereunder, provided that if all or any portion of such excess payment is thereafter recovered from such Bank, such purchase shall be rescinded and the purchase price restored to the extent of any such recovery, but without interest.

10.3. Modifications and Waivers. No modification or amendment hereof, consent hereunder or waiver of Event of Default shall be effective except by written consent of the Required Banks, provided, however, (A) that the written consent of all Banks shall be required to: (i) decrease the rate of interest or fees due hereunder, (ii) increase or, other than in the case of pro rata reductions pursuant to Paragraph 2.8 hereof, decrease the amount of the Commitment or the Banks' respective Pro Rata Shares thereof, (iii) modify, amend or waive compliance with the dates of payment of principal, interest or fees hereunder, (iv) modify, amend or waive compliance with the commitment fee, (v) modify, amend, waive or release any Guarantor from the provisions of Section Eleven hereof; or (vi) amend or modify the provisions of the definition of Required Banks or this Paragraph 10.3; (B) with respect to: (i) Paragraphs 6.13, 6.14 and 6.15 and Section Seven hereof; (ii) any of the Events of Default set forth in Paragraph 9.1 hereof; (iii) the mandatory and voluntary prepayment provisions of Paragraph 2.8 hereof; and (iv) any of the definitions relating to the matters described in clauses (i) through (iii) above, the holders of the Senior Notes shall have simultaneously amended, waived or modified the corresponding provision to the Note Purchase Agreement; and (C) that any amendment pursuant to Paragraph 2.1(d) shall not require the consent of any Bank, each of which hereby agrees to execute such amendment to implement the Additional Commitment. The Borrowers hereby agree to execute such further documents including without limitation amendments to this Agreement, and the Promissory Note(s), and certificates and deliver such opinions as the Agent and its counsel shall so request to implement any termination or replacement contemplated hereby. Any amendment or waiver made pursuant to this Section 10.3 shall apply to and bind all of the Banks and any future holder of any Promissory Notes. No modification or waiver of any provision of this Agreement or any Promissory Note, nor any consent to any departure by the Borrowers herefrom or therefrom, shall in any case be effective unless the same be in writing, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in any similar or other circumstances.

10.4. Obligations Several. The obligations of the Banks hereunder are several, and each Bank hereunder shall not be responsible for the obligations of the other Banks

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hereunder, nor, will the failure of one Bank to perform any of its obligations hereunder relieve the other Banks from the performance of their respective obligations hereunder.

10.5. Banks' Representations. Each Bank represents and warrants to the other Banks that (i) it has been furnished all information it has requested for the purpose of evaluating its proposed participation under this Agreement; and (ii) it has decided to enter into this Agreement on the basis of its independent review and credit analysis of Borrowers, this Agreement and the documentation in connection therewith and has not relied for such analysis on any information or analysis provided by any other Bank.

10.6. Investigation. No Bank shall have any obligation to the others to investigate the condition of the Borrowers or any other matter concerning the Loan.

10.7. Powers of Agent; Rights and Duties of Documentation Agent. Agent shall have and may exercise those powers specifically delegated to Agent herein, together with such powers as are reasonably incidental thereto. The parties hereby agree that Documentation Agent, in its capacity as Documentation Agent hereunder, shall not have any obligations, rights or duties hereunder.

10.8. General Duties of Agent, Immunity and Indemnity. In performing its duties as Agent hereunder, Agent will take the same care as it takes in connection with loans in which it alone is interested, subject to the limitations on liabilities contained herein; provided that Agent shall not be obligated to ascertain or inquire as to the performance of any of the terms, covenants or conditions hereof by Borrowers. Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action or omission by any of them hereunder or in connection herewith except for gross negligence or willful misconduct. Subject to such exception, each of the Banks hereby indemnifies Agent on the basis of such Bank's Pro Rata Share, against any such liability, claim, loss or expense.

10.9. No Responsibility for Representations or Validity, etc. Each Bank agrees that Agent shall not be responsible to any Bank for any representations, statements, or warranties of Borrowers herein. Agent will promptly deliver to Banks such reports, notices and material information which it receives from Borrowers. Neither Agent nor any of its directors, officers, employees or agents shall be responsible for the validity, effectiveness, sufficiency, perfection or enforceability of this Agreement or any documents relating thereto.

10.10. Action on Instruction of Banks; Right to Indemnity. Agent shall in all cases be fully protected in acting or refraining from acting hereunder in accordance with written instructions to it signed by Required Banks unless the consent of all the Banks is expressly required hereunder in which case Agent shall be so protected when acting in accordance with such instructions from all the Banks. Such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks, provided that except as otherwise provided herein, Agent may act hereunder in its own discretion without requesting such instructions.

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Agent shall be fully justified in failing or refusing to take any action hereunder unless it shall first be specifically indemnified to its satisfaction by the other Banks on the basis of their respective Pro Rata Shares, against any and all liability and expense which it may incur by reason of taking or continuing to take any such action.

10.11. Employment of Agents. In connection with its activities hereunder, Agent may employ agents and attorneys-in-fact and shall not be answerable, except as to money or securities received by it or its authorized agents, for the default or misconduct of agents or attorneys-in-fact selected with reasonable care.

10.12. Reliance on Documents. Agent shall be entitled to rely upon any paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons and upon the opinion of its counsel with respect to legal matters.

10.13. Agent's Rights as a Bank. With respect to its share of the indebtedness hereunder, Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not Agent. Each of the Banks may accept deposits from, lend money to, and generally engage in any kind of banking or trust business with Borrowers as if it were not Agent or a Bank hereunder.

10.14. Expenses. Each of the Banks shall reimburse Agent, from time to time at the request of Agent, for its Pro Rata Share of any expenses incurred by Agent in connection with the performance of its functions hereunder,

provided however that in the event Banks shall reimburse Agent for expenses for which Borrowers subsequently reimburse Agent, Agent shall remit to each Bank the respective amount received from such Bank against such expenses.

10.15. Resignation of Agent. Agent may at any time resign its position as Agent, without affecting its position as a Bank, by giving written notice to Banks and Borrowers. Such resignation shall take effect upon the appointment of a successor agent in accordance with this Paragraph. In the event Agent shall resign, Banks shall appoint a bank as successor agent. If within thirty (30) days of the Agent's notice of resignation no successor agent shall have been appointed by Banks and accepted such appointment, then Agent, in its discretion may appoint any other bank as a successor agent.

10.16. Successor Agent. The successor Agent appointed pursuant to Paragraph 10.15 shall execute and deliver to its predecessor and Banks an instrument in writing accepting such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the properties, rights, duties and obligations of its predecessor Agent. The predecessor Agent shall deliver to its successor Agent forthwith all collateral security, documents and moneys held by it as Agent, if any, whereupon such predecessor Agent shall be discharged from its duties and obligations as Agent under this Agreement.

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10.17. Collateral Security. Agent will hold, administer and manage any collateral security pledged from time to time hereunder either in its own name or as Agent, but each Bank shall hold a direct, undivided pro-rata beneficial interest therein, on the basis of its Pro Rata Share, by reason of and as evidenced by this Agreement.

10.18. Enforcement by Agent. All rights of action under this Agreement and under the Promissory Notes and all rights to the collateral security, if any, hereunder may be enforced by Agent and any suit or proceeding instituted by Agent in furtherance of such enforcement shall be brought in its name as Agent without the necessity of joining as plaintiffs or defendants any other Banks, and the recovery of any judgment shall be for the benefit of Banks subject to the expenses of Agent.

SECTION ELEVEN GUARANTY

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

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

11.3. Nature and Term of Guaranty. The obligations of each Guarantor under this Section Eleven shall be independent, absolute, irrevocable and unconditional and shall remain in full force and effect until the Obligations and all other amounts payable hereunder shall have been paid in full (subject, however, to reinstatement under Paragraph 11.2 hereof).

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11.4. Rights and Remedies of Agent. Agent, acting on behalf of Banks may proceed to exercise any right or remedy which it may have under this Section Eleven against Guarantors without first pursuing or exhausting any rights or remedies which it may have against the Borrowers, any additional guarantor or against any other person or entity or any collateral security, and may proceed to exercise any right or remedy which it may have under this Section

Eleven without regard to any actions or omissions of any other person or entity, in any manner or order, without any obligation to marshal in favor of Guarantors or other persons or entities and without releasing any of Guarantors' obligations hereunder with respect to any unpaid Obligations and Expenses. No remedy herein conferred upon or reserved to Agent is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Section Eleven or now or hereafter existing at law or in equity.

11.5. Actions by Agent Not Affecting Guaranty. Agent, acting on behalf of Banks, or Banks, in accordance with Paragraph 10.3 of this Agreement, may, at any time or from time to time, in such manner and upon such terms as Banks may deem proper, extend or change the time of payment or the manner or place of payment of, or otherwise modify or waive any of the terms of, or release, exchange, settle or compromise any or all of the Obligations and Expenses or any collateral security therefor, or subordinate payment of the same, or any part thereof, to the payment of any other indebtedness, liabilities or obligations of Borrowers which may at any time be due or owing to Banks or anyone, or elect not to enforce any of Banks' rights with respect to any or all of the Obligations and Expenses or any collateral security therefor, all without notice to, or further assent of, Guarantors and without releasing or affecting Guarantors' obligations under this Section Eleven.

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

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11.7. Payments Under Guaranty. All payments by Guarantors hereunder shall be made in immediately available funds and in lawful money of the United States of America to Agent at its office at Broad and Chestnut Streets, Philadelphia, PA 19107 or at such other location as Agent shall specify by notice to Guarantors.

11.8. Waivers and Modifications. No failure or delay on the part of Agent in exercising any power or right under this Section Eleven against Guarantors shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power under this Section Eleven. No modification or waiver of any provision of this Section Eleven, nor consent to any departure therefrom, shall, in any event, be effective unless the same is in writing signed by Agent and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to, or demand on Guarantors, in any case, shall entitle the Guarantors to any other or further notice or demand in similar or other circumstances.

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

11.10. Subordination of Rights of Subrogation. Guarantors shall not exercise any rights which Guarantors may acquire by way of subrogation under this Section Eleven, applicable law or otherwise, by any payment made hereunder or otherwise, until all of the Obligations and Expenses and all other amounts payable hereunder (including amounts which may become due following a reinstatement hereof under Paragraph 11.2 hereof) shall have been paid in full in cash. If any amount shall be paid to any Guarantor on account of such rights at any time when all the Obligations and Expenses shall not have been paid in full (including amounts which may become due following a reinstatement hereof under Paragraph 11.2 hereof), such amount paid to such Guarantor shall be held in trust for the benefit of Banks and shall forthwith be paid to Agent to be credited and applied against the Obligations and Expenses, whether matured or unmatured, in accordance with the terms of the Promissory Notes and this Agreement; provided, however, that to the extent not prohibited by applicable law or affecting the Banks' or holder of the Senior Notes right to retain such

funds, Banks shall retain Banks' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the holder of the Senior Notes. If any Guarantor shall make payment to Agent of all or any part of the Obligations and Expenses and all of the Obligations and Expenses shall be paid in full, Agent shall, at such Guarantor's request, execute and deliver to such Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer, by subrogation, to Guarantor of an interest in the Obligations resulting from such payment by Guarantor.

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11.11. No Setoff by Guarantors. No setoff, counterclaim, reduction, or diminution of any obligation, or any defense of any kind or nature which Guarantors have or may have against Borrowers or any Bank shall be available hereunder to Guarantors.

11.12. Continuing Guaranty; Transfer of Promissory Note.

Except as provided in Paragraph 11.2. hereof, this Section Eleven is a continuing guaranty and shall (i) remain in full force and effect until the Obligations and Expenses and all other amounts payable under this Section Eleven shall have been paid in full (subject, however, to reinstatement under Paragraph 11.2 hereof), (ii) be binding upon Guarantors and the successors and assigns of Guarantors, and (iii) inure to the benefit of Banks, and be enforceable by Agent and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Bank may, to the extent permitted in this Agreement endorse, assign or otherwise transfer its Promissory Notes to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to such Bank herein or otherwise.

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

SECTION TWELVE
MISCELLANEOUS

12.1. Indemnification. Each Borrower and each Guarantor hereby agrees to defend Agent and each Bank and its directors, officers, agents, employees and counsel (each an "Indemnified Party") from, and hold each of them harmless against, any and all losses, liabilities (including without limitation settlement costs and amounts, transfer taxes, documentary taxes, or assessments or charges made by any governmental authority other than taxes imposed on the net income of a Bank), claims, damages, interests, judgments, costs, or expenses, including without limitation reasonable fees and disbursements of counsel, incurred by any of them arising out of or in connection with or by reason of this Agreement, the Commitment or the making of the Loan, including without limitation, any and all losses, liabilities, claims, damages, interests, judgments, costs or expenses relating to or arising under any Environmental Control Statute or the application of any such Statute to any of Borrowers' or Guarantors' properties or assets, provided, that neither the Borrowers nor the Guarantors shall be liable for any portion of such losses, liabilities, claims, damages, interests, judgments, costs and expenses resulting from the gross negligence or willful misconduct of an Indemnified Party. All obligations provided for in this Paragraph 12.1 shall survive any termination of this Agreement or the Commitment and the repayment of the Loan.

12.2. Participations and Assignments. Each Borrower hereby acknowledges and agrees that a Bank may at any time: (a) grant participations in its right, title and interest therein or

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in or to this Agreement (collectively, "Participations") to any other lending office or to any other bank, lending institution or other entity which has the requisite sophistication to evaluate the merits and risks of investments in Participations (collectively, "Participants"); provided, however, that: (i) all amounts payable by Borrowers hereunder shall be determined as if such Bank had not granted such Participation; and (ii) any agreement pursuant to which any Bank may grant a Participation: (x) shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of Borrowers hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provisions of this Agreement; (y) such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement without the consent of the Participant if such amendment, modification or waiver would reduce the principal of or rate of interest on the Loan or postpone the date fixed for any payment of principal of or interest on the Loan or release the guaranty provided for herein; and (z) shall not relieve such Bank from its obligations, which shall remain absolute, to make Advances hereunder and (b) assign its right, title and

interest therein or in and to this Agreement in an aggregate amount of at least the lesser of (i) Five Million Dollars (\$5,000,000) or (ii) its remaining interest in the Loan, to a third party with the prior written consent of the Agent and in the absence of a Default or an Event of Default, the Company, which consent of the Company shall not be unreasonably withheld (provided, however, that a Bank may assign up to one hundred percent (100%) of its interests and consent shall not be required in connection with (i) an assignment from a Bank to its affiliate or another Bank or (ii) a pledge by a Bank to its Federal Reserve Bank) and upon payment to Agent of a transfer fee in the amount of \$3,500.

12.3. Binding and Governing Law. This Agreement and all documents executed hereunder shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Borrowers may not assign this Agreement without the prior written consent of Banks, and shall be governed as to their validity, interpretation and effect by the laws of the Commonwealth of Pennsylvania.

12.4. Survival. All agreements, representations, warranties and covenants of Borrowers contained herein or in any documentation required hereunder shall survive the execution of this Agreement and the making of the Loan hereunder and except for Paragraphs 6.10 and 12.1 which provide otherwise and any amounts which may arise under Paragraphs 2.6(d), 2.7(c) and 2.10 hereof, will continue in full force and effect as long as any indebtedness or other obligation of Borrowers to any Bank remains outstanding.

12.5. No Waiver; Delay. If Banks or any of them shall waive any power, right or remedy arising hereunder or under any applicable law, such waiver shall not be deemed to be a waiver upon any other Bank or the later occurrence or recurrence of any of said events with respect to any Bank. No delay by Banks in the exercise of any power, right or remedy shall, under any circumstances, constitute or be deemed to be a waiver, express or implied, of the same and no course of dealing between the parties hereto shall constitute a waiver of Banks' powers,

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rights or remedies. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

12.6. Modification/Waiver. Except as otherwise provided in this Agreement, no modification or amendment hereof, or waiver or consent hereunder, shall be effective unless made in a writing signed by appropriate officers of the parties hereto.

12.7. Headings. The various headings in this Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Agreement or any provision hereof.

12.8. Notices. Any notice, request or consent required hereunder or in connection herewith shall be deemed satisfactorily given if in writing (including by facsimile transmissions) and delivered by hand or mailed (registered or certified mail) to the Banks to the attention of the individuals and at the respective addresses or telecopier numbers set forth in Schedule 2 to this Agreement and to Borrowers and Guarantors to the attention of the Chief Financial Officer, SunSource Inc. at the address of Borrowers set forth on page 1 hereof and at telecopy number 215-282-1309 or such other addresses or telecopier numbers as may be given by any party to the others in writing.

12.9. Payment on Non-Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day other than a Business Day, such payment may be made on the next succeeding Business Day, provided however that such extension of time shall be included in the computation of interest due in conjunction with such payment or other fees due hereunder, as the case may be.

12.10. Time of Day. All time of day restrictions imposed herein shall be calculated using Agent's local time.

12.11. Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

12.12. Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document, and each such counterpart shall be deemed to be an original.

12.13. Consent to Jurisdiction and Service of Process. Each Borrower and Guarantor irrevocably appoints each and every officer of SunSource Inc. as its attorney upon whom may be served any notice, process or pleading in any action or proceeding against it arising out of or in connection with this

Agreement, the Promissory Notes or any document executed or action taken in connection therewith; and each Borrower hereby consents that any

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action or proceeding against it be commenced and maintained in any court within the Commonwealth of Pennsylvania or in the United States District Court for the Eastern District of Pennsylvania by service of process on any such officer; and each Borrower agrees that the courts of the Commonwealth of Pennsylvania and the United States District Court for the Eastern District of Pennsylvania shall have jurisdiction with respect to the subject matter hereof and the person of each Borrower. Notwithstanding the foregoing, a Bank, in its absolute any discretion may also initiate proceedings in the courts of any other jurisdiction in which each Borrower may be found or in which any of its properties may be located.

12.14. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE PROMISSORY NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY BANK OR AGENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR EACH BANK'S ENTERING INTO THIS AGREEMENT.

12.15. ACKNOWLEDGMENTS. EACH BORROWER AND GUARANTOR ACKNOWLEDGES THAT IT HAS HAD THE ASSISTANCE OF COUNSEL IN THE REVIEW AND EXECUTION OF THIS AGREEMENT AND, SPECIFICALLY, PARAGRAPH 12.14 HEREOF, AND FURTHER ACKNOWLEDGES THAT THE MEANING AND EFFECT OF THE FOREGOING WAIVER OF JURY TRIAL HAVE BEEN FULLY EXPLAINED TO EACH BORROWER AND GUARANTOR BY SUCH COUNSEL.

12.16. Complete Agreement. This Agreement sets forth the complete agreement of the parties hereto with respect to the matters addressed herein, and supersedes any prior

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written agreement or any prior or simultaneous oral agreements between the parties with respect to the same subject matter.

IN WITNESS WHEREOF, the undersigned, by their duly authorized partners or officers, as applicable, have executed this Agreement the day and year first above written.

SDI OPERATING PARTNERS, L.P.,

By: SDI Partners I, L.P., its general partner

By: SUNSUB B INC., its general partner

By: _____
Name:
Title:

SUNSOURCE INC., as Guarantor, and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: _____
Name:
Title:

SUNSUB B INC., as Guarantor, and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: _____
Name:
Title:

[EXECUTIONS CONTINUED]

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SUNSUB A INC., as Guarantor, and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: _____
Name:
Title:

SDI PARTNERS I, L.P., as Guarantor, and for purposes of making the representations and warranties and agreeing to the covenants and other agreements as set forth in the Agreement

By: SUNSUB B INC., its general partner

By: _____
Name:
Title:

CORESTATES BANK, N.A., individually and in its capacity as Agent hereunder

By: _____
Name:
Title:

[EXECUTIONS CONTINUED]

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THE BANK OF NOVA SCOTIA

By: _____
Name:
Title:

FIFTH THIRD BANK

By: _____
Name:
Title:

SUNTRUST BANK, ATLANTA

By: _____
Name:
Title:

By: _____
Name:
Title:

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By: _____
Name:
Title:

=====

SDI OPERATING PARTNERS, L.P.
AND THE SUBSIDIARIES SET FORTH
ON SCHEDULE I HERETO

NOTE PURCHASE AGREEMENT

Dated as of September 30, 1997

7.66% Senior Notes due 2002

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SDI OPERATING PARTNERS, L.P.
AND ITS SUBSIDIARIES SET FORTH ON
SCHEDULE I HERETO
One Logan Square
Philadelphia, Pennsylvania 19103

NOTE PURCHASE AGREEMENT

Philadelphia, Pennsylvania
as of September 30, 1997

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

Ladies and Gentlemen:

SDI OPERATING PARTNERS, L.P., a Delaware limited partnership (the "Company"), and its Subsidiaries set forth on Schedule I hereto (the "Subsidiaries" and collectively with the Company, the "Obligors"), hereby agree with you as follows:

I. ISSUANCE OF NOTES.

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

B. Purchase and Sale of Notes; the Closing. The Company shall sell to you and, subject to the terms and conditions hereof, you shall purchase from the Company, Notes in the aggregate principal amount of \$60,000,000, at a price equal to 100% of such amount. The closing of the purchases of Notes by you hereunder shall be held at 10:00 a.m., Philadelphia time, on September 30, 1997 (the "Closing Date") at the office of Pepper, Hamilton & Scheetz LLP, 3000 Two Logan Square, 18th and Arch Streets, Philadelphia, PA 19103. On the Closing Date, the Company will deliver to you one or more Notes, in any denominations (multiples of \$1,000), in the aggregate principal amount to be purchased by you, all as you may specify by timely notice

to the Company (or, in the absence of such notice, one Note to be purchased by you registered in your name), duly executed and dated the Closing Date, against your delivery to the Company of such purchase price.

C. Representations of the Purchaser. You represent to the Company as follows:

1. You are purchasing the Notes to be purchased by you on the ClosingDate for investment and not with a view to the distribution or sale of the Notes, subject, however, to any requirement of law that your property be at all times within your control.

2. The source of your funds to pay the purchase price of the Notes is an "insurance company general account" (as the term is defined in Prohibited Transaction Exemption 95-60 (issued by the Department of Labor on July 12, 1995)) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in said Prohibited Transaction Exemption 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with your state of domicile.

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

D. Surcharge Rate. Notwithstanding the interest rate set forth in Paragraph 1.1 hereof and in the Notes, the Company shall pay interest on the Notes at the rate of 7.91% (the "Surcharge Rate") (i) for the period from the Closing Date to December 31, 1997 and (ii) thereafter if for the Rolling Period ended on or immediately prior to the date of the interest payment then being made, the Leverage Ratio is equal to or greater than 2.75 to 1.

II. REPRESENTATIONS OF THE COMPANY. Each of the Obligors and Guarantors represents and warrants to you that:

A. Organization and Good Standing. Each of the Company and SDIPI is a limited partnership duly formed and validly existing under the laws of the state of Delaware, and has the power and authority to carry on its business as now conducted. Each Subsidiary and each Guarantor (other than SDIPI) is duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation, and has the power and authority to carry on its business as now conducted. Each of the Company and Guarantors is qualified to do business in all other states in which the failure to qualify would have a Material Adverse Effect.

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

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

D. Material Contracts. None of the Guarantors or the Obligors is a party to or in any manner obligated under any contracts material to their

respective business except this Agreement, the Notes, their organizational documents, the Promissory Notes, the Credit Agreement, the Indenture, and the agreements identified on Exhibit B hereto and there exists no material default under any of such contracts.

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

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

G. Title to Assets. Except as set forth on Exhibit B hereto, each Obligor and Guarantor has good and marketable title to substantially all of its properties and assets as

reflected in the financial statements of SunSource Inc. and its Consolidated Subsidiaries most recently delivered to you pursuant to Paragraphs 3.6, 5.2 and 5.3 hereof, free and clear of any liens and encumbrances, except the security interests permitted pursuant to Paragraph 6.4 hereof and all such assets are in good order and repair and fully covered by the insurance required pursuant to Paragraph 5.7 hereof.

H. Partnership Interests. The number and percentage of partnership interests in the Company and SDIPI and the ownership thereof, effective upon the conversion, are accurately set forth on Exhibit B attached hereto; all such interests are validly existing and the creation and sale thereof are in compliance with all applicable federal and state securities and other applicable laws; the ownership thereof is free and clear of any liens and encumbrances or other contractual restrictions except as set forth in the Partnership Agreements, and SDIPI is the general partner of the Company.

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

J. Accuracy of Information; Full Disclosure.

1. All information furnished to you concerning the financial condition of SunSource Inc. and its Consolidated Subsidiaries, including SunSource L.P. and its Consolidated Subsidiaries', SDIPI's, and the Guarantors' respective annual financial statements for the period ending December 31, 1996, and SunSource L.P. and its Consolidated Subsidiaries' consolidated interim financial statement for the period ending June 30, 1997, copies of which have been furnished to you, have been prepared in accordance with GAAP (except that the annual financial statements of SDIPI were prepared on a tax basis, not a GAAP basis) and fairly present the financial condition of SDIPI, Guarantors and SunSource L.P. and its Consolidated Subsidiaries as of the dates and for the periods covered and discloses liabilities of SDIPI, Guarantors and SunSource L.P. and its Consolidated Subsidiaries required to be disclosed under GAAP and, except on the date hereof for the effect of the Conversion, there has been no Material Adverse Change from the date of such statements to the date hereof; and

2. All financial statements and other documents furnished by SunSource L.P., SDIPI, Guarantors and SunSource Inc. and its subsidiaries to you in connection with this Agreement and the Notes do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading. The Company and Guarantors have disclosed to you in writing any and all facts which materially and adversely affect the business, properties, operations or condition,

financial or otherwise, of Guarantors and the Obligors' or the Obligors' or Guarantors' ability to perform their respective obligations under this Agreement and the Notes.

K. Taxes and Assessments.

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

2. Each of the Guarantors and the Obligors has properly withheld all amounts determined by them to be required by law to be withheld for income taxes and unemployment taxes including without limitation, all amounts required with respect to social security and unemployment compensation, relating to its employees, and has remitted such withheld amounts in a timely manner to the appropriate taxing authority, agency or body.

3. As of the date of this Agreement, none of the federal income tax information returns of SDPII or the Company has been audited. Except as set forth on Exhibit B hereto, neither Guarantors nor Obligors have entered into any agreements for the extension of time for the assessment of any tax or tax delinquency, nor has any of them received outstanding and unresolved notices from the Internal Revenue Service or any other state, local or foreign taxing authority, agency or body of any proposed examination or of any proposed change in reported information which may result in a deficiency or assessment against Guarantors or Obligors and there are no suits, actions, claims, investigations, inquiries or proceedings now pending against Guarantors or Obligors in respect of taxes, governmental charges or assessments.

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

M. Management Agreements. The Company is a party to no other material management or consulting agreements for the provision of services to the Company, except as described in Exhibit B hereto.

N. Subsidiaries and Investments. Obligors have no Subsidiaries or Affiliates, or investments in or loans to any other individuals or business entities, except as described in Exhibit B hereto and except as are permitted to be acquired or created pursuant to Paragraph 6.8 hereof.

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

1. Neither Guarantors, Obligors nor any ERISA Affiliate maintains or contributes to or has maintained or contributed to any multiemployer plan (as defined in Section 4001 of ERISA) under which Guarantors, Obligors, or any ERISA Affiliate could have any withdrawal liability;

2. Neither Guarantors, Obligors, nor any ERISA Affiliate, sponsors or maintains any Plan under which there is an Accumulated Funding Deficiency, whether or not waived;

3. The aggregate liability for accrued benefits and other ancillary benefits under each Plan that is or will be sponsored or maintained by Guarantors, Obligors or any ERISA Affiliate (determined on the basis of the

actuarial assumptions prescribed for valuing benefits under terminating single-employer defined benefit plans under Title IV of ERISA) does not exceed the aggregate fair market value of the assets under each such defined benefit pension Plan;

4. Neither Guarantors, Obligors nor any ERISA Affiliate has liability arising out of or relating to a failure of any Plan to comply with the provisions of ERISA or the Code;

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

6. The matters described on Exhibit B attached hereto referencing clauses (a) through (e) this Paragraph 2.15, would not, either singly or in the aggregate, have a Material Adverse Effect.

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

P. Fees and Commissions. The Obligors owe no fees or commissions of any kind, and know of no claim for any fees or commissions, in connection with the Obligors' issuing the Notes except (i) those set forth in the Credit Agreement and (ii) those provided herein.

Q. No Extension of Credit for Securities. Guarantors and Obligors are not now, nor at any time have they been, engaged principally, or as one of their important activities, in the business of extending or arranging for the extension of credit, for the purpose of purchasing or carrying any margin stock or margin securities; nor will the proceeds of the Notes be used by the Company directly or indirectly, for such purposes.

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

1. Each of the Guarantors and the Obligors: (i) has received all permits and filed all notifications necessary to carry on their respective business(es); and (ii) is in compliance in all respects with all Environmental Control Statutes except with respect to immaterial instances of noncompliance of which it has no knowledge.

2. Neither Guarantors nor Obligors have given any written or oral notice, nor has it failed to give required notice, to the Environmental Protection Agency ("EPA") or any state or local agency with regard to any actual or imminently threatened removal, spill, release or discharge of Hazardous Substances on properties owned, leased or operated by Guarantors or Obligors or used in connection with the conduct of its business and operations.

3. Neither Guarantors nor Obligors have received notice that it is potentially responsible for the performance of or payment of costs relating to clean-up or remediation of any actual or imminently threatened spill, release or discharge of Hazardous Substances pursuant to any Environmental Control Statute.

S. Solvency. To the best of SunSource Inc.'s knowledge, SunSource Inc. and its Consolidated Subsidiaries are, on a consolidated basis, upon the Conversion and after receipt and application of the proceeds of the sale of the Notes will be, solvent such that (i) the fair value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is greater than the total amount of their liabilities, including without limitation, contingent liabilities, (ii) the present fair salable value of their assets (including without limitation the fair salable value of the goodwill and other intangible property of SunSource Inc. and its Consolidated Subsidiaries) is not less than the amount that will be required to pay the probable liability on their debts as they become absolute and matured, and (iii) they are able to realize upon their assets and pay their debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business. SunSource Inc. and its Consolidated Subsidiaries (i) do not intend to, and do not believe that they will, incur debts or liabilities beyond their ability to pay as such debts and liabilities mature, or (ii) are not engaged in a business or transaction, or about to engage in a business or transaction, for which their property would constitute unreasonably small capital after giving due consideration to the prevailing practice and industry in which they are engaged.

For purposes of this Paragraph 2.19, in computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual matured liability.

T. Investment Company Act. Neither the Obligors nor Guarantors are directly or indirectly controlled by or acting on behalf of any person which is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

U. Private Offering by the Company. Neither the Company, nor any partner thereof, nor anyone acting on behalf of the Company, or any partner thereof, has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than you. Neither the Company, nor any partner thereof, nor anyone acting on behalf of the Company, or any partner thereof, has taken, or will take, any action which would subject the issuance or sale of the Notes to Section 5 of the Securities Act of 1933, as amended.

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

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

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

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

B. Opinion of Special Counsel. You shall have received an opinion dated the Closing Date from Milbank, Tweed, Hadley & McCloy, your special counsel, in form and substance satisfactory to you.

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

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

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

F. Financial Information. The Company shall have furnished to you: (i) a pro forma schedule of assets and liabilities of SunSource Inc. and its Consolidated Subsidiaries setting forth all SunSource Inc.'s and its Consolidated Subsidiaries' Indebtedness, certified as accurate by the chief financial officer of SunSource Inc.; (ii) cash flow projections for SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis, for the three (3) year period immediately following the date hereof, satisfactory to you and certified as reasonable by the chief financial officer or controller of SunSource Inc. (such cash flow projections shall take into account the transactions contemplated by this Agreement and shall identify the sources of cash the Company intends to use to meet its needs during such three year period); (iii) financial projections for SunSource Inc. and its Consolidated Subsidiaries for the period from closing through December 31, 2001 on a consolidated basis satisfactory to you and (iv) a certificate with respect to the matters set forth in Paragraph 2.19 hereof.

G. Private Placement Number. The Company shall have delivered to you a

certificate or other satisfactory evidence that Standard & Poor's CUSIP Service Bureau has assigned a private placement number with respect to the Notes.

H. Prepayment of Existing Notes. In connection with the Conversion, the Company shall simultaneously prepay the entire aggregate principal amount of its Senior Notes due 2002 (together with the agreed upon make whole premium) and the holders of such Notes shall have waived, pursuant to an instrument in form and substance satisfactory to you, the refunding restrictions applicable thereto.

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

J. The Conversion. The Company shall complete the Conversion as outlined in SEC Form S-4 Registration Statement dated December 31, 1996, as amended.

K. Commitment Fee. The Company shall have paid to you a commitment fee of .25% on the entire principal amount of the Notes.

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

M. Other Documents. The Company shall provide you with the Declaration of Trust of the Trust, the Indenture, and such additional documents as you reasonably may request.

IV. PREPAYMENT OF THE NOTES.

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

B. Optional Prepayment of the Notes.

1. Upon notice given as provided in Paragraph 4.3, the Company, at its option, may at any time prepay the Notes as a whole or from time to time in part (in multiples of \$100,000), in each case at the principal amount so to be prepaid, together with interest accrued thereon to the date fixed for such prepayment, plus (subject to Paragraph 4.2(b) below) an amount equal to the Make-Whole Amount for each such Note. Each prepayment pursuant to this Paragraph 4.2 shall be allocated as provided in Paragraph 4.4.

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

C. Notice of Prepayment; Make-Whole Computations.

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

2. Three business days prior to any prepayment pursuant to Paragraph 4.2, the Company will furnish to each holder of a Note an Officer's Certificate setting forth in reasonable detail the calculation of the Make-Whole Amount (if any) in connection with such prepayment and attaching a copy of the source of the market data by reference to which the applicable Treasury Yields were determined in connection with such computations.

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

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

F. Purchase of Notes. The Company will not, and will not permit any of

its Subsidiaries to, acquire directly or indirectly by purchase or prepayment or otherwise any of the outstanding Notes except by way of payment or prepayment in accordance with the provisions of the Notes and of this Agreement.

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

H. Prepayment in Connection with a Sale of Material Assets. If at any time the Company is required to offer to apply any Net Cash Proceeds of any asset disposition to the prepayment of the Notes as contemplated by Paragraph 6.7 (including any Designated Disposition Proceeds not applied by the Company to the prepayment of the Notes pursuant to Paragraph 4.2), the Company will give written notice thereof to the holders of all outstanding Notes, which notice shall (i) refer specifically to this Paragraph 4.8, (ii) specify the Asset Disposition Prepayment Date and the Response Date (each as defined below) in respect thereof, (iii) set forth (x) the aggregate Net Cash Proceeds to be applied to the retirement of the Indebtedness, (y) the Noteholders' Applicable Share and (z) the amount of such Noteholders'

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

V. AFFIRMATIVE COVENANTS. The Obligors and Guarantors covenant and agree that so long as any Note shall be outstanding hereunder, each of the Obligors and Guarantors will (and with respect to Paragraph 5.11, the Obligors will cause each ERISA Affiliate) to:

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

B. Quarterly Financial Statements. Furnish each holder of a Note within forty-five (45) days of the end of each quarterly fiscal period hereafter, other than the last quarterly fiscal period in the fiscal year, with unaudited quarterly consolidated financial statements of SunSource Inc. and its Consolidated Subsidiaries, in form and substance as required by GAAP, including for each such quarter (i) a consolidated balance sheet; (ii) a consolidated

statement of income; (iii) a consolidated statement of cash flows; and (iv) a certificate in the form of Exhibit C attached hereto executed by the chief financial officer or controller of SunSource Inc. showing the calculation of the covenants set forth in Paragraphs 5.12 through 5.14 and Section Six hereof prepared in accordance with GAAP consistently applied and stating that the financial statements fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date and for the periods covered and that as of the date of such certificate there exists no violation of any provision of this Agreement or the happening of any Event of Default or Default.

C. Annual Financial Statements. Furnish each holder of a Note within ninety (90) days after the close of each fiscal year commencing with fiscal 1997 with audited consolidated annual financial statements of SunSource Inc. and its Consolidated Subsidiaries, including the financial statements, certificate in the form of Exhibit C attached hereto and information required under Paragraph 5.2 hereof, which consolidated financial statements shall be prepared in accordance with GAAP. The financial statements delivered pursuant to (i) above shall be certified without qualification (except with respect to changes in GAAP as to which SunSource Inc.'s independent certified public accountants have concurred) by an independent certified public accounting firm satisfactory to the Required Holders; and SunSource Inc. shall cause each holder of a note to be furnished, at the time of the completion of the annual audit, with a certificate signed by such accountants showing the calculation of the covenants set forth in Paragraphs 5.12 through 5.14 and Section Six hereof and stating that to the best of their knowledge there exists no violations of any provisions of this Agreement or the happening of any Event of Default or Default hereunder.

D. Cash Flow Projections. Furnish to each holder of a Note, on or before March 31 of each year, commencing with fiscal year 1998, cash flow projections of SunSource Inc. and its Consolidated Subsidiaries on a consolidated basis for the twelve (12) month period ending on December 31 of such year.

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

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

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

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

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

J. Compliance; Notification.

1. Except to the extent that noncompliance would not have a Material Adverse Effect, comply in all respects with all local, state and federal laws

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

2. With respect to the Environmental Control Statutes, promptly notify each holder of a Note when, in connection with the conduct of the Company's businesses or operations, any person (including, without limitation, EPA or any state or local agency) provides oral or written notification to the Company or Guarantors or the Company or Guarantors otherwise become aware of a condition with regard to an actual or imminently threatened removal, spill, release or discharge of hazardous or toxic wastes, substances or petroleum products that requires notification to the applicable governmental authority under an Environmental Control Statute and would have an Environmental Material Adverse Effect; and notify each holder of a Note in detail promptly upon the receipt by the Obligors or Guarantors of an assertion of liability under the Environmental Control Statutes, of any actual or alleged failure to comply with or perform, breach, violation or default under any such statutes or regulations or of the occurrence or existence of any facts, events or circumstances which with the passage of time, the giving of notice, or both, could create such a breach, violation or default and would have an Environmental Material Adverse Effect.

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

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

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

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

Period	Minimum Ratio
Date of Agreement through 3/31/98	1.00
6/30/98 through 12/31/98	1.25
3/31/99 through 9/30/99	1.40
12/31/99 and the last day of each fiscal quarter thereafter	1.50

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

O. Management Changes. Notify each holder of a Note in writing within

thirty (30) days after any change of its management group as described in the "Change of Control" definition.

P. Subsequent Credit Terms.

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

2. The Obligors and Guarantors hereby agree promptly to execute and deliver any and all such documents and instruments and to take all such further actions as you may, in your sole discretion, deem necessary or appropriate to effectuate the provisions of this Paragraph 5.16.

Q. Use of Proceeds. Use the proceeds of the Notes solely for general corporate purposes, including working capital, acquisition financing, transaction expenses, payments of up to \$14,500,000 to the former holders of the A interests in SunSource L.P. pursuant to the Conversion, and repayment of certain Indebtedness, including Indebtedness under the Existing Credit Agreement and Existing Note Purchase Agreements and make-whole payments under the Existing Note Purchase Agreements.

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

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

VI. NEGATIVE COVENANTS. So long as any Note shall be outstanding hereunder, each of the Company and the Guarantors covenants and agrees that it will not:

A. Indebtedness. Borrow any monies or create any Indebtedness except: (i) borrowings from you hereunder; (ii) Indebtedness evidenced by the Credit Agreement not to exceed Ninety Million Dollars (\$90,000,000) aggregate principal amount outstanding at any time, which may be increased by up to an additional Twenty Million Dollars (\$20,000,000) upon the request of the Company and agreement of the Banks, which shall rank equally and are pari passu with the obligations to holders of the Notes hereunder; (iii) Indebtedness under the Junior Subordinated Debentures, not to exceed One Hundred Five Million Five Hundred Thousand Dollars (\$105,500,000) principal amount outstanding at any time (but not including any amounts

which constitute Compounded Interest, as defined in the Indenture), which shall be subordinate and junior to the obligations to holders of the Notes hereunder; (iv) trade Indebtedness in the normal and ordinary course of business for value received, of which no more than Five Million Dollars (\$5,000,000) shall be outstanding at any time under Trade Notes; (v) Indebtedness and obligations incurred or assumed to purchase or lease fixed or capital assets, provided, however, that the total principal amount of such Indebtedness and obligations incurred in any calendar year shall not exceed in the aggregate Seven Million Five Hundred Thousand Dollars (\$7,500,000); (vi) borrowings from the Company by its Subsidiaries to the extent the Company is permitted to make such loans pursuant to Paragraph 6.3(i) hereof; (vii) Indebtedness outstanding on the date hereof and disclosed on Exhibit B hereto, but without any increase in the outstanding principal amount thereof; (viii) up to an additional Ten Million Dollars (\$10,000,000) aggregate principal amount outstanding at any time (which shall include the revolving credit facility with the Bank of Nova Scotia); and (ix) unsecured promissory notes in favor of sellers of assets or stock in acquisitions otherwise permitted pursuant to Paragraph 6.8 hereof not to exceed Ten Million Dollars (\$10,000,000); provided, however, that Indebtedness of Subsidiaries under clauses (v) and (viii) hereof shall in no event exceed in the aggregate outstanding at any time Five Million Dollars (\$5,000,000).

B. Guaranties. Guarantee or assume or agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liability of others (except hereunder and under the Notes and with respect to the Promissory Notes and to endorse checks or drafts in the ordinary course of business), except that (i) the Obligors may guarantee Indebtedness which in the

aggregate shall not exceed Five Million Dollars (\$5,000,000) outstanding at any time and (ii) any entity may guarantee debt of another entity otherwise permitted hereunder.

C. Loans. Make any loans or advances to others provided that the Company may make loans and advances to (i) the Subsidiaries not to exceed Seven Million Five Hundred Thousand Dollars (\$7,500,000) in aggregate outstanding principal amount at any time, and (ii) to its sales personnel in the ordinary course of business.

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

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

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

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

H. Acquisitions and Investments. (a) Purchase or otherwise acquire any part or amount of the capital stock or assets of, or make any investments in any other entity or corporation, except Permitted Investments; (b) create, acquire or maintain any Subsidiary not listed on Schedule I hereto except: (i) A & H Holding Company, Inc., (ii) if the Subsidiary is either directly or indirectly owned by A & H Holding Company, Inc. or (iii) if the Subsidiary executes a joinder to this Agreement to become a Guarantor hereunder and delivers such opinions and certificates as the holders of the Notes shall reasonably request; (c) enter into any new business activities or ventures not directly related to its present business; or (d) merge or consolidate with or into any other entity or corporation, except that SunSub A, SunSub B, SunSource Inc. or SDIPI may be merged into the Company if the Company is the surviving entity; provided, however, that in the absence of a Default or an Event of Default hereunder, and if a Default or Event of Default would not result therefrom, the Company may make acquisitions (by merger or purchase) of substantially all but not less than substantially all of other entities or corporations in the same or substantially the same business as the Company. The Company shall provide to you a cash flow projection from the date of any proposed acquisition with a purchase

price exceeding Ten Million Dollars (\$10,000,000), showing prospective compliance with Paragraphs 5.12 through 5.14 and Section Six of this Agreement through the Maturity Date.

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

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

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

VII. DEFINITIONS.

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

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

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

"Affiliate" means: (i) any person who or entity which directly or indirectly owns, controls or holds ten percent (10%) or more of the outstanding common stock in SunSource Inc.; (ii) any entity of which ten percent (10%) or more of the outstanding common stock or beneficial interest is directly or indirectly owned, controlled, or held by SunSource Inc. or an Affiliate; (iii) any entity which directly or indirectly is under common control with SunSource Inc.; (iv) any officer, director or partner of SunSource Inc. or any Affiliate; or (v) any immediate family member of any person who is an Affiliate. For purposes of this definition, the term "control" means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise.

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

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

"Bank" means individually and "Banks" means collectively, the banks identified on Schedule 2 attached to the Credit Agreement as such Schedule may be amended from time to time, their respective successors and assigns and any additional banks which become parties to the Credit Agreement after the date thereof in accordance with Paragraph 12.2 of the Credit Agreement, but shall not include any such Bank which is replaced pursuant to the terms thereof after the date thereof.

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

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

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

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

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

"Change of Control" means if at any time after the date of this Agreement: (a) SunSource Inc. ceases to own, directly or indirectly, all of the general and limited partnership interests in the Company and SDIPI; or (b) (i) any person or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and the rules and regulations promulgated thereunder shall have beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of SunSource Inc. (or other securities convertible into such securities) representing twenty percent (20%) or more of the combined voting power of all securities of SunSource Inc. entitled to vote in the election of directors other than Lehman Affiliates and the management group of Joseph M. Corvino, Max W. Hillman, Harold J. Cornelius, Norman V. Edmonson, Donald T. Marshall and John P. McDonnell (hereinafter called a "Controlling Person"); or (ii) a majority of the Board of Directors of SunSource Inc. shall cease for any reason to consist of (1) individuals who on the date hereof are serving as directors of SunSource Inc. or (2) individuals who subsequently become members of the Board if such individuals' nomination for election or election to the board is recommended or

approved by a majority of the Board of Directors of SunSource Inc. For purposes of clause (b) (i) above, a person or group shall not be a Controlling Person if such person or group holds voting power in good faith and not for the purpose of circumventing Paragraph 8.1(f) as an agent, bank, broker, nominee, trustee, or holder of revocable proxies given in response to a solicitation pursuant to the 1934 Act, for one or more beneficial owners who do not individually, or, if they are a group acting in concert, as a group, have the voting power specified in clause (b) (i) above.

"Closing Date" means September 30, 1997.

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

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

"Credit Agreement" means the Amended and Restated Credit Agreement dated September 30, 1997 among SDI Operating Partners, L.P. and its Subsidiaries set forth on Schedule 1 attached thereto, SDI Partners I, L.P., SunSource Inc., SunSub A and SunSub B and CoreStates Bank N.A., for itself and as Agent, the Bank of Nova Scotia, for itself and as Documentation Agent, and the Banks set forth on Schedule 2 attached thereto, as amended, modified or supplemented from time to time pursuant to the terms thereof and hereof.

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

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

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

"EBITDA" means, for any fiscal period of SunSource Inc. and its Consolidated Subsidiaries, Net Income plus (i) GP Management Fees, (ii) Interest Expense (including all interest paid on the Junior Subordinated Debentures (whether paid in cash or in kind)), (iii) all provisions for income taxes, (iv) depreciation and amortization expense, and (v) extraordinary losses, minus extraordinary gains, as each such item is determined in accordance with GAAP. For purposes of this definition, extraordinary losses shall include the restructuring charge of Four Million Nine Hundred Thousand Dollars (\$4,900,000), net of deferred income tax benefits and Conversion transaction charges of Two Million One Hundred Fifty Thousand Dollars (\$2,150,000) incurred during 1996, and Conversion transaction charges (including make whole provisions and other costs), not to exceed Eight Million Dollars (\$8,000,000) to be incurred in 1997.

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

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

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

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

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

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

"Existing Credit Agreement" means that certain Credit Agreement among SDI Operating Partners L.P., SDIPI, Agent and certain of the Banks dated December 22, 1992, as amended.

"Existing Note Purchase Agreement(s)" means those note purchase agreements dated December 15, 1992, as amended, issued by SDI Operating Partners, L.P. for Ninety-Five Million Dollars (\$95,000,000) in privately-placed notes.

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

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

"Funded Debt" means, at any date of determination of SunSource Inc. and its Consolidated Subsidiaries, the sum of the following in such period, without duplication: (i) Indebtedness for borrowed money; (ii) Indebtedness evidenced by notes, debentures or similar instruments; (iii) Capital Leases; (iv) guarantees of Indebtedness or Capital Leases; and (v) letters of credit and letter of credit reimbursement obligations. For purposes of this definition, Funded Debt does not include the Junior Subordinated Debentures.

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

"GP Management Fees" shall mean management fees due SDIPI from SDI Operating Partners, L.P. which arose or accrued prior to the Conversion notwithstanding that any such amount may not be due or payable until after the Conversion.

"Guarantors" means SDIPI, SunSub A, SunSub B, SunSource Inc. and any future Subsidiary executing a joinder to this Agreement to become a guarantor.

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

"Indebtedness" of any person means and includes all obligations of such person which, in accordance with GAAP, shall be classified on a balance sheet of such person as liabilities of such person and in any event shall include all (i) obligations of such person for borrowed money or which have been incurred in connection with acquisition of property or assets, (ii) obligations secured by any lien upon property or assets owned by such person, notwithstanding that such person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any

conditional sale or other title retention agreement with respect to property acquired by such person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capital Leases, (v) guarantees and (vi) letters of credit and letter of credit reimbursement obligations.

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

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

"Junior Subordinated Debentures" means the unsecured subordinated obligations of SunSource Inc. which will be deposited in the Trust as trust assets upon the Conversion and the terms of which are included in the Indenture.

"Lehman Affiliates" means Lehman Brothers Capital Partners I, L.P., LBI Group, Inc., Lehman Ltd. I Inc., Lehman/SDI, Inc. and Lehman Brothers Holdings Inc.

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

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

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

"Make-Whole Amount" shall mean, in connection with any prepayment of a Note pursuant to Paragraph 4.2, the amount (but not less than zero) equal to the excess, if any, of

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

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

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

Statistical Release H.15(519), that became publicly available at least four Business Days prior to the date of such prepayment); provided that if such weighted average life to maturity is not equal to the maturity of any actively traded United States Treasury securities as set forth on said display (or said substitute source of market data), such yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the yields of actively traded United States Treasury securities set forth on said display (or said substitute source of market data) having a maturity closest to such weighted average life to maturity.

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

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

"Maturity Date" means September 30, 2002.

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

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

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

"Noteholders' Applicable Share" means, as of any date of determination, with respect to any Net Cash Proceeds which are required or permitted to be used by the Company to reduce the amount outstanding on the Notes pursuant to this Agreement, the portion of such Net Cash Proceeds which bears the same relationship to the entire amount of such Net Cash Proceeds as the amount outstanding on the Notes on the date of determination bears to the sum of the outstanding principal amount of the Loan plus the amount of the Notes on the date of determination.

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

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

"Partnership Agreement" means individually, as noted, and "Partnership Agreements" means collectively the Amended and Restated Agreement of Limited Partnership of SDI Operating Partners, L.P. dated February 1, 1987, and the Amended and Restated Agreement of Limited Partnership of SDIPI dated February 5, 1987, as each may be amended to date and from time to time hereafter in accordance with its terms and the provisions hereof.

"Partnership Distributions" means amounts payable by the Company to SunSource Inc. and SDIPI pursuant to Section 5.02 of the Company's Partnership Agreement, to fund Tax Distributions, including without limitation those which arose or accrued prior to the Conversion notwithstanding that any such amounts may not be due or payable until after the Conversion.

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

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

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

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

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

Loan.

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

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

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

"Sale of Material Assets" means any sale, transfer or other disposition of the Company's assets in transactions in which the total consideration paid or payable to Company (including without limitation all cash, liabilities assumed and the fair market value of any stock provided in such transaction) is, in the aggregate, as to all such transactions after the date of this Agreement, greater than Fifteen Million Dollars (\$15,000,000).

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

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

"Subsidiary" or "Subsidiaries" means any corporation of which the Company, directly or indirectly, owns more than fifty percent (50%) of any class or classes of securities. The Subsidiaries of the Company on the date hereof are set forth on Schedule I attached hereto.

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

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

"SunSource L.P. and its Consolidated Subsidiaries" means SunSource L.P., a Delaware limited partnership, converted to corporate form by the Conversion, and its consolidated subsidiaries as defined in accordance with GAAP.

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

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

"Tax Distributions" shall mean those distributions which are payable to the former B interest holders in SunSource L.P. pursuant to the Company's Partnership Agreement, including any payments which are due and payable after the Conversion.

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

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

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

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

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

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

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

B. Rules of Construction.

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

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

VIII. EVENTS OF DEFAULT; REMEDIES.

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

1. If any of the Obligor or Guarantors shall fail to pay when due (i) any installment of principal or interest when due or (ii) fees, costs, expenses or any other sum payable to you hereunder or otherwise within 5 days after notice from you that it is due;

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

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

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

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

6. [Intentionally omitted];

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

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

shall by any act or failure to act indicate its consent to, approval of or acquiescence in any of the foregoing;

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

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

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

B. Acceleration; Suits for Enforcement. (i) Upon the occurrence of an Event of Default under Paragraph 8.1(h), the unpaid principal amount of all Notes, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by the Company and (ii) if any other Event of Default shall have occurred and be continuing, the holders of at least 51% in aggregate principal amount of the Notes may elect to declare the entire unpaid principal amount of all Notes to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below, provided that, during the

existence of an Event of Default described in Paragraph 8.1(a) with respect to any Note, the holder of such Note may, by written notice to the Company, declare such Note to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below. If any holder of any Note shall exercise the option specified in the proviso to the preceding sentence, the Company will forthwith give written notice thereof to the holders of all other outstanding Notes and each such holder may (whether or not such notice is given or received), by written notice to the Company, declare the principal of all Notes held by it to be, and the same shall forthwith become, due and payable, together with the interest accrued thereon and, to the extent permitted by law, an amount equal to the Additional Amount specified below. For purposes of this Paragraph 8.2 the term "Additional Amount" means, with respect to any Note, an amount equal to the Make-Whole Amount that would be payable with respect to such Note if the Company had elected to prepay the Notes pursuant to Paragraph 4.2. In addition, the holder of any Note may proceed to protect and enforce its rights, either by suit in equity or by action at law, or both, whether for the specific performance of any covenant or agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement, or the holder of any Note may proceed to enforce the payment of all sums due upon such Note whether by acceleration or otherwise or to enforce any other legal or equitable right of the holder of such Note.

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

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

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

IX. GUARANTY.

A. Guaranty. Each Guarantor hereby irrevocably, absolutely and unconditionally guarantees and becomes surety for the full, prompt and punctual payment to you and the other holders of the Notes, as and when due, whether at

maturity, by acceleration or otherwise, of any and all Indebtedness, liabilities and obligations of the Company to you and the other holders of the Notes created at any time under, or pursuant to the terms of, this Agreement and of the Notes, whether for principal, interest, premiums, fees, expenses or otherwise (all such indebtedness, liabilities and obligations being called in this Section Nine collectively the "Obligations"),

together with any and all reasonable expenses, including attorneys' fees and disbursements, which may be incurred by you or the other holders of the Notes in enforcing any and all rights against Guarantors under this Agreement (herein the "Expenses").

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

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

D. Rights and Remedies. You or any other holder of the Notes may proceed to exercise any right or remedy which you or it may have under this Section Nine against Guarantors without first pursuing or exhausting any rights or remedies which it may have against any of the Obligors, any additional guarantor or against any other person or entity or any collateral security, and may proceed to exercise any right or remedy which it may have under this Section Nine without regard to any actions or omissions of any other person or entity, in any manner or order, without any obligation to marshal in favor of Guarantors or other persons or entities and without releasing any of Guarantors' obligations hereunder with respect to any unpaid Obligations and Expenses. No remedy herein conferred upon or reserved to you and the other holders of the Notes is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Section Nine or now or hereafter existing at law or in equity.

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

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

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

H. Waivers and Modifications. No failure or delay on the part of any holder of the Notes in exercising any power or right under this Section Nine against Guarantors shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power under this Section Nine. No modification or waiver of any provision of this Section Nine, nor consent to any departure therefrom, shall, in any event, be effective unless the same is in writing signed by the Required Holders and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to, or demand on Guarantors, in any case, shall entitle the Guarantors to any other or further notice or demand in similar or other circumstances.

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

J. Subordination of Rights of Subrogation. Guarantors shall not exercise any rights which Guarantors may acquire by way of subrogation under this Section Nine, applicable law or otherwise, by any payment made hereunder or otherwise, until all of the Obligations and Expenses and all other amounts payable hereunder (including amounts which may become due following a reinstatement hereof under Paragraph 9.2 hereof) shall have been paid in full in cash. If any amount shall be paid to any Guarantor on account of such rights at any time when all the Obligations and Expenses shall not have been paid in full (including amounts which may become due following a reinstatement hereof under Paragraph 9.2 hereof), such amount paid to such Guarantor shall be held in trust for the benefit of the holders of the Notes and shall forthwith be credited and applied against the Obligations and Expenses, whether matured or unmatured, in

accordance with the terms of the Notes and this Agreement; provided, however, that to the extent not prohibited by applicable law or affecting the Banks' or holders of the Notes right to retain such funds, the holders of the Notes shall retain Noteholders' Applicable Share of the Net Cash Proceeds of any amount so recovered and the remainder shall be shared with the Banks. If any Guarantor shall make payment to the holders of the Notes of all or any part of the Obligations and Expenses and all of the Obligations and Expenses shall be paid in full, the holders of the Notes, shall, at such Guarantor's request, execute and deliver to such Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer, by subrogation, to Guarantor of an interest in the Obligations resulting from such payment by Guarantor.

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

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

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

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

Whenever any Note or Notes shall be surrendered either at the principal executive office of the Company or at the place of payment named in the Notes, for transfer or exchange, the Company will execute and deliver in exchange therefor a new Note or Notes, as may be requested by such holder, in the same aggregate unpaid principal amount of the Note or Notes so surrendered. Each such new Note shall be payable to such person as such holder may request. Each Note

presented or surrendered for registration of transfer or exchange shall be duly endorsed, or shall be accompanied by a written instrument of transfer duly executed, by the registered holder of such Note or its attorney duly authorized in writing. Any Note issued in exchange for any other Note or upon transfer thereof shall carry the rights to unpaid interest and

interest to accrue which were carried by the Note so exchanged or transferred, and neither gain nor loss of interest shall result from any such transfer or exchange. Any transfer tax relating to such transaction shall be paid by the holder requesting the exchange.

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

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

Notwithstanding the foregoing provisions of this Section, if any Note of which you or any other institutional holder is the owner is lost, stolen or destroyed, then the affidavit of your or such holder's Treasurer or Assistant Treasurer (or other responsible officials) shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a condition to the execution and delivery by the Company of a new Note in lieu of such Note (or as a condition to the payment thereof, if due and payable) other than your or such holder's written agreement to indemnify the Company.

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

XII. AMENDMENT AND WAIVER.

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

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

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

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

b. extend to or affect any obligation not expressly waived or impair any right consequent thereon, and

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

B. Any amendment or waiver pursuant to Subsection A of this Section shall (except as provided in Clause A(1)(i)) apply equally to all the holders of the Notes and shall be binding upon them, upon each future holder of any Note and upon the Company, in each case whether or not a notation thereof shall have been placed on any Note.

C. The Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Notes unless each holder of any Note (irrespective of the amount of Notes then owned by it) shall be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 12 shall

be delivered by the Company to each holder of outstanding Notes forthwith following the date on which the same shall have been executed and delivered by the required percentage of the holders of the Notes. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any holder of any Note as consideration for or as an inducement to the entering into by any holder of any Note or any amendment or waiver of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to the holders of all of the Notes outstanding at the time such offer is made.

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

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

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

XVI. MISCELLANEOUS.

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

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

B. Reliance on and Survival of Representations. All agreements, representations and warranties of the Company or any partner of the Company herein and in any certificates or other instruments delivered pursuant to this Agreement shall (A) be deemed to be material and to have been relied upon by you, notwithstanding any investigation heretofore or hereafter made by you or on your behalf, and (B) survive the execution and delivery of this Agreement and the delivery

of the Notes to you, and shall continue in effect so long as any Note is outstanding and thereafter as provided in Section 15 and Paragraph 16.1.

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

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

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

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

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

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

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

Very truly yours,

SDI OPERATING PARTNERS, L.P.

By: SDI PARTNERS I, L.P., its general partner

By: SUNSUB B INC., its general partner

By: _____
Name:
Title:

SUNSOURCE INC., as Guarantor and for
purposes of making the representations and
warranties, and agreeing to the covenants
and other agreements as set forth in the
Agreement

By: _____
Name:
Title:

SUNSUB A INC., as Guarantor and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: _____
Name:
Title:

SUNSUB B INC., as Guarantor and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: _____
Name:
Title:

SDI PARTNERS I, L.P., as Guarantor and for purposes of making the representations and warranties, and agreeing to the covenants and other agreements as set forth in the Agreement

By: SUNSUB B INC., its general partner

By: _____
Name:
Title:

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

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

By: _____
Name:
Title:

EXHIBIT A

SDI OPERATING PARTNERS, L.P.

SENIOR NOTE DUE 2002

PPN: _____

Note No.
\$

[Date]

FOR VALUE RECEIVED, the undersigned, SDI OPERATING PARTNERS, L.P., a limited partnership organized and existing under the laws of Delaware (herein called the "Company"), hereby promises to pay to

or registered assigns, the principal sum of

DOLLARS

(or so much thereof as shall not have been prepaid) on September 30, 2002, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal hereof at the rate of 7.66% per annum (subject to increase as provided in Paragraph 1.4 of the Note Purchase Agreement referred to below) from the date hereof, payable quarterly in arrears on March 30, June 30, September 30 and December 30 in each year, commencing on December 30, 1997, until said principal shall have become due and payable, and thereafter to pay interest (so computed) at the rate per annum equal to the greater of (i) the prime commercial lending rate of interest announced by The Chase Manhattan Bank (National Association) at its principal office in New York, New York, as in

effect from time to time, plus 1% or (ii) 8.66%, on any overdue principal and premium and, to the extent permitted by applicable law, on any overdue interest, until the same shall be paid. Payments of principal, premium, if any, and interest are to be made at the office of Morgan Guaranty Trust Company of New York, New York, in lawful money of the United States of America.

This Note is one of the 7.66% Senior Notes issued pursuant to the Note Purchase Agreement dated as of September 30, 1997 between the Company and Teachers Insurance and Annuity Association of America, and is entitled to the benefits thereof. As provided in said Note Purchase Agreement, this Note is subject to optional prepayments in whole or in part.

This Note is transferable on the note register of the Company upon presentment at the principal executive office of the Company or the place of payment named herein, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing. As provided in said Note

1

Purchase Agreement, Notes may also be exchanged at such office or place of payment for a like aggregate principal amount of Notes, as requested by the holder presenting the same. The Company may deem and treat the person in whose name this Note is registered as the holder and owner hereof for the purpose of receiving payments and for all other purposes whatsoever, and the Company shall not be affected by any notice to the contrary.

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

SDI OPERATING PARTNERS, L.P.

By: SDI PARTNERS I, L.P., its general partner

By: SUNSUB B INC., its general partner

By: _____
Name:
Title:

2

EXHIBIT C

Form of Compliance Certificate

To: Each holder of a Note under the Note Purchase Agreement dated as of September 30, 1997, between the Company and Teachers Insurance and Annuity Association of America (as amended, the "Agreement")

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

The undersigned hereby certify that:

1. The attached financial statements were prepared in accordance with GAAP (except that annual financial statements of SDIPI are prepared on a tax basis) consistently applied and fairly present the financial condition of SunSource Inc. and its Consolidated Subsidiaries as of the date made and for the period covered.

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

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

_____.

4. The following actions are being taken with respect to the matter(s)

identified in Item 3 above: _____

_____.

3

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

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

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

By: _____
Name:
Title:

Consent of Independent Accountants

We consent to the incorporation by reference and inclusion in this registration statement on Form S-2 (File No. _____) of our report dated January 29, 1997, except for Note 9 as to which the date is March 21, 1997 and Note 19 as to which the date is March 4, 1997, on our audits of the consolidated financial statements and financial statement schedules of SunSource L.P. and to the inclusion of our report dated May 1, 1997 on our audit of the balance sheet of SunSource Inc. We also consent to the reference to our firm under the caption "Experts."

/s/ Coopers & Lybrand L.L.P.
- -----

2400 Eleven Penn Center
Philadelphia, Pennsylvania
January 22, 1998

<TABLE> <S> <C>

<ARTICLE> 5

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This schedule contains summary financial information extracted from the Balance Sheet as of September 30, 1997 and the related statement of income for the year-to-date ended September 30, 1997.

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<FN>

<F1> Bonds represents all long-term debt for Senior Notes

<F2> Represents Guaranteed preferred beneficial interests in the Corporation's junior subordinated debentures.

</FN>

</TABLE>