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 June 30, 1998

Commission file number 1-13293

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

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

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

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

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

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 August 12, 1998 there were 7,215,667 Common Shares outstanding.

SUNSOURCE Inc.

INDEX

PART I. FINANCIAL INFORMATION PAGE(S)

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

<TABLE>
<CAPTION>

ASSETS	June 30, 1998 (Unaudited)	December 31, 1997
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 14,702	$ 5,638
Accounts and notes receivable, net	98,051	82,501
Inventories	104,926	103,369
Deferred income taxes	10,298	10,791
Other current assets	3,930	4,559
Total current assets	231,907	206,858
Property and equipment, net	24,223	21,939
Goodwill	69,102	62,588
Other intangibles	812	784
Deferred income taxes	6,654	5,014
Cash surrender value of life insurance policies	10,123	8,407
Other assets	1,042	552
Total assets	$343,863	$306,142
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable, trade	$ 56,850	$ 50,125
Notes payable	1,306	2,080
Current portion of capitalized lease obligations	276	156
Dividends / Distributions payable	999	2,995
Deferred tax liability	935	935
Accrued expenses:		
Salaries and wages	5,999	6,891
Income and other taxes	4,500	4,286
Other accrued expenses	18,205	18,452
Total current liabilities	89,070	85,920
Senior notes	60,000	60,000
Bank revolving credit	42,000	33,000
Capitalized lease obligations	686	572
Deferred compensation	11,451	10,451
Other liabilities	704	787
Total liabilities	203,911	190,730

Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	115,727	115,903
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $.01 par, 1,000,000 shares authorized, none issued	--	--
Common stock, $.01 par, 20,000,000 shares authorized, 7,215,667 and 6,418,936 shares issued and outstanding	72	64
Additional paid-in capital	20,816	--
Retained earnings	6,528	1,735
Accumulated other comprehensive income	(3,191)	(2,290)
Total stockholders' equity (deficit)	24,225	(491)
Total liabilities and stockholders' equity (deficit)	$343,863	$306,142

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	June 30, 1998	June 30, 1997
<S>	<C>	<C>
Net sales	$ 190,202	$ 181,643
Cost of sales	113,536	107,835
Gross profit	76,666	73,808
Operating expenses:		
Selling, general and administrative expenses	61,933	59,966
Management fee to general partner	--	830
Depreciation	1,173	1,000
Amortization	556	451
Total operating expenses	63,662	62,247
Transaction costs	--	275
Income from operations	13,004	11,286
Interest expense, net	1,646	1,904
Distributions on guaranteed preferred		

beneficial interests	3,058	-
Other income (expense), net	91	(133)
	---------	---------
Income before provision for income taxes	8,391	9,249
Income tax provision	3,776	56
	---------	---------
Net income	$ 4,615	$ 9,193
	=========	=========
Net income allocated to partners:		
General partner	N/A	$ 92

Class A limited partners	N/A	$ 3,053

Class B limited partners	N/A	$ 6,048

Earnings per limited partnership interest:		
Net income		
- Class A interest	N/A	$0.28
- Class B interest	N/A	$0.28
Net income per common share	$0.64	N/A
Weighted average number of outstanding common shares	7,215,422	N/A
Weighted average number of outstanding limited partnership interests:		
- Class A interests	N/A	11,099,573
- Class B interests	N/A	21,675,746

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
FOR THE SIX MONTHS ENDED,
(dollars in thousands, except for partnership interest and share amounts)

<TABLE>
<CAPTION>

	June 30, 1998	June 30, 1997
	-------------	-------------
<S>	<C>	<C>
Net sales	$ 362,293	$ 350,659
Cost of sales	216,989	209,251
	---------	---------
Gross profit	145,304	141,408

Operating expenses:		
Selling, general and administrative expenses	121,365	118,656
Management fee to general partner	--	1,651
Depreciation	2,282	2,018
Amortization	1,069	906
Total operating expenses	124,716	123,231
Transaction costs	--	625
Income from operations	20,588	17,552
Interest expense, net	3,334	3,735
Distributions on guaranteed preferred beneficial interests	6,116	--
Other income (expense), net	201	(20)
Income before provision for income taxes	11,339	13,797
Income tax provision	5,103	28
Net income	$ 6,236	$ 13,769
Net income allocated to partners:		
General partner	N/A	$ 138
Class A limited partners	N/A	$ 6,105
Class B limited partners	N/A	$ 7,526
Earnings per limited partnership interest:		
Net income		
- Class A interest	N/A	$0.55
- Class B interest	N/A	$0.35
Net income per common share	$0.91	N/A
Weighted average number of outstanding common shares	6,846,904	N/A
Weighted average number of outstanding limited partnership interests:		
- Class A interests	N/A	11,099,573
- Class B interests	N/A	21,675,746

</TABLE>

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)

	June 30, 1998	June 30, 1997
Cash flows from operating activities:		
Net income	$ 4,615	$ 9,193
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,729	1,451
Decrease (increase) in cash value of life insurance	41	(457)
Transaction costs	--	275
Provision for deferred compensation	--	806
Deferred income tax benefit	(1,415)	(336)
Changes in current operating items:		
Increase in accounts and notes receivable	(6,398)	(3,065)
Decrease (increase) in inventories	1,073	(71)
Decrease in other current assets	435	118
Decrease in accounts payable	(1,745)	(1,616)
Decrease in accrued interest	--	(1,419)
Increase in income taxes payable	814	--
Decrease in accrued restructuring charges and transaction costs	(275)	(849)
(Decrease) increase in other accrued liabilities	(556)	3,230
Other items, net	(1,156)	942
Net cash (used for) provided by operating activities	(2,838)	8,202
Cash flows from investing activities:		
Proceeds from sale of property and equipment	192	178
Payments for acquired businesses	(11,156)	--
Capital expenditures	(1,199)	(1,026)
Investment in life insurance policies	(803)	--
Other, net	(252)	86
Net cash used for investing activities	(13,218)	(762)

Cash flows from financing activities:		
Cash distributions to public investors	(721)	(5,106)
Borrowings under the bank credit agreement, net	11,000	1,000
Repayments under other credit facilities, net	(452)	(307)
Principal payments under capitalized lease obligations	(112)	(38)
	-------	-------
Net cash provided by (used for) financing activities	9,715	(4,451)
	-------	-------
Net (decrease) increase in cash and cash equivalents	(6,341)	2,989
Cash and cash equivalents at beginning of period	21,043	3,096
	-------	-------
Cash and cash equivalents at end of period	$ 14,702	$ 6,085
	========	=======

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

<S>	June 30, 1998 <C>	June 30, 1997 <C>
Cash flows from operating activities:		
Net income	$ 6,236	$ 13,769
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	3,351	2,924
Increase in cash value of life insurance	(813)	(328)
Transaction costs	--	625
Provision for deferred compensation	--	1,623
Deferred income tax benefit	(1,147)	(660)
Changes in current operating items:		
Increase in accounts and notes receivable	(14,366)	(16,197)
(Increase) decrease in inventories	(359)	946
Decrease (increase) in other current assets	633	(29)
Increase in accounts payable	5,698	4,572
Increase in income taxes payable	331	--
Decrease in accrued restructuring charges and transaction costs	(847)	(1,568)
Decrease in other accrued liabilities	(640)	(46)
Other items, net	(111)	490

Net cash (used for) provided by operating activities	(2,034)	6,121
Cash flows from investing activities:		
Proceeds from sale of property and equipment	202	430
Payments for acquired businesses	(11,156)	--
Capital expenditures	(2,177)	(2,042)
Investment in life insurance policies	(903)	--
Other, net	(389)	34
Net cash used for investing activities	(14,423)	(1,578)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	20,824	--
Cash distributions to public investors	(3,439)	(8,796)
Borrowings under the bank credit agreement, net	9,000	10,000
Repayments under other credit facilities, net	(774)	(1,260)
Principal payments under capitalized lease obligations	(90)	(68)
Net cash provided by (used for) financing activities	25,521	(124)
Net increase in cash and cash equivalents	9,064	4,419
Cash and cash equivalents at beginning of period	5,638	1,666
Cash and cash equivalents at end of period	$14,702	$ 6,085

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUNSOURCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS'
EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 1998 (Unaudited)

(dollars in thousands)

<TABLE>
<CAPTION>

	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Stockholders'

	Stock	Capital	Earnings	Income (1)	Equity / (Deficit)
<S>	<C>	<C>	<C>	<C>	<C>
Beginning Balance - December 31, 1997	$ 64	$ --	$ 1,735	$ (2,290)	$ (491)
Net income			6,236		6,236
Change in cumulative foreign translation adjustment				(901)	(901)
Comprehensive income					5,335
Issuance of 796,408 shares of common stock in public offering	8	20,816			20,824
Dividends declared on common stock			(1,443)		(1,443)
Ending Balance - June 30, 1998	$ 72	$ 20,816	$ 6,528	$ (3,191)	$ 24,225

</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"), its predecessor, SunSource L.P. (the "Partnership"), and its wholly-owned subsidiaries including SDI Operating Partners, L.P. (the "Operating Partnership") and SunSource Capital Trust (the "Trust"). All significant intercompany balances and transactions have been eliminated. The Company is one of the leading providers of industrial and retail 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.

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, 1997.

Public Offering

On January 22, 1998, the Company filed a registration statement on Form S-2 with the United States Securities and Exchange Commission, which was amended thereafter, for an offering of Common Shares of the Company (the "Offering"). The registration statement became effective on March 19, 1998 and the Offering closed in its entirety on March 27, 1998. Of the 2,284,471 shares sold in the Offering, 796,408 shares were issued and sold by the Company and 1,488,063 shares were sold by the selling stockholders, affiliates of Lehman Brothers Inc. The Company received net cash proceeds of $20,824 from the 796,408 shares sold in the Offering. The Company recorded an increase of $8 in Common Stock and $20,816 in Additional Paid-in Capital.

Common Shares Issued to Certain Non-Employee Directors

Under the Company's Stock Compensation Plan for Non-Employee directors, which was approved at the annual meeting of stockholders on April 28, 1998, and filed as an exhibit to the Form 10-Q for the quarter ended March 31, 1998, certain non-employee directors were issued 392 Common Shares. Prospectively, under the terms of the plan, non-employee directors will be issued Common Shares on a quarterly basis to cover 50% of their annual retainer fee with the amount of shares to be issued dependent upon the market price of the Common Shares and the number of directors receiving shares.

The number of outstanding Common Shares as of June 30, 1998 was 7,215,667. The weighted average number of Common Shares outstanding for the six months ended June 30, 1998 was 6,846,904 including the shares sold in the Offering.

2. Recent Accounting Pronouncements:

Effective with financial statements issued in 1998, the Company is required to implement Statement of Financial Accounting Standards ("SFAS") 130, "Reporting Comprehensive Income", which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income includes net income and other items resulting in changes to stockholders' equity such as foreign currency translation, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities.

The Company's only reportable item of comprehensive income is the change in the accumulated foreign translation adjustment. The Company now reports this item as a separate component of the Statement of Changes in Stockholders' Equity identified as the only additional component of Comprehensive Income.

The FASB issued SFAS No. 132 in February 1998 with adoption required in 1998. This statement will result in additional disclosure related to the Company's defined benefit plans. It does not effect the accounting for these plans and will, therefore, not result in an impact to the balance sheet or income statement.

3. Acquisitions:

During the second quarter, the Company's Harding division acquired the assets of four retail glass shops for net cash consideration, including transaction expenses, of $2,522 plus the assumption of certain liabilities of $494. Harding recorded goodwill of $2,165 related to these acquisitions.

On April 22, 1998, the Company's Hillman division acquired the assets of a manufacturer of letters, numbers and signs for net cash consideration of $559, plus the assumption of certain liabilities of $562. Hillman recorded goodwill of $177 related to this acquisition.

On May 6, 1998, the Company's Hillman division acquired the assets of a retail hardware business for net cash consideration, including transaction expenses, of

$8,075 (of which $2,138 is held in escrow pending the resolution of post-closing adjustments) plus the assumption of certain liabilities of $193. Hillman recorded $5,225 of goodwill related to this acquisition. The transaction was effective as of the close of business on May 2, 1998.

4. Common Stock Dividend:

On June 24, 1998, the Board of Directors declared a dividend of $0.10 per Common Share which was paid on July 14, 1998 to holders of record as of July 6, 1998. The Company expects to declare future quarterly dividends on the Common Shares to aggregate $0.40 per Common Share annually, subject to the discretion of its Board of Directors and dependent upon, among other things, the Company's future earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

5. Lines of Credit and Long-Term Debt:

As of June 30, 1998, the Company had $45,868 available under its $90,000 Bank Credit Agreement which provides revolving credit for working capital purposes and acquisitions through September 30, 2002. The Company had $102,962 of outstanding long-term debt and capital lease obligations at June 30, 1998, consisting of bank borrowings of $42,000, outstanding senior notes of $60,000 and capital lease obligations of $962. The Company also had $2,132 of Letters of Credit charged against its available borrowing on the revolving credit facility.

5. 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 June 30, 1998. 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 June 30, 1998.

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

The Trust was organized in connection with the conversion of the Partnership to corporate form on September 30, 1997 (the "Conversion") for the purpose of (a) issuing its Trust Preferred Securities to the Company in consideration of the deposit by the Company of Junior Subordinated Debentures in the Trust as trust assets, and its Trust Common Securities to the Company in exchange for cash and investing the proceeds thereof in an equivalent amount of Junior Subordinated Debentures and (b) engaging in such other activities as are necessary or incidental thereto. The Trust had no operating history prior to the issuance of the Trust Preferred Securities. The terms of the Junior Subordinated Debentures include those stated in the Indenture (the "Indenture") between the Company and the indenture trustee, and those made part of the Indenture by the Trust Indenture Act. The principal amount of the Junior Subordinated Debentures is $108,707, consisting of $3,261 related to the Trust Common Securities and $105,446 related to the Trust Preferred Securities; the interest rate is 11.6%; and their maturity date is September 30, 2027, unless redeemed earlier.

The Company has guaranteed on a subordinated basis the payment of distributions on the Trust Preferred Securities and payments on liquidation of the Trust and redemption of Trust Preferred Securities (the "Preferred Securities Guarantee"). The sole assets of the Trust are the Junior Subordinated Debentures and the obligations of the Company under the Declaration of Trust of the Trust, the Indenture, the Preferred Securities Guarantee and the Junior Subordinated Debentures in the aggregate constitute a full and unconditional guarantee by the Company of the Trust's obligations under the Trust Preferred Securities. The distributions on the Trust Preferred Securities aggregate $12,232 annually.

The Trust Preferred Securities will be redeemed upon maturity on September 30, 2027, or earlier redemption of the Junior Subordinated Debentures at 100% of the liquidation amount plus accrued and unpaid distributions, provided that any redemption due to a change in the tax status of the interest payments to the Trust within the first five years will be at 101%. The Junior Subordinated Debentures may be redeemed by the Company at any time after September 30, 2002.

In the event of a liquidation of the Trust, the holders of Trust Preferred Securities would be entitled to receive a preferential distribution of $25 per Trust Preferred Security, aggregating $105,446, plus accrued and unpaid distributions. However, upon the occurrence of an event which changes the tax status of interest payments to the Trust or the status of the Trust itself, the Trust will be liquidated and, after satisfaction of creditors of the Trust, the holders will receive Junior Subordinated Debentures.

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

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

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

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

8. Subsequent Events:

Since June 30, 1998, the Company's Harding division acquired the assets of two retail glass shops for net cash consideration of $2,771 plus the assumption of certain liabilities.

On July 30, 1998, the Compensation Committee of the Board of Directors granted 201,495 non-qualified stock options under the 1998 Equity Compensation Plan which was approved by stockholders at the Company's annual meeting on April 28, 1998. The options include 111,495 granted to key employees of the Company's business units and 90,000 granted to senior executives who were previously eligible for awards under the Company's cash basis deferred compensation plans which have been suspended.

On August 6, 1998, the Company's Board of Directors authorized $15,000 for management to repurchase up to 10% of the Company's outstanding common stock through open market transactions and private block trades, dependent upon market conditions. The shares repurchased are expected to be held in treasury.

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

- --

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

General

SunSource Inc. (the "Company") is one of the leading providers of industrial and retail 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 SunSource Technology Services ("STS") and SunSource Inventory Management Company ("SIMCO"). STS offers a full range of technology-based products and services to small, medium and large manufacturers. SIMCO provides small parts inventory management to low volume customers through its expediter activity and integrated inventory management to large industrial manufacturing customers through its integrated supply activity.

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

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

Public Offering

On January 22, 1998, the Company filed a registration statement on Form S-2 with the United States Securities and Exchange Commission, which was amended thereafter, for an offering of Common Shares of the Company (the "Offering"). The registration statement became effective on March 19, 1998 and the Offering closed in its entirety by March 27, 1998. Of the 2,284,471 shares sold in the Offering, 796,408 shares were issued and sold by the Company and 1,488,063 shares were sold by the selling stockholders, affiliates of Lehman Brothers, Inc.

The Company did not receive any of the proceeds from the shares sold by the selling stockholders. The Company used the net proceeds raised (of $20.9 million) from the 796,408 shares sold in the Offering to repay borrowings under its revolving credit facility.

Acquisitions

The Company recently resumed its strategy to acquire retail glass shops for integration with Harding. From August 31, 1997, through December 31, 1997, Harding acquired the assets of three retail glass shops for net cash consideration of $0.8 million, plus the assumption of certain liabilities. Sales from the acquired shops aggregated $0.8 million for the six months ended June 30, 1998.

During the second quarter, Harding acquired the assets of four retail glass shops for net cash consideration, including transaction expenses, of approximately $2.5 million plus the assumption of certain liabilities of $0.5 million. Sales from these acquisitions were approximately $4.5 million for the twelve-month period prior to acquisition. These acquisitions expand Harding's business into the Albuquerque, New Mexico, Dallas, Texas, and Phoenix, Arizona, markets.

In the month of July 1998, Harding acquired the assets of two retail glass shops for a net cash consideration of $2.8 million plus the assumption of certain liabilities. Sales from these acquisitions were approximately $3.3 million for the twelve-month period prior to acquisition. These acquisitions further expand Harding's business in the Arizona and Texas markets.

On April 22, 1998, Hillman acquired the assets of a manufacturer of letters, numbers and signs for net cash consideration of approximately $0.6 million plus the assumption of certain liabilities of $0.6 million. This acquisition had sales of approximately $1.0 million for the twelve-month period prior to acquisition and had sales of $0.2 million from April 22 through June 30, 1998.

On May 6, 1998, Hillman acquired the assets of the franchise and independent hardware segment of Axxess Technologies, Inc., including its PMI division, a distributor of keys, letters, numbers and signs and other products to retail hardware stores throughout the United States, for net cash consideration, including transaction expenses of $8.1 million (of which $2.1 million is held in escrow pending the resolution of post-closing adjustments) plus the assumption of certain liabilities of $0.2 million. Sales from the acquired operations were approximately $17.0 million in 1997 and were $2.0 million from May 6, 1998 to June 30, 1998. Hillman will integrate the sales force and operations of the acquired business with its existing operations.

Results of Operations

Segment Sales and Profitability for the Three and Six Months Ended June 30, 1998 and 1997

<TABLE>
<CAPTION>

(dollars in thousands)

	FOR THE THREE MONTHS ENDED,			
	June 30, 1998		June 30, 1997	
Sales	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
<S>	<C>	<C>	<C>	<C>
SunSource Industrial Services				
STS	$ 87,146	45.8%	$ 83,600	46.0%
SIMCO - Expediter	31,902	16.8%	32,297	17.8%
SIMCO - Integrated Supply (1)	12,851	6.8%	12,944	7.1%
Industrial Services	131,899	69.3%	128,841	70.9%
Hillman (2)	34,378	18.1%	29,720	16.4%
Harding (3)	23,925	12.6%	23,082	12.7%
Consolidated Net Sales	$190,202	100.0%	$181,643	100.0%
Gross Profit		% OF SALES		% OF SALES
SunSource Industrial Services				
STS	$ 22,385	25.7%	$ 22,045	26.4%
SIMCO - Expediter	22,699	71.2%	23,176	71.8%
SIMCO - Integrated Supply	3,328	25.9%	3,349	25.9%
Industrial Services	48,412	36.7%	48,570	37.7%
Hillman	18,361	53.4%	15,888	53.5%
Harding	9,893	41.4%	9,350	40.5%
Consolidated Gross Profit	$ 76,666	40.3%	$ 73,808	40.6%
EBITA (4)				
SunSource Industrial Services				
STS	$ 3,944	4.5%	$ 4,508	5.4%
SIMCO - Expediter	5,474	17.2%	5,105	15.8%
SIMCO - Integrated Supply	590	4.6%	746	5.8%
Industrial Services	10,008	7.6%	10,359	8.0%
Hillman	3,687	10.7%	3,432	11.5%
Harding	1,520	6.4%	979	4.2%
Total operations before corporate expenses	15,215	8.0%	14,770	8.1%
Corporate expenses	(1,655)	(0.9%)	(1,928)	(1.1%)

Consolidated EBITA	$ 13,560	7.1%	$ 12,842	7.1%

</TABLE>

[TABLE RESTUBBED FROM PREVIOUS]

<TABLE>
<CAPTION>

(dollars in thousands)

	FOR THE SIX MONTHS ENDED,			
	June 30, 1998		June 30, 1997	
Sales	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
<S>	<C>	<C>	<C>	<C>
SunSource Industrial Services				
STS	$169,111	46.7%	$162,557	46.4%
SIMCO - Expediter	63,233	17.5%	64,012	18.3%
SIMCO - Integrated Supply (1)	25,052	6.9%	26,995	7.7%
Industrial Services	257,396	71.0%	253,564	72.3%
Hillman (2)	60,475	16.7%	54,057	15.4%
Harding (3)	44,422	12.3%	43,038	12.3%
Consolidated Net Sales	$362,293	100.0%	$350,659	100.0%

Gross Profit		% OF SALES		% OF SALES
SunSource Industrial Services				
STS	$ 43,159	25.5%	$ 42,390	26.1%
SIMCO - Expediter	45,139	71.4%	45,947	71.8%
SIMCO - Integrated Supply	6,443	25.7%	6,871	25.5%
Industrial Services	94,741	36.8%	95,208	37.5%
Hillman	32,586	53.9%	28,705	53.1%
Harding	17,977	40.5%	17,495	40.7%
Consolidated Gross Profit	$145,304	40.1%	$141,408	40.3%

EBITA (4)				
SunSource Industrial Services				
STS	$ 6,519	3.9%	$ 7,520	4.6%
SIMCO - Expediter	10,463	16.5%	10,267	16.0%
SIMCO - Integrated Supply	1,136	4.5%	1,600	5.9%
Industrial Services	18,118	7.0%	19,387	7.6%
Hillman	5,863	9.7%	4,693	8.7%
Harding	1,548	3.5%	788	1.8%
Total operations before corporate expenses	25,529	7.0%	24,868	7.1%
Corporate expenses	(3,872)	(1.1%)	(4,134)	(1.2%)
Consolidated EBITA	$ 21,657	6.0%	$ 20,734	5.9%

</TABLE>

(1) Includes sales of $942 and $4,379 for the three and six months ended June 30, 1997, respectively related to Integrated Supply contracts cancelled in 1997.

(2) Includes sales from acquired businesses of $2,244 for three and six months ended June 30, 1998.

(3) Includes sales from acquired businesses of $637 for three and six months ended June 30, 1998. Also includes sales from branches closed in 1998 of $0 and $541 for the three and six months ended June 30, 1998, respectively, and $569

and $1,031 for the three and six months ended June 30, 1997, respectively.

(4) "EBITA" (earnings before interest, taxes, and amortization) is defined as income from operations before amortization, excluding $830 and $1,651 of management fees and $275 and $625 of transaction costs related to the Company's conversion from partnership to corporate form (the "Conversion"), for the three and six month periods of 1997, respectively. EBITA is not a measure of financial performance under Generally Accepted Accounting Principals (GAAP).

Three months ended June 30, 1998 and 1997

Net sales increased $8.6 million or 4.7% in the three months ended June 30, 1998 to $190.2 million from $181.6 million in 1997. Sales variances by business segment are as follows:

	Sales Increase (Decrease) Amount (In thousands)	%
SunSource Industrial Services Company		
STS	$ 3,546	4.2 %
SIMCO - Expediter	(395)	(1.2)%
SIMCO - Integrated Supply	(93)	(.7)%
Industrial Services	3,058	2.4 %
Hillman	4,658	15.7 %
Harding	843	3.7 %
Total Company	$ 8,559	4.7 %

STS sales increased $3.5 million or 4.2% in the second quarter of 1998 to $87.1 million from $83.6 million due primarily to strong sales growth in mobile technology and the service and repair business. The decrease in Expediter sales of $0.4 million is due primarily to competitive pricing pressures as well as deterioration in the Canadian dollar. The decrease in Integrated Supply sales of $0.1 million includes a decrease of $0.9 million due to contracts which were cancelled in 1997. Excluding these sales, Integrated Supply sales increased 7.1% in the second quarter of 1998 over the same prior-year quarter.

Hillman's sales increased $4.7 million or 15.7% in 1998 to $34.4 million from $29.7 million in 1997 due to market penetration of new product lines in the amount of $1.4 million, sales from newly acquired businesses of $2.2 million, and the balance of $1.1 million in growth from new accounts and expansion of existing product lines.

Harding's sales increased $0.8 million or 3.7% in 1998 to $23.9 million from $23.1 million in 1997 due primarily to an increase in retail sales of $0.6 million, contract sales of $0.6 million and sales from businesses acquired since the fourth quarter of 1997 of $1.0 million. In addition, the discontinuation of certain low margin product lines and markets served resulted in reduced sales of $1.4 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 the recent acquisitions.

The Company's sales backlog on a consolidated basis was $77.3 million as of June 30, 1998, compared with $68.3 million at December 31, 1997 and $57.0 million at June 30, 1997, an increase of 13.2% and 35.6%, respectively.

Total Company cost of sales increased $5.7 million or 5.3% in 1998 to $113.5 million from $107.8 million in 1997 due primarily to increased sales levels in the comparison period.

The Company's consolidated gross margin was 40.3% in the second quarter of 1998 compared with 40.6% in the second quarter of 1997. SunSource Industrial Services Company's gross margin was 36.7% in 1998 compared with 37.7% in 1997, a decrease of 1.0%. STS's gross margin decreased 0.7% in 1998 due mainly to unabsorbed labor costs in its service and repair business. The SIMCO Expediter activity's gross margin declined 0.6% in 1998 due mainly to competitive pricing pressures and higher freight costs.

SIMCO-Integrated Supply and Hillman's gross margins remained consistent in the comparison period. Harding's gross margin increased 0.8% due to an increase in sales volume in the retail auto business and improved inventory management, offset by increased contract sales at lower gross margins than the overall retail business.

The Company's selling, general and administrative ("S,G&A") expenses increased by $1.9 million or 3.3% to $61.9 million in the second quarter of 1998 from $60.0 million in 1997. Selling expenses increased $1.5 million supporting increased 1998 sales levels Company-wide and increased marketing efforts at STS and Hillman. Warehouse and delivery expenses increased marginally by $0.2 million. The increase in general and administrative expenses of $0.2 million is net of expense reductions of $0.8 million associated with the replacement of cash basis deferred compensation awards with stock options.

S,G,&A expenses as a percentage of sales were as follows:

	Three Months Ended June 30,	
	1998	1997
Selling Expenses	16.8%	16.7%
Warehouse and Delivery Expenses	5.9%	6.0%
General and Administrative Expenses	9.9%	10.3%
Total S,G&A Expenses	32.6%	33.0%

EBITA was $13.6 million for the three months ended June 30, 1998, compared with $12.8 million for the same prior-year quarter excluding a $0.3 million charge for transaction and other costs associated with the Conversion from partnership to corporate form and non-recurring management fees of $0.8 million.

The Company's consolidated operating profit margin ("EBITA, as a percentage of sales") after corporate expenses remained constant at 7.1% in the second quarter of 1998 compared with the second quarter of 1997. SunSource Industrial Services Company's operating profit margin declined to 7.6% in 1998 from 8.0% in 1997, primarily reflecting slow second quarter 1998 sales growth as well as increased selling expenses. Hillman's operating profit margin declined in 1998 to 10.7% from 11.5% in 1997 due to increased selling expenses as previously discussed. Harding's operating profit margin improved in 1998 to 6.4% from 4.2% in 1997 due to improved sales resulting from investments in acquisitions and marketing efforts over the last twelve months, as well as better operating expense control.

Under partnership form, the management fee due the general partner amounted to $3.3 million annually, of which $0.8 million was expensed in the 1997 period. As a result of the Conversion, the management fee is retained by a wholly-owned subsidiary of the Company and is eliminated in consolidation.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities in the amount of 11.6% per annum on their face amount of $105.4 million, or $12.2 million. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the three months ended June 30, 1998, the interest paid by the Company and the distributions made by the Trust amounted to $3.1 million.

Six months ended June 30, 1998 and 1997

Net sales increased $11.6 million or 3.3% in the first six months of 1998 to $362.3 million from $350.7 million in 1997. Sales variances by business segment are as follows:

	Sales Increase (Decrease)	
	Amount (In thousands)	%
SunSource Industrial Services Company		
STS	$ 6,554	4.0 %
SIMCO - Expediter	(779)	(1.2)%
SIMCO - Integrated Supply	(1,943)	(7.2)%
Industrial Services	3,832	1.5 %
Hillman	6,418	11.9 %

Harding	1,384	3.2 %
Total Company	$ 11,634	3.3 %

STS sales increased $6.6 million or 4.0% in the first half of 1998 to $169.1 million from $162.5 million in 1997 due mainly to strong sales growth in mobile technology and the service and repair business. The decrease in Expediter sales of $0.8 million is due primarily to competitive pricing pressures as well as deterioration in the Canadian dollar. The decrease in Integrated Supply sales of $1.9 million includes a decrease of $4.4 million due to contracts which were cancelled in 1997. Excluding these sales, Integrated Supply sales increased 10.8% in the first half of 1998 over the same prior-year period.

Hillman's sales increased $6.4 million or 11.9% in 1998 to $60.5 million from $54.1 million in 1997 due to market penetration of new product lines in the amount of $2.4 million, sales from newly acquired businesses of $2.2 million, and the balance of $1.8 million in growth from new accounts and expansion of existing product lines.

Harding's sales increased $1.4 million or 3.2% in 1998 to $44.4 million from $43.0 million in 1997 due primarily to an increase in retail sales of $0.7 million, contract sales of $1.2 million and sales from businesses acquired since the fourth quarter of 1997 of $1.5 million. In addition, the discontinuation of certain low margin product lines and markets served, as previously explained, resulted in reduced sales of $2.0 million.

Total Company cost of sales increased $7.7 million or 3.7% in 1998 to $217.0 million from $209.3 million in 1997 due primarily to increased sales levels in the comparison period.

The Company's consolidated gross margin was 40.1% in the first half of 1998 compared with 40.3% in the first half of 1997. SunSource Industrial Services Company's gross margin was 36.8% in 1998 compared with 37.5% in 1997, a decrease of 0.7%. STS's gross margin decreased 0.6% in 1998 due mainly to unabsorbed labor costs in its service and repair business. The SIMCO Expediter activity's gross margin declined 0.4% in 1998 due mainly to competitive pricing pressures and higher freight costs. The SIMCO Integrated Supply activity's gross margin increased 0.3% in 1998 due to the addition of product lines offset slightly by changes in sales mix as a result of new in-plant inventory management programs.

Hillman's gross margin increased 0.8% due primarily to improved purchasing management and better control of obsolete and slow-moving inventories. Harding's gross margin decreased 0.2% due to an increase in contract sales at lower gross margins than the overall retail business.

The Company's S,G&A expenses increased by $2.7 million or 2.3% to $121.4 million in the first half of 1998 from $118.7 million in 1997. Selling expenses increased $1.9 million supporting increased 1998 sales levels Company-wide and increased marketing efforts at Hillman and Harding. Warehouse and delivery expenses increased marginally by $0.1 million. The increase in general and administrative expenses of $0.7 million in the comparison period is net of expense reductions of $1.6 million associated with the replacement of cash basis deferred compensation awards with stock options.

S,G,&A expenses as a percentage of sales decreased slightly as follows:

	Six Months Ended June 30,	
	1998	1997
Selling Expenses	17.1%	17.1%
Warehouse and Delivery Expenses	5.9%	6.0%
General and Administrative Expenses	10.5%	10.7%
Total S,G&A Expenses	33.5%	33.8%

EBITA was $21.7 million for the six months ended June 30, 1998, compared with $20.7 million for the same prior-year period excluding a $0.6 million charge for transaction and other costs associated with the Conversion from partnership to corporate form and non-recurring management fees of $1.7 million.

The Company's consolidated operating profit margin after corporate expenses was up slightly at 6.0% in the first half of 1998 compared with the first half of

1997. SunSource Industrial Services Company's operating profit margin declined to 7.0% in 1998 from 7.6% in 1997, primarily reflecting slow 1998 sales growth. Hillman improved its operating profit margin significantly in 1998 to 9.7% from 8.7% in 1997 due to increased sales and gross profit margin improvement from better purchasing management in 1998 as previously discussed. Harding's operating profit margin improved in 1998 to 3.5% from 1.8% in 1997 due to improved sales resulting from significant investments in sales and marketing efforts over the last twelve months and better operating expense control, offset by a decline in gross profit margin due to sales mix as previously discussed.

Under partnership form, the management fee due the general partner amounted to $3.3 million annually, of which $1.7 million was expensed in the 1997 period. As a result of the Conversion, the management fee is retained by a wholly-owned subsidiary of the Company and is eliminated in consolidation.

The Company pays interest to the Trust on the Junior Subordinated Debentures underlying the Trust Preferred Securities in the amount of 11.6% per annum on their face amount of $105.4 million, or $12.2 million. The Trust distributes an equivalent amount to the holders of the Trust Preferred Securities. For the six months ended June 30, 1998, the interest paid by the Company and the distributions made by the Trust amounted to $6.1 million.

The Company is subject to federal, state and local income taxes on its domestic operations and foreign income taxes on its Canadian and Mexican operations as accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") 109, "Accounting for Income Taxes". The Company's combined effective tax rate was 45.0% for the six months ended June 30, 1998. Deferred income taxes represent differences between the financial statement and tax bases of assets and liabilities as classified on the Company's balance sheet.

Liquidity and Capital Resources

Net cash used for operations was $2.0 million for the six months ended June 30, 1998, compared with net cash provided by operations of $6.1 million for 1997, a decrease of $8.1 million. This decrease was due primarily to decreased net income of $7.5 million and a decrease in non-cash charges of $3.4, offset by reduced working capital investment in operations in the comparison period of approximately $2.8 million. The Company's net interest coverage ratio on a pro forma basis for the six months ended June 30, 1998 improved to 2.29x (earnings before interest, distributions on Trust Preferred Securities and income taxes over net interest expense and distributions on Trust Preferred Securities), from 2.09x in the comparable 1997 period.

The Company's cash position of $14.7 million as of June 30, 1998, increased $9.1 million from the balance at December 31, 1997. Cash was provided during this period primarily from net borrowings on the bank revolver ($9.0 million) and net proceeds from the Offering ($20.8 million). Cash was used during this period predominantly for operations ($2.0 million), acquisitions ($11.2 million), cash distributions to the public investors ($3.4 million), capital expenditures ($2.2 million), net repayments on other credit facilities ($0.8 million), investment in life insurance ($0.9 million) and other items, net ($0.2 million).

The Company's working capital position of $142.8 million at June 30, 1998, represents an increase of $21.9 million from the December 31, 1997 level of $120.9 million, primarily due to the proceeds from the Offering. The Company's current ratio improved to 2.60x at June 30, 1998 from 2.41x at December 31, 1997, principally due to an increase in cash and accounts receivable.

As of June 30, 1998, the Company had $45.9 million available under its credit facilities. The Company had $103.0 million of outstanding long-term debt at June 30, 1998, consisting of the $60.0 million Senior Note at 7.66%, bank borrowings totaling $42.0 million at an effective interest rate of 6.87%, and capitalized lease obligations of $1.0 million at various interest rates. On July 13, 1998, the Company utilized its excess cash to repay a $17.0 million one-month LIBOR loan on its bank revolver. An indirect, wholly-owned Canadian subsidiary of the Company had a $2.5 million Canadian dollar line of credit for working capital purposes, of which no amount was outstanding at June 30, 1998.

As of June 30, 1998, the Company's total debt (including dividends/distributions payable) as a percentage of its consolidated capitalization (total debt, Trust Preferred Securities and stockholders' equity) was 42.6% compared with 45.6% as of December 31, 1997. The Company's consolidated capitalization (including distributions payable) as of June 30, 1998, was $243.2 million compared to $212.1 million at December 31, 1997.

The Company anticipates spending $4.1 million for capital expenditures in 1998, primarily for warehouse improvements, machinery and equipment and computer hardware and software.

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

On March 25, 1998, the Board of Directors declared a dividend of $0.10 per Common Share which was paid on April 10, 1998 to holders of record as of April 6, 1998. On June 24, 1998, the Board of Directors declared a dividend of $0.10 per Common Share which was paid on July 14, 1998, to holders of record as of July 6, 1998. The Company expects to declare future quarterly dividends on the Common Shares to aggregate $0.40 per Common Share annually, subject to the discretion of its Board of Directors and dependent upon, among other things, the Company's future earnings, financial condition, capital requirements, funds needed for acquisitions, level of indebtedness, contractual restrictions and other factors that the Board of Directors deems relevant.

The Company has deferred tax assets aggregating $17.0 million as of June 30, 1998, as determined in accordance with SFAS 109. Management believes that the Company's deferred tax assets will be realized through the reversal of existing temporary differences between the financial statement and tax bases, as well as through future taxable income.

Subsequent Events

On July 30, 1998, the Compensation Committee of the Board of Directors granted 201,495 non-qualified stock options under the 1998 Equity Compensation Plan which was approved by stockholders at the Company's annual meeting on April 28, 1998. The options include 111,495 granted to key employees of the Company's business units and 90,000 granted to senior executives who were previously eligible for awards under the Company's cash basis deferred compensation plans which have been suspended.

The 111,495 stock options granted to the key employees at market do not result in a current charge to earnings. The total 201,495 options issued, however, will be included in the calculation of diluted earnings per share from the date of grant forward. Had these options been granted on January 1, 1998, the Company would have reported diluted earnings of $0.62 per common share for the three months ended June 30, 1998 compared to pro forma diluted earnings of $0.56 per common share for the three months ended June 30, 1997. For the six months ended June 30, 1998, the Company would have reported actual diluted earnings of $0.88 per common share and pro forma diluted earnings of $0.87 per common share compared to pro forma diluted earnings of $0.77 per common shares for the six months ended June 30, 1997.

On August 6, 1998, the Company's Board of Directors authorized $15.0 million for management to repurchase up to 10% of the Company's outstanding common stock through open market transactions and private block trades, dependent upon market conditions. The shares repurchased are expected to be held in treasury.

PART II

OTHER INFORMATION

Item 1 - Legal Proceedings

On May 21, 1998, the Delaware Chancery Court approved the settlement of the class action brought by two holders of B Interests in the Partnership which was reported in Form 10-Q of the Company for the quarterly period ended September 30, 1997.

Item 5 - Other Information

Management

A committee of the Board of Directors has been formed to identify a new Chief Executive Officer for SunSource. The Company has been preparing for this orderly transition in leadership for a number of years. The current C.E.O., Donald T. Marshall, will remain Chairman of the Board and has no plans to significantly reduce his share holding.

Items 2, 3, 4 and 6 - None

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/ John J. Dabrowski
Joseph M. Corvino	John J. Dabrowski
Vice President - Finance	Controller
(Chief Financial Officer)	(Chief Accounting Officer)

DATE: August 14, 1998