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, 1999

Commission file number 1-13293

SunSource Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES _X_ NO ___

On November 15, 1999 there were 6,749,456 Common Shares outstanding.

SUNSOURCE INC.

INDEX

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

<TABLE>
<CAPTION>

<S>	September 30, 1999 (Unaudited) <C>	December 31, 1998 <C>	September 30, 1998 (Unaudited) <C>
ASSETS			
Current assets:			
Cash and cash equivalents	$ 3,945	$ 2,796	$ 10,174
Accounts receivable, net	92,839	88,629	101,557
Inventories	107,444	112,497	102,710
Deferred income taxes	13,815	9,886	10,593
Other current assets	7,172	5,421	3,649
Total current assets	225,215	219,229	228,683
Property and equipment, net	21,958	26,770	24,642
Goodwill	84,715	77,544	74,541
Other Intangibles	1,562	1,807	918
Deferred income taxes	5,178	5,202	5,146
Cash surrender value of life insurance policies	12,427	10,262	8,823
Other assets	1,301	754	1,034
Total assets	$352,356	$341,568	$343,787
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 51,775	$ 58,353	$ 55,008
Notes payable	974	1,770	974
Current portion of capitalized lease obligations	305	276	276
Dividends / distributions payable	--	676	726
Deferred tax liability	929	929	

			1,322
Accrued expenses:			
Salaries and wages	7,768	8,379	7,294
Income and other taxes	218	4,194	3,087
Other accrued expenses	24,436	23,050	22,092
	--------	--------	--------
Total current liabilities	86,405	97,627	90,779
Senior notes	60,000	60,000	60,000
Bank revolving credit	63,520	35,000	46,000
Capitalized lease obligations	412	566	626
Deferred compensation	12,825	11,802	10,256
Other liabilities	2,665	308	704
	--------	--------	--------
Total liabilities	225,827	205,303	208,365
	--------	--------	--------
Guaranteed preferred beneficial interests in the Company's junior subordinated debentures	115,288	115,551	115,639
	--------	--------	--------
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $.01 par, 1,000,000 shares authorized, none issued	--	--	--
Common stock, $.01 par, 20,000,000 shares authorized, 7,223,382 issued and 6,744,282 outstanding at September 30, 1999, 7,217,263 issued and 6,756,163 outstanding at December 31, 1998 and 7,216,199 issued and 6,849,799 outstanding at September 30, 1998	72	72	72
Additional paid-in capital	21,315	21,099	21,081
Retained earnings	3,350	12,748	10,393
Unearned compensation	(302)	(229)	(244)
Accumulated other comprehensive income	(4,489)	(4,596)	(5,020)
Treasury stock, at cost, 479,100 shares at September 30, 1999; 461,100 shares at December 31, 1998; 366,400 at September 30, 1998	(8,705)	(8,380)	(6,499)
	--------	--------	--------
Total stockholders' equity	11,241	20,714	19,783
	--------	--------	--------
Total liabilities and stockholders' equity	$352,356	$341,568	$343,787
	========	========	========

</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 share amounts)

<TABLE>

<CAPTION>

	September 30, 1999	September 30, 1998
<S>	<C>	<C>
Net sales	$ 169,384	$ 183,593
Cost of sales	98,881	107,779
Gross profit	70,503	75,814
Operating expenses:		
Selling, general and administrative expenses	63,837	61,931
Depreciation	1,185	1,259
Amortization	710	576
Total operating expenses	65,732	63,766
Provision for litigation matters - divested operations	--	1,600
Other income (expense), net	470	(63)
Income from operations	5,241	10,385
Interest expense, net	2,463	1,752
Distributions on guaranteed preferred beneficial interests	3,058	3,058
Income (loss) before provision (benefit) for income taxes	(280)	5,575
Provision (benefit) for income taxes	(356)	1,025
Net income	$ 76	$ 4,550
Basic and diluted net income per common share	$0.01	$0.64
Weighted average number of outstanding common shares	6,744,282	7,120,576

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	September 30, 1999	September 30, 1998
<S>	<C>	<C>
Net sales	$ 522,302	$ 543,701
Cost of sales	308,065	324,580
Cost of sales - Inventory write-down related to restructuring (Note 1)	2,130	--
Gross profit	212,107	219,121
Operating expenses:		
Selling, general and administrative expenses	197,137	181,111
Depreciation	4,199	3,541
Amortization	2,073	1,645
Total operating expenses	203,409	186,297
Provision for litigation matters - divested operations	--	1,600
Restructuring charges and asset write-down (Note 1)	8,118	--
Other income (expense), net	664	(50)

Income from operations	1,244	31,174
Interest expense, net	6,847	5,086
Distributions on guaranteed preferred beneficial interests	9,174	9,174
Income (loss) before provision (benefit) for income taxes	(14,777)	16,914
Provision (benefit) for income taxes	(6,053)	6,128
Net income (loss)	$ (8,724)	$ 10,786
Basic and diluted net income (loss) per common share	($1.29)	$1.55
Weighted average number of outstanding common shares	6,746,362	6,939,106

</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)

<TABLE>
<CAPTION>

<S>	September 30, 1999 <C>	September 30, 1998 <C>
Cash flows from operating activities:		
Net income	$ 76	$ 4,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,895	1,835
Decrease in cash value of life insurance	676	1,300
Provision (benefit) for deferred income taxes	1,932	(361)
Gain on sale of division	(365)	--
Changes in current operating items:		
Decrease (increase) in accounts receivable	5,757	(2,937)
Decrease in inventories	3,546	2,477
Decrease (increase) in other current assets	(950)	315
Decrease in accounts payable	(2,247)	(2,764)
Increase (decrease) in income taxes payable	(2,318)	7
Decrease in accrued restructuring charges and transaction costs	(1,693)	(115)
Increase (decrease) in other accrued liabilities	(413)	5,593
Other items, net	(903)	(3,096)
Net cash provided by operating activities	4,993	6,804
Cash flows from investing activities:		
Proceeds from sale of property and equipment	5,090	177
Proceeds from sale of division	9,160	--
Payments for acquired businesses, net of cash acquired	(386)	(6,488)
Capital expenditures	(1,494)	(1,526)
Other, net	(490)	120
Net cash provided by (used for) investing activities	11,880	(7,717)
Cash flows from financing activities:		
Borrowings (repayments) under the bank credit agreement, net	(15,480)	4,000
Cash distributions / dividends to investors	--	(724)
Repayments under other credit facilities, net	(269)	(332)
Purchase of treasury stock at cost	--	(6,499)

Principal payments under capitalized lease obligations	(78)	(60)
Net cash used for financing activities	(15,827)	(3,615)
Net increase (decrease) in cash and cash equivalents	1,046	(4,528)
Cash and cash equivalents at beginning of period	2,899	14,702
Cash and cash equivalents at end of period	$ 3,945	$ 10,174

</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>

<S>	September 30, 1999 <C>	September 30, 1998 <C>
Cash flows from operating activities:		
Net income (loss)	$ (8,724)	$ 10,786
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	6,272	5,186
Restructuring charges and asset write-down	10,248	--
Decrease (increase) in cash value of life insurance	(65)	487
Benefit for deferred income taxes	(3,905)	(1,508)
Gain on sale of division	(365)	--
Changes in current operating items:		
Increase in accounts receivable	(2,094)	(17,303)
Decrease (increase) in inventories	(1,656)	2,118
Decrease (increase) in other current assets	(53)	948
Increase (decrease) in accounts payable	(6,004)	2,934
Increase (decrease) in income taxes payable	(5,413)	338
Decrease in accrued restructuring charges and transaction costs	(2,812)	(962)
Increase (decrease) in other accrued liabilities	(1,911)	4,953
Other items, net	119	(3,196)
Net cash (used for) provided by operating activities	(16,363)	4,781
Cash flows from investing activities:		
Proceeds from sale of property and equipment	5,370	379
Proceeds from sale of division	9,160	--
Payments for acquired businesses, net of cash acquired	(15,524)	(17,644)
Capital expenditures	(5,146)	(3,703)
Investment in life insurance policies	(1,300)	(903)
Other, net	(876)	(269)
Net cash used for investing activities	(8,316)	(22,140)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	--	20,813
Borrowings under the bank credit agreement, net	28,520	13,000
Purchase of treasury stock at cost	(325)	(6,499)
Cash distributions / dividends to investors	(1,350)	(4,163)
Repayments under other credit facilities, net	(796)	(1,106)
Principal payments under capitalized lease obligations	(221)	(150)
Net cash provided by financing activities	25,828	21,895
Net increase in cash and cash equivalents	1,149	4,536

Cash and cash equivalents at beginning of period	2,796	5,638
Cash and cash equivalents at end of period	$ 3,945	$ 10,174

</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, 1999 (Unaudited)

(dollars in thousands)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (1)
<S>	<C>	<C>	<C>	<C>	<C>
Beginning Balance - December 31, 1998	$ 72	$ 21,099	$ 12,748	$ (229)	$ (4,596)
Net loss			(8,724)		
Change in cumulative foreign translation adjustment					107
Comprehensive income					
Issuance of 6,119 shares of common stoc to certain non-employee directors		93			
Dividends declared on common stock			(674)		
Stock options granted at a discount		123		(123)	
Amortization of stock option discount				50	
Repurchase of 18,000 shares of common stock					
Ending Balance - September 30, 1999	$ 72	$ 21,315	$ 3,350	$ (302)	$ (4,489)

</TABLE>

<TABLE>
<CAPTION>

	Treasury Stock	Total Stockholders' Equity
<S>	<C>	<C>
Beginning Balance - December 31, 1998	$ (8,380)	$ 20,714
Net loss		(8,724)

Change in cumulative foreign translation adjustment		107
Comprehensive income		(8,617)
Issuance of 6,119 shares of common stoc to certain non-employee directors		93
Dividends declared on common stock		(674)
Stock options granted at a discount		--
Amortization of stock option discount		50
Repurchase of 18,000 shares of common stock	(325)	(325)
Ending Balance - September 30, 1999	$ (8,705)	$ 11,241

</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") and its wholly-owned subsidiaries including SunSource Industrial Services Company, Inc. ("Industrial Services"), The Hillman Group, Inc. ("Hillman"), 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, 1998.

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 the Industrial Services businesses, write-down key machines at the Hillman division, and realign corporate overhead expenses. As a result of this plan, the Company recorded a restructuring charge of $4,818, a key machine write-down of $3,300 and an inventory write-down related to restructuring of $2,130. Included in these charges and write-downs is $6,412 related to Industrial Services, $3,300 related to Hillman, and $536 related to Corporate Headquarters.

The Industrial Services charge of $6,412 includes termination benefits of $3,764, an inventory write-down of $2,130, other exit costs of $415 and a write-down of unamortized leasehold improvements of $103.

(dollars in thousands)

The Hillman charge of $3,300 is primarily the result of Hillman's inability to recover key machines from retailers which represents the remaining net book value of key machine capitalized costs as of June 30, 1999.

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

1. Basis of Presentation (continued):

The following table summarizes the restructuring costs, the balance sheet classification, and payments or adjustments made since adoption of the restructuring plan.

Opening Balance June 29, 1999:	Termination Benefits	Other Exit Costs	Total
Current - other accrued expense	3,096	435	3,531
Long-term - other liabilities	770	81	851
Totals	$ 3,866	$ 516	$ 4,382
Payments/charges since adoption:			
Current - other accrued expense	(1,175)	(220)	(1,395)
Long-term - other liabilities	(56)	--	(56)
Totals	$(1,231)	$(220)	$(1,451)
Ending Balance September 30, 1999:			
Current - other accrued expense	1,921	215	2,136
Long-term - other liabilities	714	81	795
Totals	$ 2,635	$296	$ 2,931

The Board's approval of the restructuring plan provided the Company's management with the authority to involuntarily terminate employees. The Company has established the levels of benefits that the terminated employees will receive and informed the employees of their termination benefits prior to the close of business on June 30, 1999.

2. Acquisitions/Divestments:

On February 9, 1999, Harding acquired all of the outstanding common stock of Pritchard Glass, Inc. and Premier Glass Services, Inc. for an aggregate net cash consideration of $11,496, including debt repayments of $3,272 and transaction costs of $595, plus the assumption of certain liabilities aggregating $3,189. Harding recorded goodwill of $7,533 related to this acquisition.

During the first four months, Harding also acquired the assets of three retail glass shops for net cash consideration, including transaction costs, of $2,284 plus the assumption of certain liabilities of $260. Harding recorded goodwill of $1,866 related to these acquisitions.

Cash payments for acquisitions in the first nine months of 1999 also includes disbursements totaling $1,744 related to prior year acquisitions for post-closing adjustments.

2. Acquisitions/Divestments (continued):

Cash payments for acquisitions in the first nine months of 1999 also includes disbursements totaling $1,744 related to prior year acquisitions for post-closing adjustments.

The following disclosures indicate the Company's estimate of financial results had all 1998 and 1999 acquisitions been consummated on January 1, 1998:

Pro forma

(dollars in thousands)

	Nine Months Ended 9/30/99	9/30/98
Net sales	$525,232	$575,122
Income (loss) before extraordinary items	(8,683)	11,810
Net income (loss)	(8,683)	11,810
Basic and diluted earnings per share	($1.29)	$1.70

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

3. Sale Leaseback transaction:

The Company sold certain assets of its Expediter business for $5,025 on September 30, 1999. The assets were leased back from the purchaser under two separate lease agreements over periods of five and seven years, respectively. The related leases are being accounted for as operating leases, and the resulting gains aggregating $2,318 are being amortized over the respective lives of the leases. Both leases require the Company to pay customary operating and repair expenses and to observe certain operating restrictions.

4. Lines of Credit and Long-Term Debt:

As of September 30, 1999, the Company had $21,180 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 $124,237 of outstanding long-term debt and capital lease obligations at September 30, 1999, consisting of bank borrowings of $63,520, outstanding senior notes of $60,000 and capital lease obligations of $717. The Company also had $5,300 of Letters of Credit charged against its available borrowing on the revolving credit facility. The bank revolving debt and senior note are secured by the Company's accounts receivable, inventory, intercompany notes, 100% of the capital stock of each of the domestic subsidiaries of the Company and 65% of the capital stock of each foreign subsidiary of the Company. The Company has another credit facility available in the amount of $500 for letter of credit commitments only, of which no amount was outstanding as of September 30, 1999. In addition, an indirect, wholly-owned Canadian subsidiary of the Company has a $2,500 Canadian dollar line of credit for working capital purposes of which no amount was outstanding at September 30, 1999.

Accounts payable has been increased to include a reclassification of $9,201 representing checks issued as of September 30, 1999 for which funds would have had to have been drawn against the Company's revolving credit facility if they had been presented on that date.

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

The sole assets of the Trust are the Junior Subordinated Debentures. 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 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 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 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 Trust Preferred Securities may be redeemed by the Company at any time after September 30, 2002, at the liquidation value of $25 per security plus accrued and unpaid distributions. The Trust Preferred Securities have equity and debt characteristics but creditor's rights and are therefore classified between liabilities and stockholders' equity on the balance sheet.

(dollars in thousands)

6. 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 ordinary routine litigation 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.

7. 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, certain executives and key employees have been granted a total of 773,495 options to purchase shares of the Company's common stock having a potentially dilutive effect on earnings per share. Currently, due to market conditions, the shares granted under the plan do not have a material dilutive effect on earnings per share for the three and nine months ended September 30, 1999.

7. Stockholders' Equity (continued):

Common Shares Issued to Certain Non-Employee Directors

Under the Company's Stock Compensation Plan for Non-Employee Directors, certain non-employee directors were issued 6,119 Common Shares at fair market value in the first nine months of 1999, which resulted in a compensation charge of $93.

Stock Options

In March, 1999, the Compensation Committee of the Board of Directors granted 90,000 non-qualified stock options under the Company's 1998 Equity Compensation Plan at fair market value.

In April, 1999, the Compensation Committee of the Board of Directors granted the following stock options under the Company's 1998 Equity Compensation Plan:

(1) 300,000 non-qualified stock options at fair market value.
(2) 55,000 non-qualified stock options at 85% of fair market value.
(3) 117,000 incentive stock options at fair market value.

Common Stock Dividend

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

Treasury Stock

On August 6, 1998, the Company's Board of Directors authorized $15,000 for management to repurchase up to 10% of the Company's outstanding common stock through open market transactions and private block trades, dependent upon market conditions. At September 30, 1999, the number of shares purchased under this authorization was 479,100 which are held in treasury at an aggregate cost of $8,705. The Company is currently restricted from making additional repurchases as a result of debt covenants under its credit agreements.

8. Segment Information:

The following supplemental table of segment tangible assets is presented due to fluctuations during the nine months ended September 30, 1999, which represents primarily reduced accounts receivable and investments in inventory, as well as a decrease resulting from divestment activity, offset by increases as a result of acquisitions:

	9/30/99	12/31/98	$ INC(DEC)	% INC(DEC)

Technology Services	$ 72,666	$ 85,460	$(12,794)	(15.0)%
Expediter	42,961	42,479	482	1.1%
Integrated Supply	10,067	15,343	(5,276)	(34.4)%
Hillman	64,200	59,487	4,713	7.9%
Harding	32,403	27,642	4,761	17.2%
Total Tangible Assets	$222,297	$230,411	$ (8,114)	(3.5)%

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

9. Subsequent Event:

On October 27, 1999, the Company signed a definitive merger agreement to acquire Axxess Technologies, Inc., of Tempe, Arizona, a manufacturer and marketer of key duplication and identification systems ("Axxess"). The purchase price of approximately $125,000 includes cash consideration of $80,000 and a note from Hillman for $45,000. The Company expects to close the transaction upon meeting certain closing conditions, including regulatory approval and financing.

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 largest providers of value-added services and products to retail and industrial markets in North America. The Company is organized into three businesses which are SunSource Industrial Services Company, Inc. ("Industrial Services"), The Hillman Group, Inc.("Hillman") and Harding Glass,Inc. ("Harding").

Industrial Services operates in three segments which are Technology Services, Expediter and Integrated Supply. Technology Services offers a full range of technology-based products and services to small, medium and large manufacturers. The Expediter segment provides personalized, small parts inventory management services to low volume customers. The Integrated Supply segment provides major industrial manufacturing customers with comprehensive inventory management services for their maintenance, repair and operating supplies.

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

Harding operates as 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.

Restructuring Charges and Asset Write-downs

In the second quarter of 1999, the Company recorded a restructuring charge of $4.8 million, a key machine write-down of $3.3 million and an inventory write-down of $2.1 million. The charges and write-downs are a result of the Company's plan to reposition the Industrial Services businesses, write-down key machines at the Hillman division, and realign corporate overhead expenses(the "Restructuring Plan"). Included in these charges and write-downs are $6.4 million related to Industrial Services, $3.3 million related to Hillman, and

$0.5 million related to Corporate Headquarters. The Company expects to complete the restructuring plan within six months. The overall restructuring plan and related management actions are expected to generate over $10.0 million in annual cost savings company-wide beginning in the fourth quarter of 1999.

The Industrial Services charges and write-downs of $6.4 million includes termination benefits of $3.8 million, an inventory write-down of $2.1 million, other exit costs of $0.4 million and a write-down of unamortized leasehold improvements of $0.1 million.

The Hillman charge of $3.3 million is primarily the result of Hillman's inability to recover key machines from retailers which represents the remaining net book value of key machine capitalized costs as of June 30, 1999.

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

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

Acquisitions / Divestitures

On October 27, 1999, the Company signed a definitive merger agreement to acquire Axxess Technologies, Inc., of Tempe, Arizona, a manufacturer and marketer of key duplication and identification systems ("Axxess"). The purchase price of approximately $125.0 million includes cash consideration of approximately $80.0 million and a note from Hillman for $45.0 million. The Company expects to close the transaction upon meeting certain closing conditions, including regulatory approval and financing. Sales of Axxess aggregated approximately $84 million for the twelve-month period ended September 30, 1999.

On July 1, 1999, the Company sold the assets of Industrial Services' Fastener Business serving original equipment manufacturers ("OEM") for a cash consideration, net of expenses, of approximately $9.2 million (subject to certain post-closing adjustments) plus the assumption of certain liabilities. The Company recorded an after-tax gain on the sale in the amount of $0.4 million or $0.05 per Common Share. Sales from the OEM Fastener Business aggregated $11.0 million for the six months ended June 30, 1999 and $23.0 million for the year ended December 31, 1998. The proceeds from this divestiture were used for debt repayments on the Company's revolving credit line.

On February 9, 1999, Harding acquired all of the outstanding common stock of Pritchard Glass, Inc. ("Pritchard") and Premier Glass Services, Inc. ("Premier") for an aggregate net cash consideration of $11.5 million, including debt repayments of $3.3 million and transaction costs of $0.6 million, plus the assumption of certain liabilities aggregating $3.2 million. Sales of Pritchard and Premier aggregated approximately $25 million for the twelve-month period prior to acquisition. This acquisition added twenty-one retail glass shops, expanding Harding's business into the North and South Carolina markets.

In addition, in the first nine months of 1999, Harding acquired the assets of three retail glass shops for a net cash consideration of $2.3 million, including transaction costs, plus the assumption of certain liabilities of $0.3 million which had sales aggregating approximately $3.2 million for the twelve-month period prior to acquisition. These acquisitions expanded Harding's business into the Columbus, Georgia, Las Vegas, Nevada and Tampa, Florida markets.

Stock Repurchase

On August 6, 1998, the Company's Board of Directors authorized $15.0 million for management to repurchase up to 10% of the Company's outstanding common shares through open market transactions and private block trades dependent upon market conditions. The Company has acquired and placed into treasury 479,100 common shares through September 30, 1999, at an average cost of $18.12 per common share. The Company is currently restricted from making additional repurchases as a result of debt covenants under its credit agreements.

Stock Options

In March, 1999, the Compensation Committee of the Board of Directors granted 90,000 non-qualified stock options under the Company's 1998 Equity Compensation Plan at fair market value.

In April, 1999, the Compensation Committee of the Board of Directors granted the following stock options under the Company's 1998 Equity Compensation Plan:
(1) 300,000 non-qualified stock options at fair market value.
(2) 55,000 non-qualified stock options at 85% of fair market value.
(3) 117,000 incentive stock options at fair market value.

Results of Operations

Segment Sales and Profitability for the Three and Nine Months Ended
September 30, 1999 and 1998

<TABLE>
<CAPTION>

(dollars in thousands)	FOR THE THREE MONTHS ENDED,			
	September 30, 1999		September 30, 1998	
Sales	AMOUNT	% TOTAL SALES	AMOUNT	% TOTAL SALES
<S>	<C>	<C>	<C>	<C>
SunSource Industrial Services				
Technology Services	$ 62,225	36.7%	$ 80,374	43.8%
Expediter	31,489	18.6%	31,576	17.2%
Integrated Supply (1) (7)	4,626	2.7%	11,425	6.2%
Industrial Services	98,340	58.1%	123,375	67.2%
Hillman (2) (3)	39,896	23.6%	34,477	18.8%
Harding (4)	31,148	18.4%	25,741	14.0%
Consolidated Net Sales	$169,384	100.0%	$183,593	100.0%
Gross Profit		% OF SALES		% OF SALES
SunSource Industrial Services				
Technology Services (5)	$ 14,564	23.4%	$ 21,754	27.1%
Expediter	21,648	68.7%	22,361	70.8%
Integrated Supply (7)	916	19.8%	3,075	26.9%
Industrial Services	37,128	37.8%	47,190	38.2%
Hillman	21,446	53.8%	18,254	52.9%
Harding	11,929	38.3%	10,370	40.3%
Consolidated Gross Profit before inventory write-down related to Restructuring Plan	70,503	41.6%	75,814	41.3%
Inventory write-down related to restructuring	-		-	
Consolidated Gross Profit	$ 70,503	41.6%	$ 75,814	41.3%
EBITA (9)				
SunSource Industrial Services				
Technology Services (6)	$ (2,012)	(3.2%)	$3,491	4.3%
Expediter	4,556	14.5%	5,004	15.8%
Integrated Supply (7)	243	5.3%	447	3.9%
Industrial Services	2,787	2.8%	8,942	7.2%
Hillman	4,312	10.8%	3,732	10.8%
Harding	436	1.4%	1,875	7.3%
Total operations before corporate expenses	7,535	4.4%	14,549	7.9%
Corporate expenses, net (8)	(1,584)	(0.9%)	(1,988)	(1.1%)
Consolidated EBITA before Restructuring Plan charges and provision for litigation matters	5,951	3.5%	12,561	6.8%
Restructuring Plan charges	-		-	
Litigation charge - divested operations	-		(1,600)	(0.9%)
Consolidated EBITA	$5,951	3.5%	$ 10,961	6.0%

</TABLE>

[RESTUBBED]
<TABLE>
<CAPTION>

(dollars in thousands)	FOR THE NINE MONTHS ENDED, September 30, 1999 AMOUNT	% TOTAL SALES	September 30, 1998 AMOUNT	% TOTAL SALES
Sales				
<S>	<C>	<C>	<C>	<C>
SunSource Industrial Services				
Technology Services	$195,948	37.5%	$249,485	45.9%
Expediter	94,557	18.1%	94,809	17.4%
Integrated Supply (1) (7)	23,757	4.5%	36,477	6.7%
Industrial Services	314,262	60.2%	380,771	70.0%
Hillman (2) (3)	117,076	22.4%	92,767	17.1%
Harding (4)	90,964	17.4%	70,163	12.9%
Consolidated Net Sales	$522,302	100.0%	$543,701	100.0%
		% OF SALES		% OF SALES
Gross Profit				
SunSource Industrial Services				
Technology Services (5)	$ 46,102	23.5%	$ 65,101	26.1%
Expediter	65,423	69.2%	67,500	71.2%
Integrated Supply (7)	6,415	27.0%	9,518	26.1%
Industrial Services	117,940	37.5%	142,119	37.3%
Hillman	62,151	53.1%	48,655	52.4%
Harding	34,146	37.5%	28,347	40.4%
Consolidated Gross Profit before inventory write-down related to Restructuring Plan	214,237	41.0%	219,121	40.3%
Inventory write-down related to restructuring	(2,130)	(0.4%)	-	
Consolidated Gross Profit	$212,107	40.6%	$219,121	40.3%
EBITA (9)				
SunSource Industrial Services				
Technology Services (6)	$ (7,153)	(3.7%)	$ 10,227	4.1%
Expediter	14,178	15.0%	15,404	16.2%
Integrated Supply (7)	1,117	4.7%	1,616	4.4%
Industrial Services	8,142	2.6%	27,247	7.2%
Hillman	11,247	9.6%	9,587	10.3%
Harding	739	0.8%	3,447	4.9%
Total operations before corporate expenses	20,128	3.9%	40,281	7.4%
Corporate expenses, net (8)	(6,563)	(1.3%)	(5,862)	(1.1%)
Consolidated EBITA before Restructuring Plan charges and provision for litigation matters	13,565	2.6%	34,419	6.3%
Restructuring Plan charges	(10,248)	(2.0%)	-	
Litigation charge - divested operations	-		(1,600)	(0.3%)
Consolidated EBITA	$3,317	0.6%	$ 32,819	6.0%

</TABLE>

(1) Includes sales related to integrated supply contracts cancelled in 1999 and 1998 of $1,333 for the nine months ended September 30, 1999 and $2,285 and $8,295 for the three and nine months ended September 30, 1998, respectively.

(2) Includes sales from businesses acquired in 1998 of $4,822 and $14,643 for the three and nine months ended September 30, 1999, respectively and $3,712 and 5,956 for the three and nine months ended September 30, 1998, respectively.

(3) Includes a reduction in sales and gross profit of $1,252 and $3,437 for the three and nine months ended September 30, 1998, respectively to conform to current accounting for customer rebates.

(4) Includes sales of $10,454 and $2,760 for the three months ended September

30, 1999 and 1998, respectively and $30,819 and $4,218 for the nine months ended September 30, 1999 and 1998, respectively related to businesses acquired in 1999, 1998 and 1997. Also includes sales from branches closed in 1998 of $266 and $1,465 for the three and nine months ended September 30, 1998, respectively.

(5) Includes other nonrecurring charges related to warranty claims, customer credits and other inventory adjustments in the Technology Services divisions of $3,330 for the nine months ended September 30, 1999. Excluding these charges, Technology Services gross profit was $49,432 or 25.2% for nine months ended September 30, 1999.

(6) Includes other nonrecurring charges related to the integration and consolidation of the Technology Services divisions of $5,952 for the nine months ended September 30, 1999. Excluding these charges, Technology Services EBITA was ($1,201) or (0.6%) for the nine months ended September 30, 1999.

(7) The three months ended September 30, 1998 includes sales of $5,435, gross profit of $1,731 and EBITA of $83 related to Industrial Service's OEM Fastener Business, which was sold on July 1, 1999. The nine months ended September 30, 1999 and 1998 include sales of $10,954 and $17,687, gross profit of $3,658 and $5,712 and EBITA of $500 and $832, respectively related to the sold OEM Fastener Business.

(8) Includes other income of $365 and $327 for the three months ended September 30, 1999 and 1998, respectively and $383 and $325 for the nine months ended September 30, 1999 and 1998, respectively.

(9) "EBITA" (earnings before interest, taxes, and amortization) is defined as income (loss) from operations before amortization.

Three Months Ended September 30, 1999 and 1998

Net sales decreased $14.2 million or 7.7% in the three months ended September 30, 1999 to $169.4 million from $183.6 million in 1998. Sales variances by business segment are as follows:

	Sales Increase (Decrease) Amount	%
	(In thousands)	
SunSource Industrial Services Company		
Technology Services	$(18,149)	(22.6)%
Expediter	(87)	(0.3)%
Integrated Supply	(6,799)	(59.5)%
Industrial Services	(25,035)	(20.3)%
Hillman	5,419	15.7 %
Harding	5,407	21.0 %
Total Company	$(14,209)	(7.7)%

Technology Services sales decreased $18.2 million or 22.6% in the third quarter of 1999 to $62.2 million from $80.4 million in 1998 as a result of the restructuring of the sales force as well as the effects of the global economy on original equipment manufacturers' end markets. Expediter sales decreased slightly in 1999 to $31.5 million from $31.6 million in 1998 as a result of reduced manpower in certain sales territories. Integrated Supply sales decreased $6.8 million or 59.5% in the third quarter of 1999 to $4.6 million from $11.4 million in the 1998 period as a result of the sale of the OEM Fastener Business on July 1, 1999, which contributed sales of $5.4 million in the third quarter of 1998 and contracts canceled after the second quarter of 1998 and in the first half of 1999 which generated sales of $2.3 million in the third quarter of 1998, offset by growth in the Mexican Integrated Supply business of $1.4 million. Excluding the sold OEM Fastener Business and terminated contracts, Integrated Supply sales increased 24.9% in the comparison period.

Hillman's sales increased $5.4 million or 15.7% in the third quarter of 1999 to $39.9 million from $34.5 million in the 1998 comparison period as a result of sales from newly acquired businesses of $1.1 million and growth from new accounts and expansion of new and existing product lines of $4.3 million.

Harding's sales increased $5.4 million or 21.0% in the third quarter of 1999 to $31.1 million from $25.7 million in the 1998 comparison period as a result of an increase of $7.6 million from newly acquired retail glass shops and an increase in wholesale and other product line sales of $0.2 million, offset by decreases in retail and contract sales of $1.7 million as a result of competitive pricing pressures and reduced sales of $0.7 million as a result of the discontinuation of certain low-margin product lines.

The Company's sales backlog on a consolidated basis was $59.0 million as of September 30, 1999, compared with $66.4 million at December 31, 1998, and $65.3 million as of September 30, 1998, a decrease of 11.1% and 9.6%, respectively.

The Company's consolidated gross margin was 41.6% in the third quarter of 1999 compared with 41.3% in the third quarter of 1998. SunSource Industrial Services Company's gross margin was 37.8% in the third quarter of 1999 compared with 38.2% in the third quarter of 1998, a decrease of 0.4%. Technology Services' gross margin decreased 3.7% in the third quarter of 1999 as a result of the decrease in sales levels in relation to the fixed cost component of cost of goods sold for service and repair facilities and sales mix. The Expediter segment's gross margin declined 2.1% in the third quarter of 1999 as a result of increased packaging cost absorption in the 1999 period, a change in sales mix and competitive pricing

pressures. The Integrated Supply segment's gross margin decreased 7.1% in the third quarter of 1999 resulting from the sale of the OEM Fastener Business which carried higher margins than the retained Integrated Supply business and sales mix. Hillman's gross margin increased 0.9% in the third quarter comparison period as a result of substantial increases in sales of keys to major U.S. hardware chains and home centers carrying higher margins than hardware and related products. Harding's gross margin decreased 2.0% in the comparison period as a result of continued erosion in contract sales and pricing pressure from insurance companies in the auto glass sector.

The Company's selling, general and administrative ("S,G&A") expenses increased by $1.9 million to $63.8 million in the third quarter of 1999 from $61.9 million in third quarter of 1998. Selling expenses increased $0.5 million, primarily as a result of the acquisitions at Hillman and Harding, offset by decreases in most other businesses as a result of cost savings associated with the Restructuring Plan and reduced sales levels. Warehouse and delivery expenses increased $1.3 million as a result of integration costs for the 1998 acquisitions at Hillman and facility reorganization costs at Technology Services offset by decreases resulting from cost savings associated with the Restructuring Plan. The increase in general and administrative expenses of $0.1 million is attributable to the integration of the newly acquired businesses at Harding and Hillman offset by cost savings associated with the Restructuring Plan.

S,G&A expenses as a percentage of sales compared with the third quarter of 1998 was as follows:

	Three Months ended September 30, 1999	1998
Selling Expenses	18.5%	16.8%
Warehouse and Delivery Expenses	7.8%	6.4%
General and Administrative Expenses	11.4%	10.5%
Total S,G&A Expenses	37.7%	33.7%

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

EBITA from operations after corporate expenses was $6.0 million for the three months ended September 30, 1999, compared with $11.0 million for the same prior-year period. The 1998 period includes a $1.6 million charge for outstanding litigation matters related to divested businesses.

The Company's consolidated operating profit margin (EBITA, as a percentage of sales) after corporate expenses declined to 3.5% in the third quarter of 1999 compared with 6.0% in the same prior-year quarter. SunSource Industrial Services Company's operating profit margin decreased to 2.8% in the third quarter of 1999 from 7.2% in the same quarter of 1998, primarily reflecting reduced 1999 sales and increased expenses related to the reorganization of sales and administrative functions in the Technology Services segment and Expediter's gross margin decline discussed above. Hillman's operating profit margin remained constant in the third quarter of 1999 and 1998 at 10.8%. Harding's operating profit margin declined in the third quarter of 1999 to 1.4% from 7.3% in same quarter of 1998 as a result of increased selling and administrative expenses related to integration costs for newly acquired businesses.

Depreciation expense decreased $0.1 million to $1.2 million in the third quarter of 1999 from $1.3 million in same quarter of 1998 as a result of an overall decrease in spending at most segments.

Amortization expense increased $0.1 million to $0.7 million in the third quarter of 1999 as a result of acquisition activity at Hillman and Harding.

The Company recorded a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses during the three months ended September 30, 1998.

Interest expense, net increased $0.7 million in the third quarter of 1999 to $2.5 million due primarily to increased borrowings on the Company's revolving credit facility as a result of cash requirements to fund the Company's acquisition activities and working capital investment.

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, 1999 and 1998, 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.

Nine Months Ended September 30, 1999 and 1998

Net sales decreased $21.4 million or 3.9% in the nine months ended September 30, 1999 to $522.3 million from $543.7 million in 1998. Sales variances by business segment are as follows:

	Sales Increase (Decrease)	
	Amount	%
	(In thousands)	
SunSource Industrial Services Company		
Technology Services	$(53,537)	(21.5)%
Expediter	(252)	(0.3)%
Integrated Supply	(12,720)	(34.9)%
Industrial Services	(66,509)	(17.5)%
Hillman	24,309	26.2 %
Harding	20,801	29.6 %
Total Company	$(21,399)	(3.9)%

Technology Services sales decreased $53.5 million or 21.5% in the first nine months of 1999 to $196.0 million from $249.5 million in 1998 as a result of the restructuring of the sales force as well as the effects of the global economy on original equipment manufacturers' end markets. Expediter sales decreased slightly in 1999 to $94.6 million from $94.8 million in 1998 as a result of reduced manpower in certain sales territories. Integrated Supply sales decreased $12.7 million or 34.9% in the first nine months of 1999 to $23.8 million from $36.5 million in the 1998 period as a result of the sale of the OEM Fastener Business on July 1, 1999 which contributed sales of $11.0 million in the first nine months of 1999 versus $17.7 million in the prior-year period and contracts canceled after the second quarter of 1998 and in the first half of 1999 which generated sales of $1.3 million in the first nine months of 1999 versus $8.3 million in the first

nine months of 1998, offset by growth in the Mexican Integrated Supply business of $1.6 million. Excluding terminated contracts and sales from the sold OEM Fastener Business, Integrated Supply sales increased 9.3% in the comparison period.

Hillman's sales increased $24.3 million or 26.2% in the first nine months of 1999 to $117.1 million from $92.8 million in the 1998 comparison period as a result of sales from newly acquired businesses of $8.9 million, and $15.4 million in growth from new accounts and expansion of new and existing product lines.

Harding's sales increased $20.8 million or 29.6% in the first nine months of 1999 to $91.0 million from $70.2 million in the 1998 comparison period as a result of an increase of $21.6 million from newly acquired retail glass shops and an increase in retail, wholesale, contract and other product line sales of $1.6 million, offset by the discontinuation of certain low-margin product lines resulting in reduced sales of $2.4 million.

The Company's consolidated gross margin was 41.7% in the first nine months of 1999 (before the inventory write-down of $2.1 million related to the Restructuring Plan and non-recurring charges of $3.3 million related to integration of the Technology Services divisions) compared with 40.3% in the first nine months of 1998. SunSource Industrial Services Company's gross margin before the aforementioned charges was 38.6% in the first nine months of 1999 compared with 37.3% in the first nine months of 1998, an increase of 1.3%. Technology Services' gross margin before the aforementioned charges decreased 0.9% in the first nine months of 1999 as a result of the decrease in sales levels in relation to the fixed cost component of cost of goods sold for service and repair facilities and sales mix. The Expediter segment's gross margin declined 2.0% in the first nine months of 1999 as a result of increased packaging cost absorption in the 1999 period, a change in sales mix and competitive pricing pressures. The Integrated Supply segment's gross margin increased 0.9% in the first nine months of 1999 resulting from sales mix offset by the sale of the OEM Fastener Business which carried higher margins than the retained Integrated Supply business. Hillman's gross margin increased 0.7% in the nine-month comparison period as a result of substantial increases in sales of keys to major U.S. hardware chains and home centers carrying higher margins than hardware and related products. Harding's gross margin decreased 2.9% in the comparison period as a result of an increase in contract sales at lower gross margins than the overall retail glass business and pricing pressure from insurance companies in the auto glass sector.

The Company's S,G&A expenses before non-recurring charges increased by $13.4 million to $194.5 million in the first nine months of 1999 from $181.1 million in first nine months of 1998. Selling expenses increased $3.7 million, primarily as a result of the acquisitions at Hillman and Harding, offset by decreases in all other businesses as a result of cost savings associated with the Restructuring Plan and reduced sales levels. Warehouse and delivery expenses increased $5.7 million as a result of integration costs for the 1998 acquisitions at Hillman and facility reorganization costs at Technology Services offset slightly by decreases from cost savings associated with the Restructuring Plan. The increase in general and administrative expenses of $4.0 million is attributable to the integration of the newly acquired businesses at Harding and Hillman and increased facilities costs in the Technology Services division offset by cost savings associated with the Restructuring Plan.

S,G&A expenses as a percentage of sales excluding the previously mentioned non-recurring charges compared with the first nine months of 1998 was as follows:

	Nine Months ended September 30,	
	1999	1998
Selling Expenses	18.1%	16.7%
Warehouse and Delivery Expenses	7.4%	6.1%
General and Administrative Expenses	11.7%	10.5%
Total S,G&A Expenses	37.2%	33.3%

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

EBITA from operations was $19.5 million for the nine months ended September 30, 1999 after corporate expenses and before Restructuring Plan charges of $10.2 million, and the aforementioned non-recurring charges of $6.0 million, compared with $32.8 million for the same prior-year period. The 1998 period includes a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses.

The Company's consolidated operating profit margin (EBITA, as a percentage of sales) after corporate expenses and before the aforementioned non-recurring charges declined to 3.7% in the first nine months of 1999 compared with 6.0% in the same prior-year period. SunSource Industrial Services Company's operating profit margin excluding these charges decreased to 4.5% in the first nine months of 1999 from 7.2% in 1998, primarily reflecting reduced 1999 sales and increased expenses related to the reorganization of sales and administrative functions in the Technology Services segment and Expediter's gross margin decline discussed above. Hillman's operating profit margin excluding Restructuring Plan charges decreased in the first nine months of 1999 to 9.6% from 10.3% in 1998 as a result of initial sales returns and allowances to attract new accounts and increased selling expenses for new field staff related primarily to 1998 acquisition activities. Harding's operating profit margin declined in the first nine months of 1999 to 0.8% from 4.9% in 1998 as a result of increased selling and administrative expenses related to integration costs for newly acquired businesses.

Depreciation expense increased $0.7 million to $4.2 million in the first nine months of 1999 from $3.5 million in 1998 as a result of acquisition activity at Hillman and Harding and an overall increase in the depreciable fixed asset base due to investment in the Company's core businesses.

Amortization expense increased $0.4 million to $2.1 million in the first nine months of 1999 as a result of acquisition activity at Hillman and Harding.

The Company recorded a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses for the nine months ended September 30, 1998.

Interest expense, net increased $1.8 million in the first nine months of 1999 to $6.8 million due primarily to increased borrowings on the Company's revolving credit facility as a result of cash requirements to fund the Company's acquisition activities and working capital investment.

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 nine months ended September 30, 1999 and 1998, 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.

Liquidity and Capital Resources

Earnings before interest, taxes, depreciation and amortization ("EBITDA")was $7.1 million in the third quarter of 1999 compared with $12.2 million in the same quarter of 1998 and $23.7 million in the first nine months of 1999 compared with $36.4 million in 1998, excluding Restructuring Plan and other non-recurring charges aggregating $16.2 million for the nine months ended September 30, 1999. The 1998 period includes a nonrecurring charge of $1.6 million for outstanding litigation matters related to divested businesses. The Company's net interest coverage ratio for the nine months ended September 30, 1999, declined to 1.09X (earnings before interest, distributions on Trust Preferred Securities and income taxes, excluding the aforementioned charges, over net interest expense and distributions on Trust Preferred Securities), from 2.30X in the 1998 comparison period as a result of reduced earnings and increased interest expense.

The Company's cash position of $3.9 million as of September 30, 1999, increased $1.1 million from the balance at December 31, 1998. Cash was provided during this period primarily from net borrowings under the bank revolver ($28.5 million) proceeds from sale of the OEM Fastener Business ($9.2 million))and proceeds from the sale of property and equipment($5.4 million). Cash was used during this period predominantly for working capital investments in operations ($16.4 million), acquisitions ($15.5 million), cash distributions to investors ($1.4 million), capital expenditures ($5.2 million), repayments under other credit facilities ($0.8 million), purchase of treasury stock ($0.3 million), investment in life insurance ($1.3 million) and other items, net ($1.1 million).

The Company's working capital position of $138.8 million at September 30, 1999, represents an increase of $17.2 million from the December 31, 1998 level of $121.6 million and an increase of $1.0 million from the September 30, 1998 level of $137.8 million. However, the Company's working capital position has decreased $9.6 million from the June 30, 1999 level of $148.4 million. The Company's current ratio increased to 2.61x at September 30, 1999 from 2.25x at December 31, 1998, as a result of decreased accounts payable. The current ratio increased from the June 30, 1999 level of 2.59x and the September 30, 1998 level of 2.52x.

As of September 30, 1999, the Company had $21.2 million available under its credit facilities. The Company had $124.2 million of outstanding long-term debt at September 30, 1999, consisting of a $60.0 million Senior Note currently at 7.91%, bank borrowings totaling $63.5 million at an effective interest rate of 8.14%, and capitalized lease obligations of $0.7 million at various interest rates. An indirect, wholly-owned Canadian subsidiary of the Company had a $2.5 million Canadian dollar line of credit for working capital purposes, of which no amount was outstanding at September 30, 1999.

As of September 30, 1999, the Company's total debt (including dividends payable) as a percentage of its consolidated capitalization (total debt, Trust Preferred

Securities and stockholders' equity) was 49.5% compared with 52.4% at June 30, 1999, 41.5% at December 31, 1998 and 44.3% at September 30, 1998. The Company's consolidated capitalization (including dividends payable) as of September 30, 1999, was $250.8 million compared to $232.8 million at December 31, 1998 and $243.1 million as of September 30, 1998.

The Company anticipates spending $6.0 million for capital expenditures in 1999, primarily for warehouse improvements, machinery and equipment and computer hardware and software of which $5.1 million was spent during the first nine months of 1999.

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

The Company has deferred tax assets aggregating $19.0 million as of September 30, 1999, as determined in accordance with SFAS 109. Management believes that the Company's deferred tax assets will be realized through the reversal of existing temporary differences between the financial statement and tax bases, as well as through future taxable income.

The Company intends to refinance its existing senior credit facilities consisting of the $60 million Senior Note and $90 million bank revolver by year-end. The refinancing is expected to enhance the Company's financial capacity and flexibility. The Company currently has a financing commitment in the aggregate amount of $155 million from a leading financial institution to complete the refinancing.

Year 2000 Issue

The following discussion is an update of the Company's Y2K disclosure contained in its annual report on Form 10-K for the year-ended December 31, 1998. Each of the individuals responsible for the Y2K plans within the Company's business segments continues to update senior management on a quarterly basis regarding Y2K matters. Plans and locations with critical 1999 dates and activities required to achieve Y2K compliance are being monitored on a more frequent basis by management.

State of Readiness

SunSource Industrial Services

- The remediation of the Expediter segment's proprietary software has been completed utilizing an outside consultant. The testing of this remediation is complete.

- Technology Services' conversion of all its operating units to the third-party purchased computer system is 100% complete.

Hillman

Hillman has completed remediation (including full testing) on 100% of its proprietary software programs. Hillman's critical purchased software applications and hardware are certified by the vendors to be compliant.

Harding

Harding's installation of the Y2K compliant version of its critical purchased point-of-sale software application and its related hardware operating system has been completed in October. Harding installed a version update to its purchased financial software in July 1999. Harding completed the necessary upgrades for network servers and PC hardware during the first quarter of 1999. The phone system at all of Harding's 125 locations and general offices were upgraded to Y2K compliant versions during the third quarter.

Costs to Address Year 2000 Issue

The Company's Y2K costs incurred through September 1999 are approximately $1.5 million, of which 80% is for remediation of internally designed software applications. Y2K costs of $0.2 million are expected to be incurred during the

remainder of 1999 resulting in projected aggregate costs of $1.7 million for the entire Y2K project. The source of the funds for these Y2K costs will be from the Company's operating cash flows.

Risks of Year 2000 Compliance and Contingency Plans

There has been no significant change to the Company's Y2K risk profile or the Company's plans to address potential operating problems related to Y2K.

The Company has received responses from approximately 90% of its major suppliers to its request for Y2K compliance letters. At this time, no significant Y2K issues have been communicated from major suppliers that have responded.

Inflation

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

Forward Looking Statements

Certain disclosures related to Year 2000, acquisitions, the Restructuring Plan, capital expenditures and the intended refinancing of existing credit facilities 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. Such statements reflect management's current views and are based upon certain assumptions. 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 and Risks associated with Acquisitions set forth in Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 as filed with the Securities and Exchange Commission. Given these uncertainties, current or prospective investors are cautioned not to place undue reliance on any such forward-looking statements. Furthermore, the Company disclaims any obligation or intent to update any such forward-looking statement to reflect future events or developments.

PART II
OTHER INFORMATION

Items 2 - 6 -- None

Item 1 - Legal proceedings

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 $21.0 million.

Certain other legal proceedings are pending which are ordinary routine litigation 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.

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.

- --------------------------   --------------------------
Joseph M. Corvino   Edward L. Tofani

Vice President - Finance (Chief Financial Officer)	Controller (Chief Accounting Officer)

DATE: November 15, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AS OF SEPTEMBER 30, 1999 AND THE RELATED STATEMENT OF INCOME FOR THE YEAR TO DATE ENDED SEPTEMBER 30, 1999.

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<FN>

<F1>Bonds represents all long-term debt for Senior Notes.

<F2>Represents Guaranteed Preferred Beneficial Interests in the corporation's Junior Subordinated Debenture

</FN>

</TABLE>