SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2000

Commission file number 1-13293

SunSource Inc.
(Exact name of registrant as specified in its charter)

Delaware	23-2874736
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3000 One Logan Square Philadelphia, Pennsylvania	19103
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

YES X NO ____

On November 14, 2000 there were 6,873,037 Common Shares outstanding.

SUNSOURCE INC. AND SUBSIDIARIES

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

<TABLE>
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ASSETS	September 30, 2000 (Unaudited)	December 31, 1999	September 30, 1999 (Unaudited)
Current assets:			
Cash and cash equivalents	$ 3,736	$ 5,186	$ 4,632
Accounts receivable, net	59,480	65,141	77,886
Inventories	82,011	92,691	96,539
Deferred income taxes	10,476	10,218	12,972
Net assets held for sale	-	35,249	56,036
Income taxes receivable	10,071	8,561	4,903
Other current assets	3,456	5,226	4,683
Total current assets	169,230	222,272	257,651
Property and equipment, net	59,544	17,282	15,964
Goodwill and other intangibles	80,006	52,404	52,734
Deferred financing fees	4,431	3,493	388
Deferred income taxes	3,791	5,865	4,257
Cash surrender value of life insurance policies	12,551	14,190	12,427
Other assets	10,006	7,511	998
Total assets	$339,559	$323,017	$ 344,419

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:			
Accounts payable	$ 46,950	$ 44,358	$45,962
Notes payable	-	376	-
Current portion of capitalized lease obligations	933	923	305
Dividends / distributions payable	1,019	1,019	-
Current portion of subordinated notes	2,400	-	-
Current portion of senior debt	5,000	3,750	-
Deferred income tax liability	1,373	929	929
Accrued expenses:			
Salaries and wages	4,830	5,343	5,897
Income and other taxes	2,872	3,299	2,858
Accrued liabilities on discontinued operation	2,837	2,703	-
Other accrued expenses	19,059	23,961	22,517
	--------	--------	---------
Total current liabilities	87,273	86,661	78,468
Long term subordinated notes	11,562	-	-
Long term senior debt	10,774	17,750	60,000
Bank revolving credit	73,027	102,791	63,520
Capitalized lease obligations	777	1,509	412
Deferred compensation	12,764	14,173	12,825
Other liabilities	1,619	2,148	2,665
	--------	--------	---------
Total liabilities	197,796	225,032	217,890
	--------	--------	---------
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	114,936	115,200	115,288
	--------	--------	---------
Commitments and contingencies			
Stockholders' equity (deficit):			
Preferred stock, $.01 par, 1,000,000 shares authorized, none issued	-	-	-
Common stock, $.01 par, 20,000,000 shares authorized, 7,344,778 issued and 6,865,678 outstanding at September 30, 2000, 7,228,556 issued and 6,749,456 outstanding at December 31, 1999 and 7,223,382 issued and 6,744,282 outstanding at September 30, 1999	73	72	72
Additional paid-in capital	21,881	21,342	21,315
Retained earnings (accumulated deficit)	17,293	(25,297)	3,350
Unearned compensation	(472)	(283)	(302)
Accumulated other comprehensive income	(3,243)	(4,344)	(4,489)
Treasury stock, at cost, 479,100 shares	(8,705)	(8,705)	(8,705)
	--------	--------	---------
Total stockholders' equity (deficit)	26,827	(17,215)	11,241
	--------	--------	---------
Total liabilities and stockholders' equity (deficit)	$339,559	$323,017	

$ 344,419

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</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED,
(dollars in thousands, except for share amounts)

<TABLE>
<CAPTION>

	September 30, 2000	September 30, 1999
<S>	<C>	<C>
Net sales	$ 119,385	$ 138,236
Cost of sales	70,490	79,662
Gross profit	48,895	58,574
Operating expenses:		
Selling, general and administrative expenses	40,399	52,444
Depreciation	2,907	902
Amortization	1,008	444
Total operating expenses	44,314	53,790
Other income	20	410
Income from operations	4,601	5,194
Interest expense, net	2,956	2,455
Distributions on guaranteed preferred beneficial interests	3,058	3,058
Equity in earnings of affiliate (Note 3)	525	-
Loss before income taxes	(888)	(319)
Income tax benefit	(428)	(298)
Loss before discontinued operations	(460)	(21)
Discontinued operations (Note 1)		
Income from operations of discontinued Harding segment of $162, less income tax of $65	-	97
Loss on disposal of discontinued Harding segment of $750, less income tax benefit of $262	(488)	-
(Loss) income from discontinued operations	(488)	97
Net (loss) income	$ (948)	$ 76
Basic and diluted (loss) income per common share:		
Loss before discontinued operations	$ (0.07)	$ -
Income from operations of discontinued Harding segment, net of income taxes	-	0.01
Loss on disposal of discontinued Harding segment, net of income taxes	(0.07)	-
Net (loss) income	$ (0.14)	$ 0.01
Weighted average number of outstanding common shares	6,865,678	6,744,282

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2000	September 30, 1999
Net sales	$ 369,525	$ 431,338
Cost of sales	220,335	251,247
Cost of sales - Inventory write-down related to restructuring (Note 1)	-	2,130
Gross profit	149,190	177,961
Operating expenses:		
Selling, general and administrative expenses	127,757	164,123
Depreciation	6,516	3,368
Amortization	2,383	1,357
Total operating expenses	136,656	168,848
Restructuring charges and asset write-downs (Note 1)	-	8,118
Other income	359	595
Income from operations	12,893	1,590
Interest expense, net	8,422	6,812
Distributions on guaranteed preferred beneficial interests	9,174	9,174
Gain on contribution of subsidiaries (Note 3)	49,115	-
Equity in earnings of affiliate (Note 3)	1,479	-
Income (loss) before income taxes	45,891	(14,396)
Provision (benefit) for income taxes	5,170	(5,679)
Income (loss) before discontinued operations	40,721	(8,717)
Discontinued operations (Note 1)		
Loss from operations of discontinued Harding segment of $12, less income tax benefit of $5	-	(7)
Loss on disposal of discontinued Harding segment of $5,322, less income tax benefit of $7,191	1,869	-
Income(loss) from discontinued operations	1,869	(7)
Net income (loss)	$ 42,590	$ (8,724)
Basic and diluted income (loss) per common share:		
Income (loss) before discontinued operations	$ 5.94	$ (1.29)
Loss on disposal of discontinued Harding segment, net of income taxes	0.27	-
Net income (loss)	$ 6.21	$ (1.29)
Weighted average number of outstanding common shares	6,852,804	6,746,362

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2000	September 30, 1999

<S>	<C>	<C>
Cash flows from operating activities:		
Net (loss) income	$ (948)	$ 76
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,915	1,346
Loss (income) from discontinued Harding segment before taxes	750	(162)
Gain on sale of division	-	(365)
Equity in earnings of affiliate	(525)	-
Deferred income taxes	-	1,932
Changes in current operating items:		
Decrease in accounts receivable	5,973	5,255
(Increase) decrease in inventories	(282)	3,812
Increase in income taxes receivable	(648)	(2,403)
Increase in other current assets	(270)	(818)
Increase (decrease) in accounts payable	2,371	(1,525)
Increase (decrease) in other accrued liabilities	123	(2,405)
Other items, net	842	67
Net cash provided by operating activities	11,301	4,810
Cash flows from investing activities:		
Proceeds from sale of division	-	9,160
Proceeds from sale of property and equipment	85	4,950
Capital expenditures	(2,798)	(816)
Costs associated with sale of discontinued operation	(373)	-
Increase in net assets held for sale	(321)	(72)
Other, net	(196)	(457)
Net cash (used for) provided by investing activities	(3,603)	12,765
Cash flows from financing activities:		
Repayments under bank credit agreements, net	(5,599)	(15,480)
Repayments under other credit facilities, net	(127)	(269)
Principal payments under capitalized lease obligations	(238)	(78)
Net cash used for financing activities	(5,964)	(15,827)
Net increase in cash and cash equivalents	1,734	1,748
Cash and cash equivalents at beginning of period	2,002	2,884
Cash and cash equivalents at end of period	$ 3,736	$ 4,632

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	September 30, 2000	September 30, 1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 42,590	$ (8,724)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	8,899	4,725
Restructuring charges and asset write-downs	-	10,248
Loss from discontinued Harding segment before taxes	5,322	12
Gain on contribution from subsidiaries	(49,115)	-
Gain on sale of division	-	(365)
Equity in earnings of affiliate	(1,479)	-
Deferred income tax benefit	-	(3,905)
Changes in current operating items:		
Increase in accounts receivable	(2,291)	(3,675)
Decrease (increase) in inventories	4,505	(2,447)

Increase in income taxes receivable	(874)	(4,903)
Decrease in other current assets	1,686	-
Increase (decrease) in accounts payable	472	(4,171)
Decrease in other accrued liabilities	(4,827)	(4,723)
Other items, net	(88)	118
Net cash provided by (used for) operating activities	4,800	(17,810)
Cash flows from investing activities:		
Proceeds from contribution of subsidiaries	105,000	-
Costs associated with contribution of subsidiaries	(655)	-
Proceeds from sale of discontinued operation	31,446	-
Costs associated with sale of discontinued operation	(1,500)	-
Proceeds from sale of division	-	9,160
Payment for acquired business	(87,000)	-
Proceeds from sale of property and equipment	1,153	5,088
Decrease (increase) in net assets held for sale	115	(14,048)
Capital expenditures	(6,367)	(4,160)
Investment in life insurance policies	-	(1,300)
Other, net	(622)	(799)
Net cash provided by (used for) investing activities	41,570	(6,059)
Cash flows from financing activities:		
(Repayments) borrowings under bank credit agreements, net	(35,490)	28,520
Repayment of subordinated notes	(9,600)	-
Repayments under other credit facilities, net	(376)	(796)
Principal payments under capitalized lease obligations	(722)	(221)
Purchase of treasury stock at cost	-	(325)
Dividends / distributions to investors	-	(1,350)
Other financing activities	(1,632)	-
Net cash (used for) provided by financing activities	(47,820)	25,828
Net (decrease) increase in cash and cash equivalents	(1,450)	1,959
Cash and cash equivalents at beginning of period	5,186	2,673
Cash and cash equivalents at end of period	$ 3,736	$ 4,632

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS'
EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER, 30, 2000 (Unaudited)

(dollars in thousands)

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Earnings/ (Accumulated Deficit) <C>	Unearned Compensation <C>
Beginning Balance - December 31, 1999	$ 72	$ 21,342	$(25,297)	$ (283)
Net income			42,590	
Change in cumulative foreign translation adjustment				
Comprehensive income				
Issuance of 16,222 shares of common stock to certain non-employee directors		75		
Grant of restricted stock	1	464		(465)

Amortization of stock option discount				60
Amortization of vested portion of restricted stock				216
Contribution of subsidiaries				
Ending Balance - September 30, 2000	$ 73	$ 21,881	$ 17,293	$ (472)

</TABLE>

[RESTUB TABLE]
<TABLE>
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<S>	Accumulated Other Comprehensive Income (1) <C>	Treasury Stock <C>	Total Stockholders' (Deficit) Equity <C>
Beginning Balance - December 31, 1999	$ (4,344)	$ (8,705)	$ (17,215)
Net income			42,590
Change in cumulative foreign translation adjustment	(394)		(394)
Comprehensive income			42,196
Issuance of 16,222 shares of common stock to certain non-employee directors			75
Grant of restricted stock			-
Amortization of stock option discount			60
Amortization of vested portion of restricted stock			216
Contribution of subsidiaries	1,495		1,495
Ending Balance - September 30, 2000	$ (3,243)	$ (8,705)	$ 26,827

</TABLE>

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

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation:

The accompanying financial statements include the consolidated accounts of SunSource Inc. (the "Company" or "SunSource") and its wholly-owned subsidiaries including SunSource Technology Services Company, Inc. ("STS"), The Hillman Group, Inc. ("Hillman"), SunSub C, formerly Harding Glass, Inc. ("Harding") and SunSource Capital Trust (the "Trust"). All significant intercompany balances and transactions have been eliminated. The Company is one of the leading providers of value-added services and products to retail and industrial markets in North America.

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.

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 Company 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 Company's report on Form 10-K for the year ended December 31, 1999.

Discontinued Operations:

In December 1999, the Company's Board of Directors approved management's plan to dispose of the Company's Harding business. Accordingly, Harding has been accounted for as a discontinued operation and its results of operations were segregated from results of the Company's ongoing businesses including restatement of the prior periods presented. On April 13, 2000, the Company consummated the sale of Harding on which it had signed a letter of intent in January 2000. See Note 3, Contribution of Subsidiaries/Acquisitions/Divestitures.

For the year ended December 31, 1999, the Company recorded an after-tax loss of $2,188 from Harding's operations and an estimated loss on its expected disposal of $23,834 unadjusted for any potential future tax benefits. For the three months ended September 30, 2000, the Company recorded an additional loss on disposal of the discontinued Harding segment of $750, less an income tax benefit of $262. For the nine months ended September 30, 2000, the Company recorded an additional loss on disposal of the discontinued Harding segment of $5,322 less an income tax benefit of $7,191. Through September 30, 2000, the Company has recorded a loss on disposal of the discontinued Harding segment of $21,965 in the aggregate, net of tax benefits.

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

1. Basis of Presentation (continued):

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

<TABLE>
<CAPTION>

	1/1/00 Through 9/30/00	Year Ended 12/31/99	Nine Months Ended 9/30/99
<S>	<C>	<C>	<C>
Net Sales	$ 27,966	$ 118,282	$ 90,964
Income (loss) from discontinued operations:			
Before income taxes	$ --	$ (3,268)	$ (12)
Income tax benefit	--	1,080	5
Net	--	(2,188)	(7)
Loss on disposal	(5,322)	(23,834)	--
Income tax benefit on disposal	7,191	--	--
Total income (loss) from discontinued operations	$ 1,869	$(26,022)	$ (7)

</TABLE>

As of September 30, 2000, the Company had $2,837 in accrued liabilities reserved for the loss on disposal of the Harding segment.

1999 Restructuring Charges and Asset Write-downs

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

Corporate Headquarters.

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

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

The Hillman charge of $3,300 was primarily the result of Hillman's inability to recover key machines from retailers. The $3,300 charge represented the total net book value of key machines that had been capitalized as fixed assets at June 30, 1999.

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

1. Basis of Presentation (continued):

The Company completed the restructuring plan within six months. As of September 30, 2000, other accrued liabilities and other non-current liabilities include $522 and $29, respectively, of remaining reserves related to the restructuring charge. These reserves are primarily associated with termination benefits.

Inventories

Inventories consisting predominantly of finished goods are valued at the lower of cost or market, cost being determined principally on the first-in, first-out method.

2. Recent Accounting Pronouncements:

In June 1998, the Financial Accounting Standards Board ("the FASB") issued Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities, and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. In June 1999, the FASB issued SFAS 137, which defers the implementation of SFAS 133. The Company will be required to implement SFAS 133 in fiscal year 2001. Management is currently assessing the impact, if any, SFAS 133 will have on the Company's financial statements.

On June 26, 2000 the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101B which extended the implementation date of SAB 101, "Revenue Recognition" to the three-month period ending December 31, 2000. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. Management is currently assessing the impact, if any, SAB 101 will have on the Company's financial position and results of operations.

3. Contribution of Subsidiaries/Acquisitions/Divestitures:

On March 2, 2000, the Company contributed the interests in its Kar Products, Inc. and A & H Bolt & Nut Company Limited operations (collectively, the "Kar" or "Kar Products" business) to a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership, G-C Sun Holdings L.P. ("G-C"). The Company received $105,000 in cash proceeds from the transaction through repayment of assumed debt by G-C and retained a 49% minority ownership in G-C. Affiliates of Glencoe hold a controlling interest in G-C. SunSource recorded a pre-tax gain on the transaction of approximately $49,115 in the first quarter of 2000. Sales from Kar aggregated $22,122 from January 1, 2000 to March 2, 2000, and $124,724 for the year ended December 31, 1999. The Company accounts for its investment in the partnership under the equity method.

On April 7, 2000, the Company acquired Axxess Technologies, Inc. ("Axxess") of Tempe, Arizona through a stock merger transaction. Axxess is a manufacturer of key duplication and identification systems. The transaction was structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $87,000 in cash and $23,000 in

(dollars in thousands)

3. Contribution of Subsidiaries/Acquisitions/Divestitures (continued):

subordinated notes. In connection with the sale of Harding on April 13, 2000, the Company repaid $9,600 of these subordinated notes leaving a balance of $13,400 comprised as follows: 1) a $2,400 15% note due April 7, 2001 and 2) an $11,000 note which is payable in seven equal quarterly installments commencing the earlier of i) the first calendar quarter after payment in full of the Term Loan extended by the Company's senior lenders or ii) March 31, 2004. Interest on the $11,000 subordinated note ranges from prime plus 1% to prime plus 5% with a maximum rate at any time of 15%. The aggregate consideration for the transaction was $111,537, including $87,000 in cash, $23,000 in subordinated notes and transaction costs of $1,537, plus the assumption of certain liabilities aggregating $13,924. Axxess recorded goodwill and other intangible assets of $50,265 related to this acquisition. Axxess sales aggregated $20,012 for the three months ended March 31, 2000, and $82,132 for the year ended December 31, 1999. Axxess' results of operations are included in the results of Hillman from the date of acquisition.

On April 13, 2000, the Company sold substantially all of the assets of Harding for a cash purchase price of $31,446 plus the assumption by the buyer of certain liabilities aggregating $12,574, subject to certain post-closing adjustments.

The following disclosures indicate the Company's estimate of financial results had the Axxess acquisition been consummated on January 1, 1999:
<TABLE>
<CAPTION>

	Pro forma Nine Months Ended 9/30/00	Pro forma Nine Months Ended 9/30/99
<S>	<C>	<C>
Net sales	$389,537	$495,117
Income (loss) before discontinued operations	41,425	(9,524)
Net income (loss)	43,294	(9,531)
Basic and diluted earnings per share:		
Before discontinued operations	$6.04	($1.41)
Net income (loss)	$6.31	($1.41)

</TABLE>

4. Lines of Credit and Long-Term Debt:

On December 15, 1999, the Company refinanced its $60,000 senior notes and $90,000 bank revolving credit with $155,000 in senior credit facilities (the "Credit Agreement") consisting of $130,000 in revolving bank credit (the "Revolver") and a $25,000 term loan (the "Term Loan"). The Credit Agreement has a five-year term whose revolver availability is based on the Company's receivables and inventory balances (the "Borrowing Base") evaluated on a monthly basis. On April 7, 2000, the Company amended the Credit Agreement to reduce the Revolver to $115,000.

As of September 30, 2000, the Company's Borrowing Base was $87,064 consisting of receivables and inventory balances totaling $94,269 less letter of credit commitments outstanding of $7,205. As of September 30, 2000, the Company had $14,037 available under the Revolver. The Company had $90,481 of outstanding debt at September 30, 2000, consisting of bank revolver borrowings of $73,027, outstanding Term Loan of $15,744 and capital lease obligations of $1,710. The Company and its domestic and foreign corporate subsidiaries are borrowers and guarantors ("Credit Parties") under the Credit Agreement. Each credit party assigned, pledged and granted a security interest in and to all its assets as collateral.

Accounts payable includes $9,172 representing checks issued and outstanding as of September 30, 2000, for which funds would have been drawn against the Company's revolving credit facility if they had been presented on that date.

5. 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.

Certain other legal proceedings are pending which are either in the ordinary course of business or incidental to the Company's business. Those legal proceedings incidental to the business of the Company are generally not covered by insurance or other indemnity.

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

6. Stockholders' Equity:

Earnings per Share

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share". SFAS 128 requires the presentation of basic and diluted earnings per share for companies with complex capital structures. Under the Company's Equity Compensation Plan, 898,500 options to purchase shares of the Company's common stock having a potentially dilutive effect on earnings per share remain outstanding to certain executives and key employees. Currently, due to market conditions, the shares granted under the plan do not have a material dilutive effect on earnings per share for the nine months ended September 30, 2000.

Common Shares Issued to Certain Non-Employee Directors

Under the Company's Stock Compensation Plan for Non-Employee Directors, certain non-employee directors were issued 16,222 Common Shares in the first nine months of 2000, which results in a compensation charge of $75.

Stock Options

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

In May 2000, the Compensation Committee of the Board of Directors granted the following stock options under the Company's 1998 Equity Compensation Plan:

(1) 293,500 incentive stock options at fair market value.
(2) 22,500 non-qualified stock options at 85% of fair market value.

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

7. Segment Information:

The Company has three reportable segments which are Hillman, Technology Services and Integrated Supply-Mexico operating as SunSource Integrated Services de Mexico, S.A. DE C.V. The three segments are disaggregated based on the products and services provided, markets served, marketing strategies and delivery methods. The Company measures segment profitability and allocates corporate resources based on each segment's Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") which is defined as income from operations before depreciation and amortization. The Company also measures the segments on performance of their tangible asset base.

Following is a tabulation of segment information for the three and nine months ended September 30, 2000 and 1999. Corporate information is included to reconcile segment data to the consolidated financial statements.
<TABLE>
<CAPTION>

	For the Three Months Ended,		For the Nine Months Ended,	
	Sept. 30, 2000	Sept. 30, 1999	Sept. 30, 2000	Sept. 30, 1999

(dollars in thousands)

<S>	<C>	<C>	<C>	<C>
Net Sales				
Hillman Group	$ 61,128	$ 39,896	$159,434	$117,076
Technology Services	54,396	60,965	175,179	195,650
Integrated Supply - Mexico	3,861	3,784	11,742	9,667
Consolidated net sales - business segments	$119,385	$104,645	$346,355	$322,393
EBITDA				
Hillman Group	$ 11,767	$ 4,554	$ 25,529	$ 12,402
Technology Services	(1,438)	(1,225)	(1,421)	(5,418)
Integrated Supply - Mexico	33	(23)	216	95
EBITDA - business segments	$ 10,362	$ 3,306	$ 24,324	$ 7,079
Reconciliation of Segment Profit to Income (loss) Before Income Taxes				
EBITDA - Business segments	$ 10,362	$ 3,306	$ 24,324	$ 7,079
Equity in earnings of affiliate	525	-	1,479	-
Corporate expenses	(1,846)	(1,450)	(5,355)	(6,073)
EBITDA from contributed subsidiaries, sold business, and terminated contracts	-	4,684	2,823	15,557
Restructuring charges and asset write-downs	-	-	-	(10,248)
Consolidated EBITDA	9,041	6,540	23,271	6,315
Depreciation	(2,907)	(902)	(6,516)	(3,368)
Amortization	(1,008)	(444)	(2,383)	(1,357)
Interest expense, net	(2,956)	(2,455)	(8,422)	(6,812)
Distributions on guaranteed preferred beneficial interests	(3,058)	(3,058)	(9,174)	(9,174)
Gain on contribution of subsidiaries	-	-	49,115	-
Income (loss) before income taxes	$ (888)	$ (319)	$ 45,891	$(14,396)

</TABLE>

7. Segment Information (continued):

The following supplemental table of segment tangible assets for ongoing operations is presented due to the increase in segment tangible assets during the nine months ended September 30, 2000, which represents primarily the acquisition of Axxess which is included with the Hillman Group.

<TABLE>
<CAPTION>

	9/30/00	12/31/99	$ INC(DEC)	% INC(DEC)
<S>	<C>	<C>	<C>	<C>
Hillman Group	$ 132,283	$ 56,963	$ 75,320	132.2%
Technology Services	76,308	81,812	(5,504)	(6.7)%
Integrated Supply-Mexico	6,484	5,763	721	12.5 %
Total	$ 215,075	$ 144,538	$ 70,537	48.8%

</TABLE>

8. Subsequent Events:

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

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

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

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

General

SunSource Inc. (the "Company" or "SunSource") is one of the largest providers of value-added services and products to retail and industrial markets in North America. The Company is organized into three business segments which are SunSource Technology Services Company, Inc. ("Technology Services" or "STS"), The Hillman Group, Inc.("Hillman"), and Integrated Supply, operating as SunSource Integrated Services de Mexico, S.A. DE C.V. Also, the Company has an investment in an affiliate, G-C Sun Holdings, L.P., operating as Kar Products.

Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. The Hillman Group provides small hardware and related items, keys and identification items such as tags, letters, numbers and signs, and merchandising services to retail outlets, primarily hardware stores, home centers, mass merchants and lumberyards. Integrated Supply provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies ("MRO"). Kar Products offers personalized inventory management systems of MRO products to industrial manufacturing customers and maintenance and repair facilities.

Restructuring Charges and Asset Write-downs

In the second quarter of 1999, the Company recorded $10.2 million of non-recurring restructuring charges and asset write-downs which were incurred to reposition Technology Services and Kar Products, write-down impaired assets, and realign corporate overhead expenses. Included in these charges and write-downs were $5.4 million related to Technology Services, $1.0 million related to Kar Products, $3.3 million related to Hillman, and $0.5 million related to Corporate Headquarters. The Company completed the restructuring plan within six months.

Acquisitions/Divestitures

On March 2, 2000, the Company contributed the interests in its Kar Products, Inc. and A & H Bolt & Nut Company Limited operations (collectively, the "Kar" business) to a newly-formed partnership affiliated with Glencoe Capital, L.L.C. ("Glencoe"). Glencoe contributed cash equity to the new partnership, G-C Sun Holdings L.P. ("G-C"). The Company received $105 million in cash proceeds from the transaction through repayment of assumed debt by G-C and retained a 49% minority ownership in G-C. Affiliates of Glencoe hold a controlling interest in G-C. SunSource recorded a pre- tax gain on the transaction of approximately $49.1 million in the first quarter of 2000. SunSource accounts for its investment in the partnership under the equity method.

On April 7, 2000, the Company acquired Axxess Technologies, Inc. ("Axxess") of Tempe, Arizona through a stock merger transaction. Axxess is a manufacturer of key duplication and identification systems. The transaction was structured as a purchase of 100% of the stock of the privately held company and repayment of outstanding Axxess debt in exchange for $87 million in cash and $23 million in subordinated notes. Axxess' sales aggregated $20.0 million for the three months

ended March 31, 2000, and $82.1 million for the year ended December 31, 1999.

Axxess' results of operations are included in the results of Hillman from the date of acquisition.

On April 13, 2000, the Company completed the sale of its Harding Glass, Inc. ("Harding") subsidiary to VVP America which was previously announced in January 2000 with the signing of a letter of intent. The Company sold substantially all of the assets of Harding for a cash purchase price of $31.4 million plus the assumption by the buyer of certain liabilities aggregating $12.6 million, subject to certain post-closing adjustments. Proceeds from the sale of Harding were used to repay the Company's outstanding debt. Harding sales aggregated $28.0 million from January 1, 2000 through April 12, 2000, and $118.3 million for the year ended December 31, 1999.

In December 1999, the Board of Directors approved a plan to dispose of the Company's Harding business. Since December 1999, Harding has been accounted for as a discontinued operation and, accordingly, its results of operations were segregated from results of the Company's ongoing businesses including restatement of prior periods presented.

In 1999, the Company recorded a loss of $2.2 million after-tax from Harding's operations and an estimated loss on its expected disposal of $23.8 million or $3.53 per common share unadjusted for any potential future tax benefits. For the nine months ended September 30, 2000, the Company recorded an additional loss on disposal of the discontinued Harding segment of $5.3 million, less an income tax benefit of $7.2 million, resulting in income from discontinued operations of $1.9 million or $.27 per common share. Through September 30, 2000, the Company has recorded a loss on the discontinued Harding segment of $22.0 million in the aggregate or $3.21 per common share, net of tax benefits.

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

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

Results of Operations
<TABLE>
<CAPTION>
Segment Sales and Profitability for the Three and Nine Months Ended September 30, 2000

(dollars in thousands)

	FOR THE THREE MONTHS ENDED,			
	September 30, 2000		September 30, 1999	
Sales	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
<S>	<C>	<C>	<C>	<C>
Hillman Group (a)	$ 61,128	51.2%	$ 39,896	38.1%
Technology Services (b)	54,396	45.6%	60,965	58.3%
Integrated Supply - Mexico	3,861	3.2%	3,784	3.6%
Consolidated net sales - ongoing operations	119,385	100.0%	104,645	100.0%
Expediter Segment (c)	-		31,489	
Integrated Supply - sold business and terminated contracts (d)	-		2,102	
Consolidated Net Sales	$119,385		$138,236	
Gross Profit		% OF SALES		% OF SALES
Hillman Group (a)	$ 35,227	57.6%	$ 21,446	53.8%
Technology Services (b)	12,962	23.8%	14,527	23.8%
Integrated Supply - Mexico	706	18.3%	724	19.1%

Consolidated gross profit - ongoing operations	48,895	41.0%	36,697	35.1%
Expediter Segment (c)	-		21,648	
Integrated Supply - sold business and terminated contracts (d)	-		229	
Consolidated Gross Profit before inventory write-down	48,895		58,574	
Inventory write-down	-		-	
Consolidated Gross Profit	$ 48,895		$ 58,574	
EBITDA from ongoing operations (g)				
Hillman Group (a)	$ 11,767	19.2%	$ 4,554	11.4%
Technology Services (b)	(1,438)	(2.6%)	(1,225)	(2.0%)
Equity in Earnings of Expediter Segment (e)	525		-	
Integrated Supply - Mexico	33	0.9%	(23)	(0.6%)
Corporate expenses (f)	(1,846)	(1.5%)	(1,450)	(1.0%)
Consolidated EBITDA - ongoing operations	9,041	7.6%	1,856	1.8%
Expediter Segment (c)	-		4,841	
Integrated Supply - sold business and terminated contracts (d)	-		(157)	
Consolidated EBITDA before restructuring charges	9,041		6,540	
Restructuring charges	-		-	
Consolidated EBITDA	$ 9,041		$ 6,540	

</TABLE>
[RESTUB TABLE]
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	FOR THE NINE MONTHS ENDED,			
	September 30, 2000		September 30, 1999	
Sales	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
<S>	<C>	<C>	<C>	<C>
Hillman Group (a)	$ 159,434	46.0%	$ 117,076	36.3%
Technology Services (b)	175,179	50.6%	195,650	60.7%
Integrated Supply - Mexico	11,742	3.4%	9,667	3.0%
Consolidated net sales - ongoing operations	346,355	100.0%	322,393	100.0%
Expediter Segment (c)	22,122		94,557	
Integrated Supply - sold business and terminated contracts (d)	1,048		14,388	
Consolidated Net Sales	$ 369,525		$ 431,338	
Gross Profit		% OF SALES		% OF SALES
Hillman Group (a)	$ 89,648	56.2%	$ 62,151	53.1%
Technology Services (b)	42,096	24.0%	46,197	23.6%
Integrated Supply - Mexico	2,394	20.4%	2,092	21.6%
Consolidated gross profit - ongoing operations	134,138	38.7%	110,440	34.3%
Expediter Segment (c)	15,052		65,423	
Integrated Supply - sold business and terminated contracts (d)	-		4,228	
Consolidated Gross Profit before inventory write-down	149,190		180,091	
Inventory write-down	-		(2,130)	
Consolidated Gross Profit	$ 149,190		$ 177,961	
EBITDA from ongoing operations (g)				
Hillman Group (a)	$ 25,529	16.0%	$ 12,402	10.6%
Technology Services (b)	(1,421)	(0.8%)	(5,418)	(2.8%)
Equity in Earnings of Expediter Segment (e)	1,479		-	
Integrated Supply - Mexico	216	1.8%	95	1.0%
Corporate expenses (f)	(5,355)	(1.4%)	(6,073)	(1.4%)

Consolidated EBITDA - ongoing operations	20,448	5.9%	1,006	0.3%
Expediter Segment (c)	2,823		15,010	
Integrated Supply - sold business and terminated contracts (d)	-		547	
Consolidated EBITDA before restructuring charges	23,271		16,563	
Restructuring charges	-		(10,248)	
Consolidated EBITDA	$ 23,271		$ 6,315	

</TABLE>

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

(b) Includes remaining Integrated Supply business in the U.S. as a result of customer relationships with the Technology Services Group.

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

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

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

(f) Includes other income of $35 and $365 for the three months ended September 30, 2000 and 1999, respectively and $86 and $383 for the nine months ended September 30, 2000 and 1999, respectively. The other income of $365 recorded in the three months ended September 30, 1999 is related to the gain on sale of the OEM Fastener Business.

(g) "EBITDA" (earnings before interest, taxes, depreciation and amortization) is defined as income (loss) from ongoing operations before depreciation and amortization.

Three Months Ended September 30, 2000 and 1999

Net sales from ongoing operations increased $14.7 million or 14.1% in the third quarter of 2000 to $119.4 million from $104.7 million in 1999. Sales variances by business segment are as follows:

<TABLE>
<CAPTION>

	Sales Increase (Decrease) Amount (In thousands)	%
<S>	<C>	<C>
Hillman Group	$ 21,232	53.2 %
Technology Services	(6,569)	(10.8)%
Integrated Supply - Mexico	77	2.0 %
Total Company - Ongoing Operations	$ 14,740	14.1 %

</TABLE>

Hillman's sales increased $21.2 million or 53.2% in the third quarter of 2000 to $61.1 million from $39.9 million in the third quarter of 1999 primarily as a result of the acquisition of Axxess. Technology Services' sales decreased $6.6 million or 10.8% in the third quarter of 2000 to $54.4 million from $61.0 million in 1999 as a result of soft market conditions experienced by original equipment manufacturers in certain industrial sectors in the third quarter of 2000. Integrated Supply-Mexico sales increased $0.1 million in the third quarter of 2000 from $3.8 million in the same period of 1999 as a result of the addition of a new contract.

The Company's sales backlog on a consolidated basis from ongoing operations was $46.4 million as of September 30, 2000, compared with $50.6 million at December 31, 1999, representing a decrease of 8.3%.

The Company's consolidated gross margin from ongoing operations was 41.0% in the third quarter of 2000 compared with 35.1% in the third quarter of 1999. On a comparable basis, excluding Axxess, the consolidated gross margin from ongoing operations was 36.0% for the three months ended September 30, 2000. Hillman's gross margin improved 3.8% in the comparison period as a result of higher margin sales of keys and identification items related to the acquisition of Axxess. Technology Services' gross margin of 23.8% in the third quarter of 2000 was comparable to the third quarter of 1999. The Integrated Supply-Mexico segment's gross margin decreased 0.8% in the third quarter of 2000 resulting mainly from increased activity from lower margin customer contracts.

The Company's selling, general and administrative expenses ("S,G&A") from ongoing operations on a comparable basis, excluding Axxess, decreased $2.7 million from $35.3 million in the third quarter of 1999 to $32.6 million in the third quarter of 2000. Selling expenses on a comparable basis, excluding Axxess, decreased $1.5 million primarily as a result of reduced sales commissions at the existing Hillman business and cost savings at STS associated with the September 1999 restructuring plan. Warehouse and delivery expenses on a comparable basis, excluding Axxess, decreased $0.5 million as a result primarily of reduced freight costs at Hillman. General and administrative expenses on a comparable basis, excluding Axxess, decreased by $0.7 million primarily as a result of headcount reductions associated with the September 1999 restructuring plan at STS.

Total S,G&A expenses from ongoing operations on a comparable basis, excluding Axxess, as a percentage of sales compared with the third quarter 1999 are as follows:

	Three Months ended Sept.30,	
As of a % of Sales	2000	1999
Selling Expenses	18.0%	18.2%
Warehouse and Delivery Expenses	7.6%	7.5%
General and Administrative Expenses	8.0%	8.0%
Total S,G&A Expenses	33.6%	33.7%

EBITDA from ongoing operations after corporate expenses for the third quarter of 2000 was $9.0 million compared with $1.9 million for the same prior-year period.

The Company's consolidated operating profit margin (EBITDA as a percentage of sales) after corporate expenses increased to 7.6% in the third quarter of 2000 compared with 1.8% in the third quarter of 1999. Hillman's operating profit margin increased to 19.2% in the third quarter of 2000 compared with 11.4% primarily as a result of the acquisition of Axxess and operational efficiencies. STS had an operating loss of 2.6% compared with an operating loss of 2.0% in the third quarter of 1999 as a result of reduced sales. Integrated Supply-Mexico segment's operating profit margin increased to 0.9% from an operating loss of 0.6% as a result of increased sales and reduced operating expenses.

Depreciation expense for ongoing operations increased $2.3 million to $2.9 million in the third quarter of 2000 from $0.6 million in the same quarter of 1999 primarily as a result of the acquisition of Axxess.

Amortization expenses for ongoing operations increased $0.7 million to $1.0 million as a result of the acquisition of Axxess.

Interest expense, net for ongoing operations increased $0.5 million in the third quarter of 2000 from $2.5 million in the third quarter of 1999 due primarily to the acquisition of Axxess, and amortization of deferred financing fees related to the Company's December 1999 debt refinancing.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities at the rate of 11.6% per annum on their face amount of $105.4 million, or $12.2 million per annum in the aggregate. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the three months ended September 30, 2000 and 1999, the Company paid $3.1 million in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust on the Trust Preferred Securities.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian and Mexican operations as accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") 109, "Accounting for Income Taxes". Deferred income taxes represent differences between the financial statement and tax bases of assets and liabilities as classified on the Company's balance sheet. Excluding non-recurring adjustments, the effective income tax rate for the third quarter of 2000 was 18.2% compared with 0.4% in the third quarter of 1999. The provisions for the third quarters of 2000 and 1999 include non-deductible goodwill and other items related to acquisition and divestiture activities which result in an efffective tax rate significantly above the Company's combined statutory tax rate of about 40%.

Nine Months Ended September 30, 2000 and 1999

Net sales from ongoing operations increased $24.0 million or 7.4% in the first nine months of 2000 to $346.4 million from $322.4 million in 1999. Sales variances by business segment are as follows:

	Sales Increase (Decrease)	
	Amount	%
	(In thousands)	
Hillman Group	$ 42,358	36.2%
Technology Services	(20,471)	(10.5)%
Integrated Supply - Mexico	2,075	21.5%
Total Company - Ongoing Operations	$ 23,962	7.4%

Hillman's sales increased $42.4 million or 36.2% in the first nine months of 2000 to $159.4 million from $117.0 million in the first nine months of 1999 primarily due to the acquisition of Axxess. Technology Services' sales decreased $20.5 million or 10.5% in the first nine months of 2000 to $175.2 million from $195.7 million in 1999 as a result primarily of the restructuring of its sales force in early 1999 and soft market conditions experienced in the third quarter of 2000 discussed previously. Integrated Supply-Mexico sales increased $2.1 million in the first nine months of 2000 from $9.7 million in the same period of 1999 as a result of the addition of a new contract since September 30, 1999.

The Company's consolidated gross margin from ongoing operations was 38.7% in the first nine months of 2000 compared with 35.3% in the first nine months of 1999 before the inventory write-down related to restructuring of $2.1 million and charges related to integration of the Technology Services divisions of $3.3 million. On a comparable basis, excluding Axxess, the consolidated gross margin from ongoing operations was 35.5% for the nine months ended September 30, 2000. Hillman's gross margin increased 3.1% in the comparison period as a result of higher margin sales of keys, and identification items related to the acquisition of Axxess. Technology Services' gross margin was 24.0% in the first nine months of 2000 compared with 25.3% in the first nine months of 1999 before the aforementioned charges primarily as a result of a change in sales mix. The Integrated Supply - Mexico segment's gross margin decreased 1.2% in the first nine months of 2000 resulting mainly from increased activity from lower-margin customer contracts.

The Company's S,G&A expenses from ongoing operations on a comparable basis (excluding Axxess, restructuring charges of $8.1 million and non-recurring charges related to integration of the Technology Services business of $2.6 million) decreased $7.1 million from $107.3 million to $100.2 million for the nine months ended September 30, 2000. Selling expenses on a comparable basis, excluding Axxess, decreased by $3.3 million primarily as a result of reduced sales commissions at the existing Hillman business and cost savings at STS associated with the September 1999 restructuring plan. Warehouse and delivery expenses increased $0.4 million as a result primarily of facility reorganization costs at STS. General and administrative expenses on a comparable basis excluding Axxess decreased by $4.2 million as a result of headcount reductions associated with the September 1999 restructuring plan at STS and reduced corporate overhead expenses.

Total S,G&A expenses from ongoing operations on a comparable basis excluding Axxess as a percentage of sales compared with the first nine months of 1999 are as follows:

	Nine Months ended September 30,	
As of a % of Sales	2000	1999
Selling Expenses	17.7%	17.6%
Warehouse and Delivery Expenses	7.5%	7.0%
General and Administrative Expenses	7.9%	8.7%
Total S,G&A Expenses	33.1%	33.3%

EBITDA from ongoing operations after corporate expenses for the first nine months of 2000 was $20.4 million compared with $7.0 million excluding restructuring charges of $10.2 million and the aforementioned charges related to the integration of STS of $6.0 million.

The Company's consolidated operating profit margin (EBITDA as a percentage of sales) after corporate expenses increased to 5.9% in the first nine months of 2000 compared with 2.2% in the first nine months of 1999, excluding the aforementioned non-recurring charges. Hillman's operating profit margin increased to 16.0% in the first nine months of 2000 compared with 10.6% in the first nine months of 1999 primarily as a result of the acquisition of Axxess and operational efficiencies. STS had an operating loss of 0.8% in the first nine months of 2000 compared with an operating profit margin of 0.3% before the aforementioned charges in the first nine months of 1999 resulting from integration and consolidation activities in the STS operation. Integrated Supply-Mexico segment's operating profit margin increased to 1.8% from 1.0% as a result of increased sales from a new account.

Depreciation expense for ongoing operations increased $3.9 million to $6.3 million in the first nine months of 2000 from $2.4 million in the same period of 1999 primarily as a result of the acquisition of Axxess.

Amortization expenses for ongoing operations increased $1.4 million to $2.3 million as a result of the acquisition of Axxess.

Interest expense, net increased $1.6 million in the first nine months of 2000 from $6.8 million in the first nine months of 1999 due primarily to the acquisition of Axxess, and amortization of deferred financing fees related to the Company's December 1999 debt refinancing.

For the nine months ended September 30, 2000 and 1999, the Company paid $9.2 million in interest on the Junior Subordinated Debentures, equivalent to the amounts distributed by the Trust on the Trust Preferred Securities.

The Company's effective income tax rate was 11.3% in the first nine months of 2000 due primarily to a significant portion of the gain from the contribution of Kar being non-taxable as a result of the Company's minority ownership in G-C, offset by non-deductible goodwill and other items related to acquisition activities. For the first nine months of 1999, the Company recorded a benefit for income taxes of $5.7 million or 39.4% of the pre-tax loss of $14.4 million.

Liquidity and Capital Resources

The Company's cash position of $3.7 million as of September 30, 2000, decreased $1.5 million from the balance at December 31, 1999. Cash was provided during this period primarily from proceeds from the Kar and Harding transactions previously discussed ($105.0 million and $31.4 million, respectively), and working capital reinvestment of $4.8 million. Cash was used during this period predominantly for the acquisition of Axxess Technologies ($87.0 million), repayments under the bank credit agreement ($35.5 million), repayment of a portion of the subordinated notes issued in conjunction with the Acquisition of Axxess ($9.6 million), capital expenditures ($6.4 million), and other disbursements, net ($4.2 million).

The Company's net interest coverage ratio from continuing operations for the first nine months ended September 30, 2000 including Kar for the first two months of the year declined to .82X (earnings before interest, distributions on trust preferred securities and income taxes, excluding non-recurring events, over net interest expense and distributions on trust preferred securities), from 1.18X in the 1999 comparison period as a result of reduced earnings and increased interest expense.

The Company's working capital position of $82.0 million at September 30, 2000, represents a decrease of $53.6 million from the December 31, 1999 level of $135.6 million as a result of the Kar and Harding transactions, offset by the Axxess acquisition and working capital reinvestments. The Company's current ratio decreased to 1.94x at September 30, 2000 from 2.56x at December 31, 1999.

On March 2, 2000, SunSource contributed the interests in the Company's Kar Products subsidiary including its Canadian operation, to a newly formed partnership affiliated with Glencoe as previously mentioned. The Company received $105 million in cash proceeds from the transaction which were used to reduce the bank revolver borrowings. The Company also recorded a pre-tax gain of $49.1 million which has restored the Company's stockholders' equity to a significant positive position of $26.8 million at September 30, 2000, or $3.91 per common share, from its deficit balance of $17.2 million at December 31, 1999. In addition, SunSource's remaining minority investment in Kar allows the Company to participate in the capital appreciation of Kar in the future with Glencoe.

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

The Company further strengthened its financial position upon consummation of the sale of the Harding Glass business on April 13, 2000. The Company sold substantially all of the assets of Harding for a cash purchase price of approximately $31.4 million plus the assumption of certain liabilities aggregating $12.6 million by the buyer, subject to certain post-closing adjustments. Proceeds from the sale of Harding were used by the Company as follows: 1) a repayment of bank revolver borrowings of $15.8 million (representing primarily Harding's collateral in the borrowing base), 2) a principal repayment of the Term Loan of $4.0 million, 3) a repayment of certain Axxess subordinated notes in the amount of $9.6 million, and 4) a cash reserve of $2.0 million to support the issuance of a stand by letter of credit in the same amount provided to the purchaser of Harding.

As of September 30, 2000, the Company had $14.0 million available under its senior secured credit facilities. The Company had approximately $90.5 million of outstanding debt at September 30, 2000, consisting of a $15.8 million senior secured term loan currently at 9.5%, bank revolver borrowings totaling $73.0 million at an effective interest rate of 9.5%, and capitalized lease obligations of $1.7 million at various interest rates.

As of September 30, 2000, the Company's senior debt (including distributions payable) as a percentage of its consolidated capitalization (total debt, trust preferred securities and stockholders' equity) was approximately 37.0% compared with 56.6% at December 31, 1999 and 49.5% as of September 30, 1999. The Company's consolidated capitalization (including distributions payable) as of September 30, 2000, was approximately $247.3 million compared to $225.7 million at December 31, 1999 and $250.8 million at September 30, 1999.

On December 15, 1999, the Company refinanced its $90 million bank revolver and $60 million senior notes with $155 million in senior secured credit facilities. As a result of the Kar transaction on March 2, 2000 and the acquisition of Axxess on April 7, 2000, the Company reduced the revolving credit portion of the facility from $130 million to $115 million. The senior secured credit facilities expire on December 14, 2004 and provide SunSource with adequate funds for working capital and other corporate requirements.

The Company has spent $2.8 million and $6.4 million, respectively, for capital expenditures for the three and nine months ended September 30, 2000, primarily for warehouse improvements, machinery and equipment, and computer hardware and software. The Company expects to spend an additional $2.9 million by December 31, 2000, for a total of $9.3 million in 2000 including $2.2 million for Axxess. The total anticipated spending of $9.3 million in 2000 represents an increase of $4.5 million compared to total year 1999 as a result of the acquisition of Axxess.

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

On August 6, 1998, the Company's Board of Directors authorized $15.0 million for management to repurchase up to 10% of the Company's outstanding common shares through open market transactions and private block trades dependent upon market conditions. The Company subsequently suspended the repurchase program on March 16, 1999. The Company has acquired and placed into treasury 479,100 common shares through September 30, 2000, at an average cost of $18.17 per common share.

The Company has deferred tax assets aggregating $14.3 million as of September 30, 2000, as determined in accordance with SFAS 109. Management believes that the Company's deferred tax assets will be realized through the reversal of existing temporary differences between the financial statement and tax bases, as well as through future taxable income.

Year 2000 Issue

All of the Company's operating segments successfully met the Year 2000 compliance requirement for proprietary and purchased software, and machinery and equipment utilized in the daily business process. In addition, the Company's suppliers or customers did not experience any material Year 2000 compliance-related problems of which the Company is aware.

All operating divisions continued to monitor their non-critical processing software to ensure that all non-critical programs have been successfully executed through the third quarter of 2000.

The Company's established Year 2000 compliance budget of $1.7 million, funded from operating cash flows, was adequate. In addition, the Company has not incurred any significant expenses related to the Year 2000 compliance issue during the first nine months of 2000.

Inflation

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

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("the FASB") issued Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities, and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. In June 1999, the FASB issued SFAS 137, which defers the implementation of SFAS 133. The Company will be required to implement SFAS 133 in fiscal year 2001. Management is currently assessing the impact, if any, SFAS 133 will have on the Company's financial statements.

On June 26, 2000 the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101B which extended the implementation date of SAB 101, "Revenue Recognition" to the three-month period ending December 31, 2000. SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. Management is currently assessing the impact, if any, SAB 101 will have on the Company's financial position and results of operations.

Forward Looking Statements

Certain disclosures related to acquisitions and divestitures, refinancing and capital expenditures contained in this report involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those currently anticipated as a result of a number of factors, including the risks and uncertainties discussed under captions "Risk Factors" - Restructuring, Risks Associated with Acquisitions and the New York Stock Exchange Listing set forth in Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements.

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

PART II
OTHER INFORMATION

Items 1 - 5 - None

Item 6 - Exhibits and Reports on Form 8-K

A Current Report on Form 8-K was filed on March 17, 2000 reporting a disposition under Item 2 of Form 8-K.

A Current Report on Form 8-K was filed on April 24, 2000 reporting an acquisition and a disposition under Item 2 of Form 8-K.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUNSOURCE INC.

/s/ Joseph M. Corvino	/s/ Edward L. Tofani
Joseph M. Corvino	Edward L. Tofani
Vice President - Finance	Controller
(Chief Financial Officer)	(Chief Accounting Officer)

DATE: November 14, 2000

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<F1>Bonds represents current and long-term portion of subordinated notes.
<F2>Represents Guaranteed Preferred Beneficial Interests in the corporation's Junior Subordinated Debenture.
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