UNITED STATES
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 July 2, 2005 **Commission file number 0-21835**

SUN HYDRAULICS CORPORATION

(Exact Name of Registration as Specified in its Charter)

FLORIDA	59-2754337
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1500 WEST UNIVERSITY PARKWAY SARASOTA, FLORIDA	34243
(Address of Principal Executive Offices)	(Zip Code)

941/362-1200

(Registrant's Telephone Number, Including Area Code)

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 ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes☐ No ☑

The Registrant had 10,892,021 shares of common stock, par value $.001, outstanding as of August 5, 2005.

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PART I: FINANCIAL INFORMATION

Item 1.

Sun Hydraulics Corporation
Consolidated Balance Sheets
(in thousands, except share data)

	July 2, 2005 (unaudited)	December 25, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 14,051	$ 9,300
Restricted cash	425	462
Accounts receivable, net of allowance for doubtful accounts of $163 and $170	11,490	8,611
Inventories	7,852	7,105
Deferred income taxes	392	392
Other current assets	1,166	776
Total current assets	35,376	26,646
Property, plant and equipment, net	43,187	43,687
Other assets	1,767	1,475
Total assets	**$ 80,330**	**$ 71,808**
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 3,842	$ 2,536
Accrued expenses and other liabilities	4,513	4,609
Long-term debt due within one year	1,003	1,058
Dividends payable	545	522
Taxes payable	695	1,198
Total current liabilities	10,598	9,923
Long-term debt due after one year	10,548	11,196
Deferred income taxes	4,984	4,986
Other noncurrent liabilities	290	300
Total liabilities	26,420	26,405
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, 2,000,000 shares authorized, par value $0.001, no shares outstanding	—	—
Common stock, 20,000,000 shares authorized, par value $0.001, 10,889,531 and 10,441,920 shares outstanding	11	10
Capital in excess of par value	32,566	28,579
Unearned compensation related to outstanding restricted stock	(457)	(608)
Retained earnings	19,780	13,867
Accumulated other comprehensive income	2,010	3,566
Treasury stock	—	(11)
Total shareholders' equity	53,910	45,403
Total liabilities and shareholders' equity	**$ 80,330**	**$ 71,808**

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

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Sun Hydraulics Corporation
Consolidated Statements of Operations
(in thousands, except per share data)

	Three months ended	
	July 2, 2005 (unaudited)	**June 26, 2004 (unaudited)**
Net sales	**$ 31,014**	**$ 26,522**
Cost of sales	20,928	18,136
Gross profit	**10,086**	**8,386**
Selling, engineering and administrative expenses	4,524	4,196
Operating income	**5,562**	**4,190**
Interest expense	147	134
Foreign currency transaction gain	(145)	(31)
Miscellaneous (income)/expense, net	(23)	(30)
Income before income taxes	**5,583**	**4,117**
Income tax provision	2,047	1,526
Net income	**$ 3,536**	**$ 2,591**
Basic net income per common share	**$ 0.33**	**$ 0.25**
Weighted average basic shares outstanding	10,873	10,170
Diluted net income per common share	**$ 0.32**	**$ 0.25**
Weighted average diluted shares outstanding	10,975	10,250
Dividends declared per share	**$ 0.050**	**$ 0.050**

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

Sun Hydraulics Corporation
Consolidated Statements of Operations
(in thousands, except per share data)

	Six months ended	
	July 2, 2005 (unaudited)	June 26, 2004 (unaudited)
Net sales	**$ 60,093**	**$ 47,912**
Cost of sales	40,254	33,221
Gross profit	**19,839**	**14,691**
Selling, engineering and administrative expenses	8,743	8,260
Operating income	**11,096**	**6,431**
Interest expense	283	282
Foreign currency transaction gain	(257)	(33)
Miscellaneous (income)/expense, net	(32)	(17)
Income before income taxes	**11,102**	**6,199**
Income tax provision	4,100	2,251
Net income	**$ 7,002**	**$ 3,948**
Basic net income per common share	**$ 0.65**	**$ 0.39**
Weighted average basic shares outstanding	10,750	10,154
Diluted net income per common share	**$ 0.65**	**$ 0.38**
Weighted average diluted shares outstanding	10,847	10,310
Dividends declared per share	**$ 0.125**	**$ 0.090**

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

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Sun Hydraulics Corporation
Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (unaudited)
(in thousands)

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	compensation related to restricted stock	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
Balance, December 25, 2004	—	$ —	10,442	$ 10	$28,579	$ (608)	$13,867	$ 3,566	$ (11)	$45,403
Recognition of unearned compensation, restricted stock						151				151
Shares issued, stock options			333	1	2,287					2,288
Shares issued, ESPP			8		69					69
Shares issued, ESOP			110		1,058					1,058
Purchase and retirement of treasury stock			(3)		(38)				11	(27)
Stock option income tax benefit					611					611
Dividends declared							(1,089)			(1,089)
Comprehensive income:										—
Net income							7,002			7,002
Foreign currency translation adjustments								(1,556)		(1,556)
Comprehensive income										5,446
Balance, July 2, 2005	—	$ —	10,890	$ 11	$32,566	$ (457)	$19,780	$ 2,010	$ —	$53,910

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of this financial statement.

Sun Hydraulics Corporation
Consolidated Statements of Cash Flows
(in thousands)

	Six Months ended July 2, 2005 (unaudited)	Six Months ended June 26, 2004 (unaudited)
Cash flows from operating activities:		
Net income	$ 7,002	$ 3,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,779	2,687
Loss on disposal of assets	7	43
Provision for deferred income taxes	(2)	(87)
Allowance for doubtful accounts	(7)	11
Stock-based compensation expense	165	130
(Increase) decrease in:		
Accounts receivable	(2,872)	(3,466)
Inventories	(747)	(92)
Other current assets	(390)	(85)
Other assets	108	66
Increase (decrease) in:		
Accounts payable	1,306	213
Accrued expenses and other liabilities	962	1,572
Taxes payable	108	1,065
Other liabilities	(10)	(25)
Net cash provided by operating activities	8,409	5,980
Cash flows from investing activities:		
Investment in WhiteOak	(400)	—
Capital expenditures	(3,638)	(2,478)
Proceeds from dispositions of equipment	1	19
Net cash used in investing activities	(4,037)	(2,459)
Cash flows from financing activities:		
Repayment of debt	(703)	(3,422)
Proceeds from exercise of stock options	2,273	1,173
Proceeds from stock issued	69	—
Payments for purchase of treasury stock	(27)	(558)
Proceeds from reissuance of treasury stock	—	48
Dividends to shareholders	(1,065)	(540)
Net cash provided by (used in) financing activities	547	(3,299)
Effect of exchange rate changes on cash and cash equivalents	(205)	269
Net increase in cash and cash equivalents	4,714	491
Cash and cash equivalents, beginning of period	**9,762**	**5,219**
Cash and cash equivalents, end of period	**$ 14,476**	**$ 5,710**
Supplemental disclosure of cash flow information:		
Cash paid:		
Interest	$ 283	$ 282
Income taxes	$ 4,605	$ 1,273

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of these financial statements.

SUN HYDRAULICS CORPORATION

NOTES TO THE CONSOLIDATED, UNAUDITED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

1. BASIS OF PRESENTATION AND SUMARY OF BUSINESS

Sun Hydraulics Corporation, and its wholly-owned subsidiaries and joint ventures, design, manufacture, and sell screw-in cartridge valves and manifolds used in hydraulic systems. The Company has facilities in the United States, the United Kingdom, Germany, Korea, and China. Sun Hydraulics Corporation ("Sun Hydraulics"), with its main offices located in Sarasota, Florida, designs, manufactures, and sells primarily through distributors. Sun Hydraulik Holdings Limited ("Sun Holdings"), a wholly-owned subsidiary of Sun Hydraulics, was formed to provide a holding company for the European market operations; its wholly-owned subsidiaries are Sun Hydraulics Limited (a British corporation, "Sun Ltd.") and Sun Hydraulik GmbH (a German corporation, "Sun GmbH"). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England, and Sun GmbH operates a manufacturing and distribution facility located in Erkelenz, Germany. Sun Hydraulics Korea Corporation ("Sun Korea"), a wholly-owned subsidiary of Sun Hydraulics, located in Inchon, South Korea, operates a manufacturing and distribution facility. Sun Hydraulics, SARL ("Sun France"), a wholly-owned subsidiary of Sun Hydraulics, located in Bordeaux, France, operates a sales and engineering support facility. Sun Hydraulics Systems (Shanghai) Co., Ltd. ("Sun China"), a 50/50 joint venture between Sun Hydraulics and Links Lin, the owner of Sun Hydraulics' Taiwanese distributor, is located in Shanghai, China, and operates a manufacturing and distribution facility. Sun Hydraulics acquired a 40% equity method investment in WhiteOak Controls, Inc. ("WhiteOak"), on June 28, 2005 (see Note 3). WhiteOak located in Mediapolis, Iowa, designs and produces complementary electronic control products.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 25, 2004, filed by Sun Hydraulics Corporation (together with its subsidiaries, the "Company") with the Securities and Exchange Commission on March 24, 2005. In Management's opinion, all adjustments necessary for a fair presentation of the Company's financial statements are reflected in the interim periods presented. Operating results for the three and six month periods ended July 2, 2005, are not necessarily indicative of the results that may be expected for the period ended December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock-Based Compensation

The Company has adopted the disclosure only provisions of Statements of Financial Accounting Standards (FAS) No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment to FAS No. 123, Accounting for Stock-Based Compensation* ("FAS 148"), and has elected to follow Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded.

If the company had elected to recognize compensation expense for stock options based on the fair value at grant date, consistent with the method prescribed by FAS No. 123, *Accounting for Stock-Based Compensation* (“FAS 123”), net income and earnings per share would have been reduced to the pro forma amounts below. The pro forma amounts were determined using the Black-Scholes valuation model with weighted average assumptions as set forth below.

	Three Months Ended		Six Months Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
Net Income as Reported	$3,536	$2,591	$7,002	$3,948
Stock-based compensation reported in net income, net of related taxes	48	41	96	82
Stock compensation expense calculated under FAS 123, net of related taxes	(78)	(55)	(156)	(110)
Pro Forma Net Income	$3,506	$2,577	$6,942	$3,920
Basic net income per common share:				
As reported	$ 0.33	$ 0.25	$ 0.65	$ 0.39
Pro forma	$ 0.32	$ 0.25	$ 0.65	$ 0.39
Diluted net income per common share:				
As reported	$ 0.32	$ 0.25	$ 0.65	$ 0.38
Pro forma	$ 0.32	$ 0.25	$ 0.64	$ 0.38
Assumptions Risk-free interest rate	4.22%	4.64%	4.22%	4.64%
Expected lives (in years)	6.5	6.5	6.5	6.5
Expected volatility	30.32%	40.00%	30.32%	40.00%
Dividend yield	2.19%	1.00%	2.19%	1.00%

Earnings per share

The following table represents the computation of basic and diluted earnings per common share as required by FAS No. 128, *Earnings Per Share* (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	July 2, 2005	**June 26, 2004**	**July 2, 2005**	**June 26, 2004**
Net income	**$ 3,536**	**$ 2,591**	**$ 7,002**	**$ 3,948**
Weighted average basic shares outstanding	10,873	10,170	10,750	10,154
Basic income per common share	**$ 0.33**	**$ 0.25**	**$ 0.65**	**$ 0.39**
Effect of dilutive stock options	102	79	97	156
Weighted average diluted shares outstanding	10,975	10,250	10,847	10,310
Diluted income per common share	**$ 0.32**	**$ 0.25**	**$ 0.65**	**$ 0.38**

Diluted earnings per common share excludes antidilutive stock options of approximately 68,000 for the periods ended June 26, 2004.

Stock Split

On June 10, 2005, the Company declared a three-for-two stock split, effected in the form of a 50% stock dividend, to shareholders of record on June 30, 2005, payable on July 15, 2005. The Company issued approximately 3,600,000 shares of common stock as a result of the stock split. The effect of the stock split on outstanding shares and earnings per share was retroactively applied to all periods presented.

Reclassification

Certain amounts shown in the 2004 consolidated financial statements have been reclassified to conform to the 2005 presentation.

52-53 Week Fiscal Year

The Company's fiscal year ends on the Saturday nearest to the end of the month of December. Each quarter consists of two 4-week periods and one 5-week period. The 2005 fiscal year will end on December 31, 2005, resulting in a 53-week year. As a result of the 2004 fiscal year ending December 25, 2004, the year-to-date period ending July 2, 2005, consists of three 4-week periods and three 5-week periods.

3. ACQUISITIONS

On June 28, 2005, Sun Hydraulics acquired shares of common stock representing 40% of the outstanding shares of WhiteOak Controls, Inc. ("WhiteOak"). WhiteOak designs and produces electronic amplifiers and other control products. The Company, together with WhiteOak, will co-develop products to be used in and in conjunction with other Company products. The acquisition price paid by the Company was $400,000. The excess paid over pro rata share of net assets of $274,000 is being classified as developed technology and is being amortized over a period of 10 years.

4. RESTRICTED CASH

The restricted cash balance at July 2, 2005, consisted of $425 in reserves as a required deferment for customs and excise taxes in the U.K. operation. The restricted amount was calculated as an estimate of two months of customs and excise taxes for items coming into the Company's U.K. operations and was held with Lloyd's TSB in the U.K.

5. INVENTORIES

	July 2, 2005	December 25, 2004
Raw materials	$ 2,921	$ 2,523
Work in process	3,000	2,487
Finished goods	2,211	2,402
Provision for slow moving inventory	(280)	(307)
Total	$ 7,852	$ 7,105

6. GOODWILL

On July 2, 2005, the Company had $715 of goodwill, related to its acquisition of Sun Korea. Goodwill is held in other assets on the balance sheet. Valuation models reflecting the expected future cash flow projections were used to value Sun Korea at December 25, 2004. The analysis indicated that there was no impairment of the carrying value of the goodwill. As of July 2, 2005, no factors were identified that indicated impairment of the carrying value of the goodwill.

7. LONG-TERM DEBT

	July 2, 2005	December 25, 2004
$11,000 five-year note, collateralized by U.S. real estate and equipment and a 65% stock pledge in the foreign subsidiaries, interest rate Libor + 1.9% or prime rate at Company's discretion (4.62% at April 2, 2005), due July 23, 2008.	$ 9,945	$ 10,220
$12,000 revolving line of credit, collateralized by U.S. real estate and equipment and a 65% stock pledge in the foreign subsidiaries, interest rate Libor + 1.9% or prime rate at Company's discretion (4.62% at April 2, 2005), due July 23, 2006.	—	—
$2,400 12-year mortgage note on the German facility, fixed interest rate of 6.05%, due September 30, 2008.	733	947
10-year notes, fixed interest rates ranging from 3.5-5.1%, collateralized by equipment in Germany, due between 2009 and 2011.	803	1,009
Other	70	78
	11,551	12,254
Less amounts due within one year	(1,003)	(1,058)
Total	$ 10,548	$ 11,196

Certain of these debt instruments are subject to debt covenants including: 1) Fixed Charge Coverage Ratio (as defined) of 2.0 to 1.0, determined quarterly on a rolling four quarters basis, 2) Debt (as defined) to Tangible Net Worth (as defined) of not more than 1.5 to 1.0, determined quarterly, 3) Current Ratio of 1.5 to 1.0, determined quarterly, 4) Funded Debt (as defined) to EBITDA of less than 3.25 to 1.0, determined quarterly on a rolling four quarters basis, and 5) the Company's primary domestic depository accounts must be held at SouthTrust Bank. As of July 2, 2005, the Company was in compliance with all debt covenants.

On August 11, 2005, the Company completed a refinancing of its existing debt in the U.S. See Note 11.

8. SEGMENT REPORTING

The individual subsidiaries comprising the Company operate predominantly in a single industry as manufacturers and distributors of hydraulic components. The Company is multinational with operations in the United States, and subsidiaries in the United Kingdom, Germany, and Korea. In computing operating profit for the foreign subsidiaries, no allocations of general corporate expenses have been made. Management bases its financial decisions by the geographical location of its operations.

Identifiable assets of the foreign subsidiaries are those assets related to the operation of those companies. United States assets consist of all other operating assets of the Company.

Segment information is as follows:

	United States	Korea	Germany	United Kingdom	Elimination	Consolidated
Three Months Ended July 2, 2005						
Sales to unaffiliated customers	$19,557	$3,251	$ 4,097	$ 4,109	$ —	$ 31,014
Intercompany sales	5,573	—	20	745	(6,338)	—
Operating income	3,862	467	915	334	(16)	5,562
Depreciation	985	38	110	256	—	1,389
Capital expenditures	1,457	2	33	608	—	2,100
Three Months Ended June 26, 2004						
Sales to unaffiliated customers	$16,972	$2,548	$ 3,473	$ 3,529	$ —	$ 26,522
Intercompany sales	4,195	—	21	480	(4,696)	—
Operating income	2,949	310	696	238	(3)	4,190
Depreciation	955	33	110	263	—	1,361
Capital expenditures	1,239	3	36	232	—	1,510
Six Months Ended July 2, 2005						
Sales to unaffiliated customers	$37,703	$5,917	$ 8,179	$ 8,294	$ —	$ 60,093
Intercompany sales	11,435	—	42	1,348	(12,825)	—
Operating income	7,734	798	2,089	652	(177)	11,096
Depreciation	1,962	75	219	523	—	2,779
Capital expenditures	2,832	7	94	705	—	3,638
Six Months Ended June 26, 2004						
Sales to unaffiliated customers	$29,889	$4,844	$ 6,470	$ 6,709	$ —	$ 47,912
Intercompany sales	7,918	—	33	835	(8,786)	—
Operating income	4,439	574	1,222	204	(8)	6,431
Depreciation	1,874	67	210	536	—	2,687
Capital expenditures	2,038	8	66	366	—	2,478

Operating income is total sales and other operating income less operating expenses. Segment operating income does not include interest expense and net miscellaneous income/expense.

9. NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued FAS No. 151 (“FAS 151”), *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The amendments made by FAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. While FAS 151 enhances Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins,* and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), the statement also removes inconsistencies between ARB 43 and International Accounting Standards No. 2 (“IAS 2”) and amends ARB 43 to clarify that abnormal amounts of costs should be recognized as period costs. Under some circumstances, according to ARB 43, the above listed costs may be so abnormal as to require treatment as current period charges. FAS 151 requires these items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” and requires allocation of fixed production overheads to the costs of conversion.

This standard will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The impact of the adoption of FAS 151 on the Company’s reported operating results, financial position and existing financial statement disclosure is not expected to be material.

In December, 2004, the FASB issued FAS No. 123 (revised 2004) (“FAS 123(R)”), *Share-Based Payment*, which is a revision of FAS 123. FAS 123(R) supersedes APB 25 and FAS 123, and amends FAS No. 95, *Statement of Cash Flows*. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). This Statement eliminates the alternative to use APB 25’s intrinsic value method of accounting that was provided in FAS 123 as originally issued. Under APB 25, issuing stock options to employees at or above fair value generally resulted in no recognition of compensation cost.

FAS 123(R) also requires that the Company estimate the number of awards that are expected to vest and to revise the estimate as the actual forfeitures differ from the estimate. This standard is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The effect of these items and other changes in FAS 123(R) as well as the potential impact on the Company’s reported operating results, financial position and existing financial statement disclosure is currently being evaluated.

FAS 123(R) requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow, thus reducing net operating cash flows and increasing net financing cash flows in the periods after the effective date. The Company cannot estimate what these amounts will be in the future because they depend on, among other things, when employees exercise stock options.

The Company currently follows the disclosure only provisions of FAS 148, and has elected to follow APB 25 and related interpretations in accounting for its employee stock options. The Company uses the Black-Scholes formula to estimate the value of stock options granted to employees for disclosure purposes. FAS 123(R) requires that the Company use the valuation technique that best fits the circumstances. The Company is currently evaluating other techniques.

In December 2004, the FASB issued FASB Staff Position (“FSP”) 109-1 (“FSP 109-1”) and 109-2 (“FSP 109-2”). FSP 109-1 provides guidance on the application of FAS No. 109, *Accounting for Income Taxes* (“FAS 109”), with regard to the tax deduction on qualified production activities provision within H.R. 4520, The American Jobs Creation Act of 2004 (“Act”), that was enacted on October 22, 2004. FSP 109-2 provides guidance on a special one-time dividends received deduction on the repatriation of certain foreign earnings to qualifying U.S. taxpayers. The Act contains numerous provisions related to corporate and international taxation including repeal of the Extraterritorial Income (ETI) regime, creation of a new Domestic Production Activities (DPA) deduction and a temporary dividends received deduction related to repatriation of foreign earnings. The Act contains various effective dates and transition periods. Under the guidance provided in FSP 109-1, the new DPA deduction will be treated as a “special deduction” as described in FAS 109. As such, the special deduction has no effect on the Company's deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's income tax return. The Company does not expect the net effect of the phase-out of the ETI deduction and phase-in of the new DPA deduction to result in a material impact on its effective income tax rate in 2005.

In FSP 109-2, the FASB acknowledged that, due to the proximity of the Act's enactment date to many companies' year-ends and the fact that numerous provisions within the Act are complex and pending further regulatory guidance, many companies might not be in a position to assess the impacts of the Act on their plans for repatriation or reinvestment of foreign earnings. Therefore, the FSP provided companies with a practical exception to the permanent reinvestment standards of FAS 109 and APB No. 23, *Accounting for Income Taxes – Special Areas,* by providing additional time to determine the amount of earnings, if any, that they intend to repatriate under the Act's provisions. The Company is not yet in a position to decide whether, and to what extent, it might repatriate foreign earnings to the U.S. Therefore, under the guidance provided in FSP 109-2, no deferred tax liability has been recorded in 2005 in connection with the repatriation provisions of the Act. The Company is currently analyzing the future impact of the temporary dividends received deduction provisions contained in the Act.

10. COMMITMENTS AND CONTINGENCIES

The Company is not a party to any legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the results of operations, financial position or cash flows of the Company.

11. SUBSEQUENT EVENTS

On August 11, 2005, the Company completed a refinancing of its existing debt in the U.S. with Fifth Third Bank (the "Bank"). The new financing consists of a secured revolving line of credit of $35 million. (the "Line of Credit"). The Line of Credit is secured by the Company's U.S. assets, including its manufacturing facilities, and requires monthly payments of interest. The Line of Credit has a floating interest rate for the first year of 1) 1.5% over the 30-day LIBOR Rate (as defined), or 2) the Bank's Base Rate (as defined), at the Company's discretion. Any amount set aside or reserved to sweep nightly against the operating account will be at the Bank's Base Rate. Thereafter, the interest rate will vary based upon the Company's leverage ratio.

The Line of Credit is payable in full on August 1, 2011, but maturity may be accelerated by the Bank upon an Event of Default (as defined). Prepayment may be made without penalty or premium at any time upon the required notice to the Bank. The Line of Credit has the following debt covenants: 1) Debt (as defined) to Tangible Net Worth (as defined) ratio of not more than 1.5:1.0, 2) Funded Debt (as defined) to EBITDA (as defined) ratio of not more than 2.5:1.0, and 3) EBIT (as defined) to Interest Expense (as defined) ratio of not less than 1.1:1.0; and requires the Company to maintain its primary domestic deposit accounts with the Bank.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Sun Hydraulics Corporation is a leading designer and manufacturer of high-performance screw-in hydraulic cartridge valves and manifolds, which control force, speed and motion as integral components in fluid power systems. The Company sells its products globally through wholly-owned companies and independent distributors with some direct accounts. Sales outside the United States for the Quarter ended July 2, 2005, were 50% of total net sales.

Approximately 66% of product sales are used by the mobile market, which is characterized by applications where the equipment is not fixed in place, the operating environment is often unpredictable, and duty cycles are generally moderate to low. Some examples of mobile equipment include off-road construction equipment, fire and rescue equipment and mining machinery.

The remaining 34% of sales are used by industrial markets, which are characterized by equipment that is fixed in place, typically in a controlled environment, and which operates at higher pressures and duty cycles. Automation machinery, metal cutting machine tools and plastics machinery are some examples of industrial equipment. The Company sells to both markets with a single product line.

Industry conditions

Demand for the Company's products is dependent on demand for the capital goods into which the products are incorporated. The capital goods industries in general, and the fluid power industry specifically, are subject to economic cycles. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), the United States index of shipments of hydraulic products decreased -16%, -3% and -2% in 2001, 2002 and 2003, respectively. This trend reversed in 2004 as the United States index of shipments of hydraulics products increased 25%.

The Company's order trend has historically tracked closely to the United States Purchasing Managers Index (PMI). The index was 53.8 at the end of June 2005 compared to 61.1 at the end of June 2004. When PMI is over 50, it indicates economic expansion; when it is below 50, it indicates contraction in the economy.

Results for the second quarter
(Dollars in millions except net income per share)

	July 2, 2005	June 26, 2004	Increase
Three Months Ended			
Net Sales	$31.0	$ 26.5	17%
Net Income	$ 3.5	$ 2.6	35%
Net Income per share:			
Basic	$0.33	$ 0.25	32%
Fully Diluted	$0.32	$ 0.25	28%
Six Months Ended			
Net Sales	$60.1	$ 47.9	25%
Net Income	$ 7.0	$ 3.9	79%
Net Income per share:			
Basic	$0.65	$ 0.39	66%
Fully Diluted	$0.65	$ 0.38	71%

Business conditions in the second quarter helped produce strong sales and record earnings. Earnings continued to be bolstered by the high level of productivity throughout the Company. Revenues continued to grow, being driven by delivery performance, the Sun website, the Company's global channel partners, sales of valve packages and its electrically actuated cartridges.

On June 28, 2005, the Company secured an equity position in White Oak Controls, which designs and produces complementary electronic control products. The Company is working together with White Oak to develop electronic products that will enhance its next generation of valve package offerings.

The Company is pleased that its performance has resulted in its inclusion in this year's Russell 2000® Index. Management believes that this helps improve the visibility of the Company as an attractive long-term investment.

Outlook

The Company estimates sales for the third quarter will be $28 million, a 20% increase over the third quarter last year. Net income is forecasted to be between $0.24 and $0.27 per share, compared to $0.18 per share in the third quarter last year.

COMPARISON OF THE THREE MONTHS ENDED JULY 2, 2005 AND JUNE 26, 2004

Net Sales

Net sales were $31.0 million, an increase of $4.5 million, or 16.9%, compared to $26.5 million in 2004. The increase was due in large part to the continued growth of the manufacturing sector, particularly in North America where sales increased 15.9%, as shipments within the U.S. increased 14.8% and Canadian shipments increased 27.7%.

European sales increased 19.5%, or $1.4 million, to $8.7 million. Sales to France increased 7.9%, to Germany 20.5%, and to the U.K. 5.1%. Significant increases were also noted in Finland, Italy, Ireland and the Netherlands.

Asian sales increased 20.5%, or $0.8 million, to $4.5 million, led by domestic sales in Korea and China.

Gross Profit

Gross profit increased $1.7 million, or 20.3%, to $10.1 million. Gross profit as a percentage of net sales increased to 32.5% in the second quarter of 2005, compared to 31.6% in the second quarter last year. Gross profit increases related to higher sales volume were partially offset by increased material cost of parts and raw materials, primarily in the U.S.

Selling, Engineering and Administrative Expenses

Selling, engineering and administrative expenses increased 7.8%, or $0.3 million, to $4.5 million compared to the same quarter last year. The increase was primarily due to increased audit and contract labor fees, including Sarbanes-Oxley 404 compliance, personnel related expenses, and costs for a bi-annual European trade show.

Interest Expense

Interest expense for the quarter ended July 2, 2005, remained flat at $0.1 million compared to the quarter ended June 26, 2004. Total average debt for the quarter ended July 2, 2005, was $11.7 million compared to $16.1 million for the quarter ended June 26, 2004. Although average debt outstanding decreased by $4.4 million, the average interest rate during the second quarter of 2005 was 5.0%, compared to 3.3% in 2004.

Foreign Currency Transaction Gain

Foreign currency gains were $0.1 million for the quarter ended July 2, 2005, primarily due to the gains of the Won and Pound in the Korean and U.K. operations, respectively, against the U. S. Dollar. There was no effect on income from foreign currency transactions for the quarter ended June 26, 2004.

Income Taxes

The provision for income taxes for the quarter ended July 2, 2005, was 36.7% of pretax income compared to 37.1% for the quarter ended June 26, 2004. The change was due to the relative mix of income and different tax rates in effect among the countries in which the Company sells its products.

COMPARISON OF THE SIX MONTHS ENDED JULY 2, 2005 AND JUNE 26, 2004

The Company's fiscal year ends on the Saturday nearest to the end of the month of December. Each quarter consists of two 4-week periods and one 5-week period. The 2005 fiscal year will end on December 31, 2005, resulting in a 53-week year. As a result of the 2004 fiscal year ending December 25, 2004, the year-to-date period ending July 2, 2005, consists of three 4-week periods and three 5-week periods.

Net Sales

Net sales were $60.1 million, an increase of $12.2 million, or 25.4%. This increase reflected the economic recovery of the manufacturing sector in the United States, increased domestic sales in Korea and China, and strong demand in Europe and Scandinavia.

Gross Profit

Gross profit increased 35%, or $5.1 million. Gross profit as a percentage of net sales increased to 33.0% from 30.7% last year. A moderate and selective sales price increase in January this year, coupled with increased sales volume and improved productivity, offset the increased cost of parts and raw materials.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses increased 5.9%, or $0.5 million, to $8.7 million compared to last year. The increase was primarily due to increased audit and contract labor fees related to 2005, including Sarbanes-Oxley 404 compliance, personnel related expenses, and costs for a bi-annual European trade show.

Interest Expense

Interest expense for the six months ended July 2, 2005, remained flat at $0.3 million compared to the six months ended June 28, 2003. Total average debt for the period ended July 2, 2005, was $11.9 million compared to $16.5 million for the period ended June 26, 2004. Although average debt outstanding decreased during the period ended July 2, 2005, the average interest rate on variable debt increased from the period ended June 26, 2004.

Foreign Currency Transaction Gain

Foreign currency gains were $0.3 million for the six months ended July 2, 2005. While the Euro, the Korean Won and the British Pound made gains against the U.S. dollar during the six months ended July 2, 2005, the U.K. operations experienced losses related to sales conducted in U.S. dollars. There was no effect on income from foreign currency transactions for the six months ended June 26, 2004.

Income Taxes

The provision for income taxes for the six months ended July 2, 2005, was 36.9% of pretax income compared to 36.3% for the six months ended June 26, 2004. The change was due to the relative mix of income and different tax rates in effect among the countries in which the Company sells its products.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company’s primary source of capital has been cash generated from operations, although fluctuations in working capital requirements have from time to time been met through borrowings under revolving lines of credit. The Company’s principal uses of cash have been to pay operating expenses, make capital expenditures, pay dividends to shareholders, and service debt.

Cash from operations for the six months ended July 2, 2005, was $8.4 million, compared to $6.0 million for the six months ended June 26, 2004. The $3.1 million increase in net income was offset by working capital changes related to increased volume. Days sales outstanding (DSO) were 34 and 33 at July 2, 2005, and June 26, 2004, respectively. Inventory turns were 10.7 as of July 2, 2005, compared to 10.8 as of June 26, 2004.

Capital expenditures, consisting primarily of purchases of machinery and equipment, were $3.6 million for the six months ended July 2, 2005, compared to $2.5 million for the six months ended June 26, 2004. Capital expenditures for the year are projected to be approximately $7.2 million.

The Company declared quarterly dividends of $0.05 per share to shareholders of record June 30, 2005, payable on July 15, 2005. The declaration and payment of future dividends is subject to the sole discretion of the Board of Directors, and any determination as to the payment of future dividends will depend upon the Company’s profitability, financial condition, capital needs, future prospects and other factors deemed pertinent by the Board of Directors.

On August 11, 2005, the Company completed a refinancing of its existing debt in the U.S. with Fifth Third Bank (the “Bank”). The new financing consists of a secured revolving line of credit of $35 million. (the “Line of Credit”). The Line of Credit is secured by the Company’s U.S. assets, including its manufacturing facilities, and requires monthly payments of interest. The Line of Credit has a floating interest rate for the first year of 1) 1.5% over the 30-day LIBOR Rate (as defined), or 2) the Bank’s Base Rate (as defined), at the Company’s discretion. Any amount set aside or reserved to sweep nightly against the operating account will be at the Bank's Base Rate. Thereafter, the interest rate will vary based upon the Company’s leverage ratio.

The Line of Credit is payable in full on August 1, 2011, but maturity may be accelerated by the Bank upon an Event of Default (as defined). Prepayment may be made without penalty or premium at any time upon the required notice to the Bank. The Line of Credit has the following debt covenants: 1) Debt (as defined) to Tangible Net Worth (as defined) ratio of not more than 1.5.1.0, 2) Funded Debt (as defined) to EBITDA (as defined) ratio of not more than 2.5:1.0, and 3) EBIT (as defined) to Interest Expense (as defined) ratio of not less than 1.1:1.0; and requires the Company to maintain its primary domestic deposit accounts with the Bank.

The Company believes that cash generated from operations and its borrowing availability under its revolving Line of Credit will be sufficient to satisfy the Company’s operating expenses and capital expenditures for the foreseeable future. In the event that economic conditions were to severely worsen for a protracted period of time, the Company would have several options available to ensure liquidity in addition to increased borrowing. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations. Additional operating expense reductions also could be made. Finally, the dividend to shareholders could be reduced or suspended.

Off Balance Sheet Arrangements

The Company uses the equity method of accounting to account for its investments in Sun China and WhiteOak. The Company does not have a majority ownership in or exercise control over either of the entities. The Company does not believe that its investments in Sun China or WhiteOak qualify as Variable Interest Entities, within the scope of FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 5,* nor are they material to the financial statements of the Company at July 2, 2005.

Seasonality

The Company generally has experienced increased sales during the second quarter of the year, largely as a result of the order patterns of our customers. As a result, the Company's second quarter net sales, income from operations and net income historically are the highest of any quarter during the year.

Inflation

The impact of inflation on the Company's operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economy. While inflation has not had, and the Company does not expect that it will have, a material impact upon operating results, there is no assurance that the Company's business will not be affected by inflation in the future.

Critical Accounting Policies and Estimates

The Company currently only applies judgment and estimates which may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses for impairment of long-lived assets, accounts receivable, inventory, goodwill and accruals. The following explains the basis and the procedure for each account where judgment and estimates are applied.

Revenue Recognition

The Company reports revenues, net of sales incentives, when title passes and risk of loss transfers to the customer. The effect of material non-recurring events is provided for when they become known.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("FAS") No. 144, *Accounting for Impairment or Disposal of Long-lived Assets* ("FAS 144"), long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value.

The Company assesses the recoverability of goodwill and intangible assets not subject to amortization under FAS No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). See Goodwill below.

Accounts Receivable

The Company sells to most of its customers on a recurring basis, primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined on a specific identification basis by a review of those accounts that are significantly in arrears. There can be no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See balance sheet for allowance amounts.

Inventory

The Company offers a wide variety of standard products and as a matter of policy does not discontinue products. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. The Company reviews on-hand balances of products and component parts against specific criteria. Products and component parts without usage or that have excess quantities on hand are evaluated. An inventory reserve is then established for the full inventory carrying value of those products and component parts deemed to be obsolete or slow moving. See Note 4 for inventory reserve amounts.

Goodwill

The Company acquired its Korean operations in September 1998 using the purchase method. As a result, goodwill is reflected on the consolidated balance sheet. A valuation based on the cash flow method was performed at December 25, 2004. It was determined that the value of the goodwill was not impaired. There is no assurance that the value of the acquired company will not decrease in the future due to changing business conditions. See Note 5 for goodwill amounts.

Accruals

The Company makes estimates related to certain employee benefits and miscellaneous accruals. Estimates for employee benefit accruals are based on information received from plan administrators in conjunction with management's assessments of estimated liabilities related to workers' compensation, health care benefits, and annual contributions to an employee stock ownership plan ("ESOP"), established in 2004 as part of the Company's retirement plan. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

FORWARD-LOOKING INFORMATION

Certain oral statements made by management from time to time and certain statements contained herein that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and, because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements, including those in Management's Discussion and Analysis of Financial Condition and Results of Operations are statements regarding the intent, belief or current expectations, estimates or projections of the Company, its Directors or its Officers about the Company and the industry in which it operates, and assumptions made by management, and include among other items, (i) the Company's strategies regarding growth, including its intention to develop new products; (ii) the Company's financing plans; (iii) trends affecting the Company's financial condition or results of operations; (iv) the Company's ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) the Company's ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (vi) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings "Business" (including under the subheading "Business Risk Factors") in the Company's Form 10-K for the year ended December 25, 2004, and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in *this Form 10-Q for the quarter ended July 2, 2005. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.*

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. The Company had approximately $10.0 million in variable-rate debt outstanding at July 2, 2005. The Company has managed this risk by its ability to select the interest rate on its debt financing at LIBOR plus 1.9% or its lender's prime rate, whichever is more advantageous. Beginning in July 2004, the interest rate on its debt financing will remain variable based upon the Company's leverage ratio. At July 2, 2005, a 1% change in interest rates up or down would have affected the Company's income statement on an annual basis by approximately $100,000 at the current, variable-rate outstanding debt level. At June 26, 2004, the Company had $12.7 million in variable-rate debt outstanding and, as such, a 1% change in interest rates up or down would have affected the Company's income statement on an annual basis by approximately $127,000.

The Company's exposure to foreign currency exchange fluctuations relates primarily to the direct investment in its facilities in the United Kingdom, Germany, and Korea. The Company does not use financial instruments to hedge foreign currency exchange rate changes.

Item 4. CONTROLS AND PROCEDURES

As of July 2, 2005, the Company's management, under the direction of its Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 2, 2005, in timely alerting them to material information required to be included in the Company's periodic SEC filings.

There were no significant changes in the Company's internal controls over financial reporting during the period ended July 2, 2005, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In November 2004, the Company's Board of Directors authorized the repurchase of up to $2.5 million of Company stock, to be completed no later than January 15, 2006. The stock purchases will be made in the open market or through privately negotiated transactions. Market purchases will be made subject to restrictions relating to volume, price and timing in an effort to minimize the impact of the purchases on the market for the Company's securities. The amount of the stock repurchases was set based upon the anticipated number of shares that will be required to fund the Company's ESOP, and employee stock purchase plan, through fiscal year 2005.

The Company did not purchase any shares during the second quarter under the plan. The total number of shares that have been purchased through the plan is 7,600. There is approximately $2.4 million of Company stock that may still be purchased by the Company.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Shareholders of the Company was held on June 11, 2005. At the meeting, the following actions were taken by the shareholders:

Christine L. Koski, Hirokatsu Sakamoto and David N. Wormley were reelected as Directors until the Annual Meeting in the year 2008, until their respective successors are elected and qualified or until their earlier resignation, removal from office or death. The votes cast for and withheld were as follows:

	Voted For	Withheld
Christine L. Koski	6,603,584	0
Hirokatsu Sakamoto	6,603,584	0
David N. Wormley	6,603,584	0

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibits:

Exhibit Number	Exhibit Description
10.1+	Sun Hydraulics Corporation 2004 Nonemployee Director Equity and Deferred Compensation Plan (As Amended and Restated Effective January 1, 2005).
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification pursuant to 18 U.S.C. § 1350.
32.2	CFO Certification pursuant to 18 U.S.C. § 1350.

+ Executive management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on August 15, 2005.

SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

Richard J. Dobbyn
Chief Financial Officer (Principal
Financial and Accounting Officer)

SUN HYDRAULICS CORPORATION

2004 NONEMPLOYEE DIRECTOR EQUITY
AND DEFERRED COMPENSATION PLAN
(As Amended and Restated Effective January 1, 2005)

ARTICLE I. DEFINITIONS

1.1 DEFINITIONS. Whenever the following terms are used in this Plan they shall have the meanings specified below unless the context clearly indicates to the contrary:

(a) “Accounting Date”: The last day of each fiscal year and the last day of any fiscal quarter.

(b) “Accounting Period”: The period beginning on the day immediately following an Accounting Date and ending on the next following Accounting Date.

(c) “Administrator”: The Board.

(d) “Beneficiary”: The person or persons (natural or otherwise) designated pursuant to Section 7.6.

(e) “Board”: The Board of Directors of the Company.

(f) “Code”: The Internal Revenue Code of 1986, as amended.

(g) “Common Stock”: The Company’s Common Stock, par value $.001 per share.

(h) “Common Stock Unit”: A bookkeeping entry that records the equivalent of one Share pursuant to Section 5.2.

(i) “Company”: Sun Hydraulics Corporation or any successor or successors thereto.

(j) “Deferral Commitment”: An agreement made by a Nonemployee Director in a Participation Agreement to have a specified portion of his or her Share Compensation and/or Fees deferred under the Plan for a specified period in the future.

(k) “Deferral Period”: The Plan Year for which a Director has elected to defer a portion of his or her Share Compensation and/or Fees.

(l) “Deferred Account”: The account maintained for each Nonemployee Director who elects to defer Share Compensation and/or Fees under Article V.

(m) “Deferred Account Balance”: The balance of a Nonemployee Director’s Deferred Account as specified in Section 5.3.

(n) “Fair Market Value”: With respect to a share of Common Stock, the average of the high and low selling prices of a share of Common Stock as reported through the Nasdaq Stock Market (or any other exchange or over-the-counter market if sales of the Common Stock are no longer reported through the Nasdaq Stock Market) for a particular date, or if there was no sale of Common Stock so reported for such day, on the most recently preceding day on which there was such a sale.

(o) “Fees”: The portion of the compensation payable to Nonemployee Directors in cash for service as a director of the Company (including compensation for attendance at meetings of the Board and Board committees).

(p) “Nonemployee Director”: An individual duly elected or chosen as a Director of the Company who is not also an employee of the Company or its subsidiaries.

(q) “Participation Agreement”: The agreement submitted by a Nonemployee Director to the Administrator in which a Nonemployee Director may specify a Voluntary Amount, or may elect to defer receipt of a portion of his or her Share Compensation and/or Fees for a specified period in the future.

(r) “Payment Date”: The date on which Director Fees are payable as such dates are established by the Board from time to time. Initially, Director Fees shall be payable at the conclusion of each Board and Board committee meeting.

(s) “Plan”: The Plan set forth in this instrument as it may, from time time, be amended.

(t) “Plan Year”: The 12-month period beginning January 1 through December 31.

(u) “Rule 16b-3”: Rule 16b-3 promulgated under the Securities Exchange of 1934 (or any successor rule to the same effect), as in effect from to time.

(v) “Settlement Date”: The date on which a Nonemployee Director terminates his or her service as a Director of the Company. Settlement Date shall also include with respect to any Deferral Period the date prior to the date of termination as a Director selected by a Nonemployee Director in a Participation Agreement for distribution of all or a portion of the Share Compensation and/or Fees deferred during such Deferral Period as provided in Section 7.3.

(w) “Share Compensation”: Shares payable to a Nonemployee Director for attendance at a Board or committee meeting pursuant to Section 3.1.

(x) “Shares”: Fully paid, non-assessable shares of Common Stock. Shares may be shares of original issuance or treasury shares or a combination of the foregoing.

(y) “Trust”: The meaning set forth in Section 6.2.

(z) “Voluntary Amount”: The meaning set forth in Section 3.2(a).

ARTICLE II. PURPOSE

2.1 PURPOSE. The purpose of this Plan is to secure for the Company and its shareholders the benefits of the incentive inherent in increased ownership of Common Stock of the Company by members of the Board of Directors of the Company who are not employees of the Company or any of its Subsidiaries, by providing for the payment of a portion of each Nonemployee Director’s Fees in shares of Common Stock or Common Stock Units, and permitting each Nonemployee Director to receive some or all of the remainder of his or her Fees in shares of Common Stock or Common Stock Units. It is expected that such ownership will further align the interests of such Nonemployee Directors with the shareholders of the Company, thereby promoting the long-term profits and growth of the Company, and will encourage such Nonemployee Directors to remain directors of the Company and provide them an opportunity to defer the receipt of some or all of such Fees. It is also expected that the Plan will encourage qualified persons to become directors of the Company.

ARTICLE III. AUTOMATIC AND VOLUNTARY SHARE COMPENSATION AMOUNTS

3.1 AUTOMATIC AMOUNT.

(a) As compensation for the attendance of each Nonemployee Director at each meeting of the Board, and each meeting of each committee of the Board on which such Nonemployee Director serves when the committee meeting is not held within one day of a meeting of the Board, each Nonemployee Director shall be paid Shares with a Fair Market Value of One Thousand Five Hundred Dollars ($1,500.00).

(b) ISSUANCE OF SHARES. Promptly following each Board or committee meeting for which Share Compensation is payable pursuant to Section 3.1(a), the Company shall issue to each Nonemployee Director a number of whole Shares equal to One Thousand Five Hundred Dollars ($1,500.00) divided by the Fair Market Value on the date of the meeting. To the extent that the application of the foregoing would result in the issuance of a fractional Share, no fractional Share shall be issued, but instead, the Company shall maintain a separate noninterest bearing account for such Nonemployee Director, which account shall be credited with the Fair Market Value of such fractional Share as of such meeting date, and which amount shall be combined with similar amounts so credited to such account with respect to fractional Shares otherwise issuable with respect to the Share Compensation subsequently payable to such Nonemployee Director. When whole Shares are issued by the Company to the Nonemployee Director under this Section 3.1(b) or Section 3.2(b) below and the amount then in such account is in excess of the Fair Market Value of the Shares then being issued, the Company shall issue an additional Share to such Nonemployee Director and debit such account by such Fair Market Value. The Nonemployee Director shall hold the Shares issued by the Company under this Plan for a period of six months and one day from the date of the meeting with respect to which such Shares were issued unless the issuance of such Shares is exempt under Rule 16b-3. The Company shall pay any and all fees and commissions incurred in connection with the payment of Share Compensation to a Nonemployee Director.

3.2 VOLUNTARY AMOUNT.

(a) ELECTION. For any Plan Year, a Nonemployee Director may elect to have up to 100% of his or her Fees payable during such Plan Year (the amount so elected referred to as a “Voluntary Amount”) paid by the Company in the form of Shares and in lieu of cash payment of such Voluntary Amount. For any Plan Year other than the Plan Year in which this Plan is adopted, and with respect to each Nonemployee Director elected to the Board thereafter, for any Plan Year other than the Plan Year in which such Nonemployee Director is elected, such election shall be made by the execution and delivery to the Administrator of a Participation Agreement, which shall become effective with respect to all Fees payable on Payment Dates occurring more than six months after the delivery of the Participation Agreement to the Administrator, including Fees payable in all subsequent Plan Years unless such Participation Agreement shall be subsequently modified by the Nonemployee Director upon not less than six months advance notice to the Administrator. Any modification shall be made through the execution and delivery of a subsequent Participation Agreement, which shall become effective six months after the delivery of the new Participation Agreement to the Administrator.

(b) INITIAL YEAR OF PARTICIPATION. In the event that during the Plan Year in which this Plan is first adopted, a Nonemployee Director desires to elect to have up to 100% of his or her Fees payable during such Plan Year (the amount so elected referred to as a “Voluntary Amount”) paid by the Company in the form of Shares in lieu of the cash payment of such Voluntary Amount, or in the event that an individual first becomes a Nonemployee Director during a Plan Year and desires to make such an election, a Participation Agreement must be submitted to the Administrator no later than 30 days following the date on which this Plan becomes effective, or no later than 30 days following the date on which such individual becomes a Nonemployee Director, respectively. Any such election made in such Participation Agreement shall be effective only with regard to Fees earned following the date the Participation Agreement is submitted to the Administrator. If a Nonemployee Director does not submit a Participation Agreement within such period of time, such Nonemployee Director will not be eligible to elect a Voluntary Amount except in accordance with Section 3.2(a).

(c) ISSUANCE OF SHARES. Promptly following each Payment Date for which a Voluntary Amount has been elected and is effective, the Company shall issue to each Nonemployee Director a number of whole Shares equal to the Voluntary Amount divided by the Fair Market Value of a Share on the Payment Date. To the extent that the application of the foregoing would result in the issuance of a fractional Share, no fractional Share shall be issued, but instead, the Company shall maintain a separate noninterest bearing account for such Nonemployee Director (which shall be the same account, if any, as may be set up under Section 3.1(b) above), which account shall be credited with the Fair Market Value of such fractional Share as of such Payment Date, and which amount shall be combined with similar amounts so credited to such account with respect to fractional Shares otherwise issuable in the future with respect to the Nonemployee Director's Voluntary Amount. When whole Shares are issued by the Company to the Nonemployee Director under this Section 3.2(b) or Section 3.1(b) above and the amount then in such account is in excess of the Fair Market Value of the Shares then being issued, the Company shall issue an additional Share to such Nonemployee Director and debit such account by such Fair Market Value. The Nonemployee Director shall hold the Shares issued by the Company under this Plan for a period of six months and one day from the date of the meeting with respect to which such Shares were issued. The Company shall pay any and all fees and commissions incurred in connection with the payment of Voluntary Amounts to a Nonemployee Director.

ARTICLE IV. DEFERRAL OF SHARE COMPENSATION AND/OR FEES

4.1 AMOUNT OF DEFERRAL. With respect to each Plan Year, a Nonemployee Director may elect to defer a percentage of his or her Share Compensation and/or Fees by filing a Participation Agreement with the Administrator prior to the beginning of such Plan Year. A Nonemployee Director may change the percentage of his or her Share Compensation or Fees to be deferred (or reduce such percentage to zero) by filing a subsequent Participation Agreement with the Administrator. Any such change shall be effective as of the first day of the Plan Year following the Plan Year in which such Participation Agreement is filed with the Administrator. If the percentage of a Nonemployee Director's Share Compensation sought to be deferred would result in a fractional Share being deferred, the deferred Share Compensation shall be rounded up to the nearest whole number of Shares.

4.2 INITIAL YEAR OF PARTICIPATION. In the event that an individual first becomes a Nonemployee Director during a Plan Year and, if any Nonemployee Director during the Plan Year in which this Plan is first adopted, wishes to elect to defer the receipt of any Share Compensation or Fees earned and payable to the individual with respect to such Plan Year (a "Deferral Election"), a Participation Agreement must be submitted to the Administrator no later than 30 days following the date on which such individual becomes a Nonemployee Director, or no later than 30 days following the date on which this Plan becomes effective, respectively. Any Deferral Election made in such Participation Agreement shall be effective only with regard to Share Compensation and/or Fees earned following the date the Participation Agreement is submitted to the Administrator. If a Nonemployee Director does not submit a Participation Agreement within such period of time, such Nonemployee Director will not be eligible to elect to defer Share Compensation and Fees except in accordance with Section 4.1.

4.3 TERMINATION OF PARTICIPATION. Participation in the Plan shall continue as long as the Nonemployee Director is eligible to receive benefits under the Plan.

4.4 MODIFICATION OF DEFERRAL COMMITMENTS. Subject to Sections 7.3 and 7.6 below, a Deferral Commitment shall be irrevocable with respect to the Plan Year for which it is made, and for future Plan Years unless modified in accordance with Section 4.1.

4.5 WITHHOLDING TAXES. Any withholding of taxes or other amounts with respect to any deferred Share Compensation or Fees which is required by state, federal or local law shall be withheld from the Nonemployee Director's non-deferred Fees, or if none, then the Nonemployee Director's Deferral Commitment shall be reduced by the amount of such withholding.

ARTICLE V. NONEMPLOYEE DIRECTORS' DEFERRED ACCOUNTS

5.1 ESTABLISHMENT OF DEFERRED ACCOUNTS. The Company, through its accounting records, shall establish a Deferred Account for each Nonemployee Director. In addition, the Company may establish one or more subaccounts of a Nonemployee Directors' Deferred Account, if the Company determines that such subaccounts are necessary or appropriate in administering the Plan.

5.2 CREDITING OF DEFERRED SHARE COMPENSATION AND FEES. The portion of a Nonemployee Director's Share Compensation or Fees that are deferred pursuant to a Deferral Commitment shall be credited to the Nonemployee Director's Deferred Account as of the date of the Board or Board committee meeting for which the Share Compensation is payable with respect to Share Compensation and as of the Payment Date of the corresponding non-deferred portion of his or her Fees with respect to the Voluntary Amount. With respect to the deferred portion of a Nonemployee Director's Share Compensation, the Deferred Account shall be credited with a number of Common Stock Units equal to the number of whole Shares the payment of which is being deferred. With respect to the deferred portion of a Nonemployee Director's Fees, the Deferred Account shall be credited with a number of Common Stock Units determined as described in Section 5.3(b) below. Any withholding of taxes or other amounts with respect to any deferred Share Compensation or Fees which is required by state, federal or local law shall be withheld from the Nonemployee Director's non-deferred Fees, or if none, then the Nonemployee Director's Deferral Commitment shall be reduced by the amount of such withholding.

5.3 DETERMINATION OF ACCOUNTS.

(a) ACCOUNT BALANCE. A Nonemployee Director's Deferred Account Balance as of a particular date shall consist of (i) the dollar amount credited to each Nonemployee Director's Deferred Account as of such date (less any portion of Deferred Fees converted in (b) below) plus (ii) the total number of Common Stock Units as of such date.

(b) CONVERSION OF DEFERRED FEES TO COMMON STOCK UNITS. A Nonemployee Director's deferred Fees shall be converted to Common Stock Units calculated by dividing the credited amount by the Fair Market Value as of the Payment Date relating to such Fees (calculated to the nearest one-hundredth of a Common Stock Unit).

5.4 CREDITING OF DIVIDEND EQUIVALENTS. On the record date set for the determination of shareholders entitled to receive any cash dividend declared by the Board, each Deferred Account shall be credited with additional Common Stock Units equal in value to the amount of cash payable by the Company with respect to such dividend on a number of Shares equivalent to the number of Common Stock Units in such Deferred Account on such record date. The number of additional Common

Stock Units shall be calculated by dividing the dollar value of such dividend by the Fair Market Value on such record date. Until a Nonemployee Director or his or her Beneficiary receives his or her entire Deferred Account, the unpaid balance thereof credited in Common Stock Units shall be credited with dividend equivalents as provided in this Section 5.4.

5.5 ADJUSTMENTS TO ACCOUNTS.

(a) Each Nonemployee Director's Deferred Account shall be debited immediately with the amount of any distributions under the Plan to or on behalf of the Nonemployee Director or, in the event of his or her death, his or her beneficiary.

(b) Any debits shall first be applied to any credited Fees in a Nonemployee Director's Deferred Account. Thereafter, a debit shall be equal to a corresponding number of Common Stock Units calculated by dividing the amount of such distribution by the Fair Market Value as of the date of the distribution.

5.6 STATEMENT OF ACCOUNTS. As soon as practicable after the end of each Plan Year, a statement shall be furnished to each Nonemployee Director or, in the event of his or her death, to his or her Beneficiary showing the status of the Deferred Account Balance as of the end of the Plan Year, any changes in the Deferred Account Balance since the end of the immediately preceding Plan Year, and such other information as the Administrator shall determine.

5.7 VESTING OF ACCOUNTS. Subject to Section 6.1 below, each Nonemployee Director shall at all times have a nonforfeitable interest in his or her Deferred Account Balance.

ARTICLE VI. FINANCING OF BENEFITS

6.1 FINANCING OF BENEFITS. Benefits payable under the Plan to a Nonemployee Director or, in the event of his or her death, to his or her Beneficiary, shall be paid by the Company from its general assets. The obligation to make payment of benefits under the Plan represents an unfunded, unsecured obligation of the Company. No person entitled to payment under the Plan shall have any claim, right, security interest or other interest in any fund, trust, account, insurance contract, or asset of the Company which may be responsible for such payment.

6.2 SECURITY FOR BENEFITS. Notwithstanding the provisions of Section 6.1, nothing in this Plan shall preclude the Company from setting aside amounts in trust (the "Trust") pursuant to one or more trust agreements between a trustee and the Company. However, no Nonemployee Director or Beneficiary shall have any secured interest or claim in any assets or property of the Company or the Trust and all funds contained in the Trust shall remain subject to the claims of the Company's general creditors.

ARTICLE VII. DISTRIBUTION OF DEFERRED SHARE COMPENSATION AND FEES

7.1 SETTLEMENT DATE. A Nonemployee Director or, in the event of his or her death, his or her Beneficiary shall be entitled to distribution of all or part of his or her Deferred Account Balance, as provided in this Article VII, following his or her Settlement Date or Dates.

7.2 AMOUNT TO BE DISTRIBUTED. The amount to which a Nonemployee Director or, in the event of his or her death, his or her Beneficiary is entitled in accordance with the following provisions of this Article shall be based on the Nonemployee Director's adjusted Deferred Account Balance determined as of the Accounting Date coincident with or next following his or her Settlement Date or Dates.

7.3 IN-SERVICE DISTRIBUTION. A Nonemployee Director may irrevocably elect to receive an in-service distribution of his or her deferred Share Compensation and Fees for a Plan Year by filing an election prior to the beginning of such Plan Year, calling for distribution of such deferred amounts to be made or to commence not earlier than the beginning of the third Plan Year following the Plan Year in which such Share Compensation and Fees otherwise would have been payable. A Nonemployee Director's election of an in-service distribution shall be made in the Participation Agreement as provided in Section 4.1 above. The Nonemployee Director shall elect irrevocably to receive such Share Compensation and Fees as an in-service distribution. Any benefits paid to the Nonemployee Director as an in-service distribution shall reduce the Nonemployee Director's Deferred Account Balance as specified in Section 5.4 above.

7.4 DISTRIBUTION DATE. As soon as practicable after the end of the Accounting Period in which a Nonemployee Director's Settlement Date occurs, but in no event later than thirty days following the end of such Accounting Period, the Company shall distribute or cause to be distributed to the Nonemployee Director the Nonemployee Director's Deferred Account Balance. Notwithstanding the foregoing, if elected by the Nonemployee Director at least one year prior to the Settlement Date, the distribution of all or a portion of the Nonemployee Director's Deferred Account may be made or commence at the beginning of the fifth Plan Year following his or her Settlement Date. In the event of a Nonemployee Director's death, the balance of his or her Deferred Account shall be distributed to his or her Beneficiary in a lump sum.

7.5 FORM OF DISTRIBUTION.

(a) Distribution of Common Stock Units with respect to any Deferral shall be made: (i) by payment in Shares in the proportion of one Share for one Stock Unit (any fractions shall be converted to and paid in cash); (ii) by payment in annual installments of Shares not to exceed ten installments in the proportion of one Share for one Common Stock Unit; or (iii) a combination of (i) and (ii) above, at the option of the Nonemployee Director.

(b) The Nonemployee Director's election of the time and method of distribution shall be made by written notice filed with the Administrator at least one year prior to the Nonemployee Director's voluntary retirement as a Director. Any such election may changed by the Nonemployee Director at any time and from time to time without the consent of any other person by filing a later signed written election with Administrator; provided that any election made less than one year prior to the Nonemployee Director's voluntary termination as a Director shall not be valid, and in such case payment shall be made in accordance with the Nonemployee Director's prior election; and further provided that, effective on and after January 1, 2005, any such subsequent or modified election changing the time of distribution must specify a deferred distribution date at least five (5) years after the date on which the distribution would otherwise have been made.

(c) The amount of any installment in (a) above shall be equal to the quotient obtained by dividing the Nonemployee Director's Deferred Account Balance as of the date such installment payment by the number of installment payments remaining to be made to or in respect of such Nonemployee Director at the time of calculation.

(d) If a Nonemployee Director fails to make an election in a timely manner as provided in this Section 7.5, distribution shall be made in Shares, with any fraction in cash, in a lump sum.

7.6 BENEFICIARY DESIGNATION. As used in the Plan the term "Beneficiary" means:

(a) The person last designated as Beneficiary by the Nonemployee Director in on a form prescribed by the Administrator;

(b) If there is no designated Beneficiary or if the person so designated shall not survive the Nonemployee Director, such Nonemployee Director's spouse; or

(c) If no such designated Beneficiary and no such spouse is living upon the death of a Nonemployee Director, or if all such persons die prior to the distribution of the entire balance of the Nonemployee Director's Deferred Account, then the legal representative of the last survivor of the Nonemployee Director and such persons, or, if the Administrator shall not receive notice of the appointment of any such legal representative within one year after such death, the heirs-at-law of such survivor shall be the Beneficiaries to whom the remaining balance in the Nonemployee Director's Deferred Account shall be distributed (in the proportions in which they would inherit his or her intestate personal property).

Any Beneficiary designation may be changed from time to time by the filing of a new form with the Administrator. No notice given under this Section 7.6 shall be effective unless and until the Administrator actually receives such notice.

7.7 FACILITY OF PAYMENT. Whenever and as often as any Nonemployee Director or his or her Beneficiary entitled to payments hereunder shall be under a legal disability or, in the sole judgment of the Administrator, shall otherwise be unable to apply such payments to his or her own best interests and advantage, the Administrator in the exercise of its discretion may direct all or any portion of such payments to be made in any one or more of the following ways: (i) directly to him or her; (ii) to his or her legal guardian or conservator; or (iii) to his or her spouse or to any other person, to be expended for his or her benefit; and the decision of the Administrator shall in each case be final and binding upon all persons in interest.

ARTICLE VIII. ADMINISTRATION, AMENDMENT AND TERMINATION

8.1 ADMINISTRATION. The Plan shall be administered by the Administrator. The Administrator shall have such powers as may be necessary to discharge its duties hereunder. The Administrator may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who may be counsel to the Company. Except as provided in Section 8.2 below, the Administrator shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided under the Plan, or to waive or fail to apply any requirements of eligibility for a benefit under the Plan. No member of the Administrator shall act on behalf of the Administrator in respect of his or her own Voluntary Amount or his or her own Deferred Account. All decisions and determinations by the Administrator shall be final and binding on all parties. All decisions of the Administrator shall be made by the vote of the majority, including actions taken without a meeting. All elections, notices and directions under the Plan by a Nonemployee Director shall be made on such forms as the Administrator shall prescribe.

8.2 AMENDMENT AND TERMINATION. The Board may alter or amend this Plan from time to time or may terminate it in its entirety; provided, however, that no such action shall, without the consent of a Nonemployee Director, affect the rights in any Shares issued or to be issued to such Nonemployee Director or in any amount in a Nonemployee Director's Deferred Account; and further provided, that, any amendment which must be approved by the shareholders of the Company in order to comply with applicable law or the rules of any national securities exchange or securities listing service upon which the Shares are traded or quoted shall not be effective unless and until such approval is obtained. Presentation of the Plan or any amendment thereof for shareholder approval shall not be construed to limit the Company's authority to offer similar or dissimilar benefits in plans that do not require shareholder approval.

8.3 ADJUSTMENTS. In the event of any change in the outstanding Common Stock by reason of (a) any stock dividend, stock split, combination of shares, recapitalization or any other change in the capital structure of the Company, (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing, the number or kind of Shares that may be issued under the Plan and the number of Common Stock Units in a Nonemployee Director's Deferred Account automatically shall be adjusted so that the proportionate interest of the Nonemployee Directors shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes with respect to the Plan.

8.4 SUCCESSORS. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and to agree to perform this Plan in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Plan shall be binding upon and inure to the benefit of the Company and any successor of or to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by sale, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purpose of this Plan), and the heirs, beneficiaries, executors and administrators of each Nonemployee Director.

ARTICLE IX. SHARES SUBJECT TO PLAN

9.1 SHARES SUBJECT TO PLAN. Subject to adjustment as provided in this Plan, the total number of Shares of Common Stock which may be issued under this Plan shall be Eighty Thousand (80,000).

ARTICLE X. EFFECTIVE DATE; APPROVAL BY SHAREHOLDERS

10.1 APPROVAL OF THE PLAN. The Plan shall be effective as of May 1, 2004, and shall be submitted for approval by the shareholders of the Company at the 2004 Annual Meeting. If such approval is not obtained at such meeting, this Plan shall be nullified and all Deferral Commitments shall be rescinded, and each Nonemployee Director shall receive in cash the full amount of such Nonemployee Director's Deferred Account balance, if any, without interest.

ARTICLE XI. GENERAL PROVISIONS

11.1 NO CONTINUING RIGHT TO SERVE AS A DIRECTOR. Neither the adoption or of this Plan, nor any document describing or referring to this Plan, or any part thereof, shall confer upon any Nonemployee Director any right to continue as a director of the Company or any subsidiary of the Company.

11.2 RESTRICTIONS ON SHARES AND RIGHTS TO SHARES. Except for any restrictions required by law, a Nonemployee Director shall have all rights of a shareholder with respect to his or her Shares. No rights to Shares shall be assigned, pledged, hypothecated or otherwise transferred by a Nonemployee Director or other person, voluntarily or involuntarily, other than by will or the laws of descent and distribution. No person shall have any right to commute, encumber, pledge or dispose of any other interest herein or right to receive payments hereunder, nor shall such interests or payments be subject to seizure, attachment or garnishment for the payments of any debts, judgments, alimony or separate maintenance obligations or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise, all payments and rights hereunder being expressly declared to be nonassignable and nontransferable.

11.3 GOVERNING LAW. The provisions of this Plan shall be governed by construed in accordance with the laws of the State of Florida.

11.4 WITHHOLDING TAXES. To the extent that the Company is required to withhold Federal, state or local taxes in connection with any component of a Nonemployee Director's compensation in cash or Shares, and the amounts available to Company for such withholding are insufficient, it shall be a condition the receipt of any Shares that the Nonemployee Director make arrangements satisfactory to the Company for the payment of the balance of such taxes required to be withheld, which arrangement may include relinquishment of the Shares. The Company and a Nonemployee Director may also make similar arrangements with respect to payment of any other taxes derived from or related to the payment of Shares with respect to which withholding is not required.

11.5 MISCELLANEOUS. Headings are given to the sections of this Plan as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of this Plan or any provisions thereof. The use of the singular shall also include within its meaning the plural, and vice versa.

SUN HYDRAULICS CORPORATION

By: /s/ Allen J. Carlson
Allen J. Carlson, President

Exhibit 31.1

CERTIFICATION

I, Allen J. Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 2, 2005, of Sun Hydraulics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

/s/Allen J. Carlson

Allen J. Carlson
President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard J. Dobbyn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 2, 2005, of Sun Hydraulics Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

/s/Richard J. Dobbyn

Richard J. Dobbyn
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Allen Carlson, the Chief Executive Officer of Sun Hydraulics Corporation (the “Company”), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended July 2, 2005 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Allen Carlson

Chief Executive Officer
August 15, 2005

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

I, Richard J. Dobbyn, the Chief Financial Officer of Sun Hydraulics Corporation (the “Company”), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended July 2, 2005 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard J. Dobbyn

Chief Financial Officer
August 15, 2005