

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 June 30, 1997 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 [X] No [ ]

The Registrant had 6,310,002 shares of common stock, par value \$.001, outstanding as of August 8, 1997.

Sun Hydraulics Corporation  
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For the second quarter ended June 30, 1997

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&lt;/TABLE&gt;

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## PART I: FINANCIAL INFORMATION

Item 1.

Sun Hydraulics Corporation  
 CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	JUNE 30, 1997	DECEMBER 31, 1996
	(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,807	\$ 1,038
Accounts receivable, net of allowance for doubtful accounts of \$60 and \$62	5,544	3,535
Inventories	5,593	4,451
Other current assets	843	1,132
	-----	-----
Total current assets	13,787	10,156
Property, plant and equipment, net	38,924	37,212
Other assets	15	1,048
	-----	-----
Total assets	<u>\$52,726</u>	<u>\$48,416</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

## Current liabilities:

Accounts payable	\$ 2,504	\$ 3,273
Accrued expenses and other liabilities	1,923	1,961
Long-term debt due within one year	2,562	2,340
Notes payable to related parties due within one year	704	655
Dividends payable	221	508
Income taxes payable, net	1,163	461
	-----	-----
Total current liabilities	9,077	9,198
Long-term debt due after one year	6,844	12,314
Notes payable to related parties due after one year	1,544	1,909
Deferred income taxes	2,578	2,578
Other liabilities	--	20
	-----	-----
Total liabilities	20,043	26,019

Contingencies and commitments	--	--
Shareholders' equity:		
Common stock	6	2,179
Capital in excess of par value	24,092	2,719
Retained earnings	8,560	17,450
Equity adjustment for foreign currency translation	25	49
Total shareholders' equity	32,683	22,397
Total liabilities and shareholders' equity	\$52,726	\$48,416

</TABLE>

The accompanying Notes to the consolidated financial statements are an integral part of these financial statements.

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Sun Hydraulics Corporation  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED	
	JUNE 30,	
	(UNAUDITED)	
	1997	1996
	----	----
<S>	<C>	<C>
NET SALES	\$15,276	\$13,831
Cost of sales	10,444	9,125
	-----	-----
GROSS PROFIT	4,832	4,706
Selling, engineering and administrative expenses	2,849	2,929
	-----	-----
OPERATING INCOME	1,983	1,777
Interest expense	216	218
Miscellaneous expense (income)	72	(63)
	-----	-----
INCOME BEFORE INCOME TAXES	1,695	1,622
Income tax provision	616	202
	-----	-----
NET INCOME	\$ 1,079	\$ 1,420
	=====	=====
PRO FORMA INCOME DATA (NOTE 3):		
INCOME BEFORE INCOME TAXES	\$ 1,695	\$ 1,622
Pro Forma Income tax provision	616	646
	-----	-----
PRO FORMA NET INCOME	\$ 1,079	\$ 976
	=====	=====
PRO FORMA NET INCOME PER SHARE	\$ .17	\$ .15
	=====	=====

PRO FORMA AVERAGE SHARES OUTSTANDING 6,517 6,509

</TABLE>

The accompanying Notes to the consolidated financial statements are an integral part of these financial statements.

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Sun Hydraulics Corporation  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30, (UNAUDITED)		
	1997	1996	
	----	----	
<S>	<C>	<C>	
NET SALES	\$29,874	\$27,637	
Cost of sales	20,646	18,616	
	-----	-----	
GROSS PROFIT	9,228	9,021	
Selling, engineering and administrative expenses	5,566	5,594	
	-----	-----	
OPERATING INCOME	3,662	3,427	
Interest expense	368	423	
Miscellaneous expense (income)	14	(10)	
	-----	-----	
INCOME BEFORE INCOME TAXES	3,280	3,014	
Income tax provision	1,184	491	
	-----	-----	
NET INCOME	\$ 2,096	\$ 2,523	
	=====	=====	
PRO FORMA INCOME DATA (NOTE 3):			
INCOME BEFORE INCOME TAXES	\$ 3,280	\$ 3,014	
Pro Forma Income tax provision	1,184	1,200	
	-----	-----	
PRO FORMA NET INCOME	\$ 2,096	\$ 1,814	
	=====	=====	
PRO FORMA NET INCOME PER SHARE	\$ .32	\$ .28	
	=====	=====	
PRO FORMA AVERAGE SHARES OUTSTANDING	6,517	6,509	
	=====	=====	

</TABLE>

The accompanying Notes to the consolidated financial statements are an integral part of these financial statements.

Sun Hydraulics Corporation  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	EQUITY ADJUSTMENT					TOTAL
	CAPITAL IN COMMON STOCK	EXCESS OF PAR VALUE	RETAINED EARNINGS	FOR FOREIGN CURRENCY TRANSLATION		
<S> Balance, December 31, 1996	<C> \$ 2,179	<C> \$ 2,719	<C> \$ 17,450	<C> \$ 49		\$ 22,397
Net proceeds from stock offering	6	19,246		19,252		
Distributions to shareholders			(10,545)	(10,545)		
Merger with Sun Holdings (Note 2)	(2,175)	2,123			(52)	
Shares retired in stock offering	(4)	4		--		
Net income		2,096		2,096		
Dividends declared		(441)		(441)		
Adjustment for foreign currency translation			(24)	(24)		
Balance, June 30, 1997 (unaudited)	\$ 6	\$ 24,092	\$ 8,560	\$ 25		\$ 32,683

</TABLE>

The accompanying Notes to the consolidated financial statements are  
an integral part of these financial statements.

Sun Hydraulics Corporation  
Consolidated Statements of Cash Flows  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	1997 (UNAUDITED)	1996 (UNAUDITED)
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 2,096	\$ 2,523
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,852	1,723
(Increase) decrease in:		
Accounts receivable	(2,009)	(693)
Inventories	(1,142)	(178)
Other current assets	289	100
Other assets	1,033	(97)
Increase (decrease) in:		
Accounts payable	(769)	(503)
Accrued expenses and other liabilities	(38)	(47)
Income taxes payable, net	702	488
Other liabilities	(20)	25
Net cash provided by operating activities	1,994	3,341

Cash flows from investing activities:		
Capital expenditures	(3,566)	(7,568)
Proceeds from dispositions of equipment	2	--
	-----	-----
Net cash used in investing activities	(3,564)	(7,568)
	-----	-----
Cash flows from financing activities:		
Proceeds from debt	3,722	6,403
Repayment of debt	(8,970)	(2,835)
Repayment of notes payable to related parties	(316)	(280)
Proceeds from exercise of stock options	--	8
Issuance of stock options	--	79
Net proceeds from stock offering	19,252	--
Capital paid for Sun Holdings merger (Note 2)	(52)	--
Distributions to shareholders	(11,273)	(1,310)
	-----	-----
Net cash provided by financing activities	2,363	2,065
	-----	-----
Effect of exchange rate changes on cash	(24)	(57)
	-----	-----
Net increase (decrease) in cash and cash equivalents	769	(2,219)
Cash and cash equivalents, beginning of period	1,038	2,434
	-----	-----
Cash and cash equivalents, end of period	\$ 1,807	\$ 215
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest (including amounts capitalized)	\$ 616	\$ 428
Income taxes	\$ 482	\$ 3

</TABLE>

The accompanying Notes to the consolidated financial statements are an integral part of these financial statements.

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SUN HYDRAULICS CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS EXCEPT PER SHARE DATA)

1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 generally accepted accounting principles for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) with and should be read in conjunction with the combined financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed by Sun Hydraulics Corporation (the "Company") with the Securities and Exchange Commission on March 31, 1997.

2. INITIAL PUBLIC OFFERING

The consolidated financial statements of the Company consist of the financial position and results of operations of Sun Hydraulics Corporation ("Sun Hydraulics") and Sun Hydraulik Holdings Limited ("Sun Holdings"). In January 1997, Sun Hydraulics effected a 9 for 1 stock split and issued 374,811 shares of common stock and made a nominal cash payment in exchange for all of the issued and outstanding stock of Sun Holdings. Accordingly, financial statements for 1997 are on a consolidated basis, and financial statements for 1996 are on a combined basis.

The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission effective January 9, 1997, and issued 2,300,000 shares of common stock in an initial public offering ("IPO"), with an initial offering price of \$9.50. The IPO net proceeds of \$19.3 million, the exchange of shares with Sun Holdings, and the distribution of previously taxed S Corporation retained earnings are reflected in the Statement of Changes in Shareholders' Equity.

The \$19.3 million of net proceeds from the IPO were used as follows: a payment of \$9.5 million of the S Corporation distribution was made, representing 90% of the total distribution of \$10.6 million, \$7.7 million was paid to extinguish debt, and \$2.1 million was retained as working capital.

The Company has 20,000,000 authorized shares of common stock, par value \$0.001, with 6,310,002 shares outstanding. The Company also has 2,000,000 authorized shares of preferred stock, par value \$0.001, with no shares outstanding.

### 3. PRO FORMA NET INCOME AND EARNINGS PER SHARE

Pro forma net income reflects a provision for income taxes as if Sun Hydraulics had been a C Corporation for all periods presented.

The computation of pro forma earnings per share is based on the pro forma weighted average number of common shares outstanding during the period plus vested common stock equivalents, if dilutive, consisting of certain shares subject to stock options, after giving effect to the initial public offering (See Note 2). The assumed exercise of dilutive stock options less the number of treasury shares assumed to be purchased from the proceeds were calculated using the average market price for the period ended June 30, 1997.

During the first quarter of 1997, Statement on Financial Accounting Standards NO. 128 ("SFAS 128"), "Earnings per Share", was issued. SFAS 128 will be effective for the year ending December 31, 1997 and will require a restatement of previously reported earnings per share. Under SFAS 128, basic and diluted earnings per share are not expected to be significantly different from primary and fully diluted earnings per share, respectively, as calculated by the Company.

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### 4. INVENTORIES (IN THOUSANDS)

<TABLE>  
<CAPTION>

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
<S>	<C>	<C>
Raw materials	\$ 95	\$ 147
Work in process	3,850	2,758
Finished goods	1,648	1,546
	-----	-----
	\$5,593	\$4,451
	=====	=====

</TABLE>

### 5. LONG-TERM DEBT (IN THOUSANDS)

<TABLE>  
<CAPTION>

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
<S>	<C>	<C>
Lines of credit agreements, interest payable at lender's prime rate (8.25% at June 30, 1997 and December 31, 1996)	\$ 2,156	\$ 1,512

Secured equipment loan, interest only payable monthly at 8.25% at December 31, 1996	--	2,874
8.25% mortgage note payable secured by real property due in monthly principal and interest installments of \$20	--	2,355
Notes payable secured by equipment, payable in monthly principal and interest installments with interest rates varying from 4.90% to 5.60% with maturity dates from March 1996 to June 1998	10	46
Construction lines of credit at 8.25% and 6.47% converted to mortgage notes in April 1997 payable at 8.25% and 6.47% with maturities of 15 years and 12 years, respectively	7,240	7,867
	-----	-----
	9,406	14,654
Less amounts due within one year	(2,562)	(2,340)
	-----	-----
	\$ 6,844	\$ 12,314
	=====	=====

</TABLE>

In February 1997, the Company negotiated a one year, unsecured revolving credit facility. The agreement provides for a maximum availability of \$10.0 million, payable on demand at the lender's prime rate of interest. At June 30, 1997, \$2.1 million was outstanding under this credit facility.

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Item 2.

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

### OVERVIEW

The Company 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 independent distributors.

The production capacity expansion for the United States manufacturing operations which began in March 1997 was completed during the quarter. Manifold production has been relocated to the Company's new Sarasota, Florida, facility. The original Sarasota plant has been reconfigured to take advantage of the increased floor capacity for the production of cartridge valves and to establish cellular production for high volume products. Management believes that the Company now has the production capability to increase net sales levels during the second half of the year.

Net sales were \$15.3 million for the quarter ended June 30, 1997, a 6.5% increase over the first quarter of 1997. Demand during the quarter continued at approximately the same level as the prior quarter, exceeding \$18.0 million. The increase in backlog necessitated increased delivery lead times.

Management believes that recent production rates will be reflected in increased sales for the remainder of the year; however, the incremental costs of maximizing shipments to customers will continue to have a negative impact on gross profit as a percentage of sales.

Net income for the quarter ended June 30, 1997, did not increase proportionately to sales and remained at the first quarter level of approximately \$1.0 million. The disruption and costs associated with the production expansion and reconfiguration were exacerbated by the increased costs of expediting and rescheduling. In addition, the implementation of manufacturing systems in the new manifold plant and the hiring and training of new personnel adversely affected the rate of production increase at both U.S. facilities.



## COMPARISON OF THREE MONTHS ENDED JUNE 30, 1997 AND 1996

Net sales increased 10.4%, or \$1.4 million, to \$15.3 million in the three month period ended June 30, 1997, compared to \$13.8 million in the three month period ended June 30, 1996. Domestic net sales increased 2.3%, or \$0.3 million to \$9.7 million. Domestic shipments were restricted by reduced manifold production in the United States due to the move to the new plant. International net sales increased 28.0%, or \$1.2 million to \$5.6 million, reflecting a significant increase in production at the manufacturing plant in Coventry, England. European net sales increased \$0.9 million or 31.6% to \$3.7 million. Canada, Mexico and South American net sales increased \$0.1 million to \$0.8 million with Japan and Pacific Rim sales increasing \$0.2 million to \$1.1 million.

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Gross Profit increased 2.7% or \$0.1 million to \$4.8 million in the three month period ended June 30, 1997, compared to \$4.7 million in the three month period ended June 30, 1996. This increase primarily was related to the increase in net sales. Gross profit as a percentage of net sales decreased to 31.6% in the three month period ended June 30, 1997, from 34.0% for the three month period ended June 30, 1996. The decrease in the percentage of gross profit to net sales was due to increased manufacturing overhead costs related to the new facilities in the United States and Germany and production inefficiencies and start-up costs in the new manifold plant in the United States.

Selling, engineering and administrative expenses decreased 2.7% or \$0.1 million to \$2.8 million in the three month period ended June 30, 1997, compared to \$2.9 million in the three month period ended June 30, 1996. However, due to the timing of discretionary spending for marketing and other costs, such expenses for the three months ended June 30, 1996, were unusually high. Selling, engineering and administrative expenses as a percentage of sales decreased to 18.7% in the three month period ended June 30, 1997, compared to 21.2% in the three month period ended June 30, 1996.

Interest expense was \$0.2 million for the three month period ended June 30, 1997, approximately the same expense as the period ended June 30, 1996. Miscellaneous expense for the period ended June 30, 1997 was primarily due to exchange losses in Germany.

The provision for income taxes in the three month period ended June 30, 1997, was 36.3% of pretax income compared to 39.8% of pro forma pretax income in the three month period ended June 30, 1996. The decrease in the effective tax rate was due to the change in the source of pretax income among the Company's three operations in the United States, the United Kingdom and Germany.

Net income for the three month period ended June 30, 1997, increased to \$1.1 million, or 10.6% over the three month period ended June 30, 1996, primarily as a result of the foregoing factors.

## COMPARISON OF SIX MONTHS ENDED JUNE 30, 1997 AND 1996

Net sales increased 8.1%, or \$2.2 million, to \$29.9 million in the six month period ended June 30, 1997, compared to \$27.6 million in the six month period ended June 30, 1996. Domestic net sales increased 3.1%, or \$0.6 million to \$19.0 million. Net sales were restricted in the United States by production constraints and demand was substantially higher than shipments. International net sales increased 18.1%, or \$1.7 million to \$10.9 million. European net sales increased \$0.9 million or 14.0% to \$7.1 million. Canada, Mexico and South American net sales increased \$0.3 million to \$1.5 million with Japan and Pacific Rim sales increasing \$0.5 million to \$2.3 million.

Gross Profit increased 2.3% or \$0.2 million to \$9.2 million in the six month period ended June 30, 1997, compared to \$9.0 million in the six month period ended June 30, 1996. This increase is primarily related to the increase in net sales. Gross profit as a percentage of net sales decreased to 30.9% in the six month period ended June 30, 1997 from 32.6% for the six month period ended June 30, 1996. The decrease in the percentage of gross profit to net sales was due to increased manufacturing overhead costs related to the new facilities in the United States and Germany and production inefficiencies and start-up costs in the new manifold plant in the United States.

Selling, engineering and administrative expenses were \$5.6 million for the six month period ended June 30, 1997, approximately the same expense as the six month period ended June 30, 1996. However, due to the timing of discretionary spending for marketing and other costs, such expenses for the three months ended June 30, 1996, were unusually high. Selling, engineering and administrative expenses as a percentage of sales decreased to 18.6% in the six month period ended June 30, 1997 compared to 20.2% in the six month period ended June 30, 1996.

Interest expense was \$0.4 million for the six month period ended June 30, 1997, approximately the same expense, as the period ended June 30, 1996.

The provision for income taxes in the six month period ended June 30, 1997, was 36.1% of pretax income compared to 39.8% of pro forma pretax income in the six month period ended June 30, 1996. The decrease in the effective tax rate primarily was due to the change in the source of pretax income among the Company's three operations in the United States, the United Kingdom and Germany.

Net income for the six month period ended June 30, 1997, increased to \$2.1 million, or 15.5% over the six month period ended June 30, 1996, primarily as a result of the foregoing factors.

#### LIQUIDITY AND CAPITAL RESOURCES

In January 1997, the Company received \$20.3 million of gross proceeds from its initial public offering of common stock. Net proceeds after expenses were approximately \$19.3 million. In January 1997, approximately 90% or \$9.5 million of the S Corporation distribution was paid and the balance of \$1.0 million was paid in May 1997. Also in January 1997, the capital equipment loan balance of \$2.9 million and the mortgage balance of \$2.4 million on the original United States facility were paid in full. In March 1997, \$1.0 million was paid to reduce the mortgage on the new plant in the United States to a balance of \$5.2 million. In February and March 1997, \$1.4 million was used to repay the entire revolving line of credit in the United States.

In February 1997, the Company negotiated a \$10.0 million unsecured revolving credit facility with a term of one year and an interest rate equal to the bank lender's prime rate. This replaced a \$1.7 million revolving line of credit, which had been secured by the Company's inventories and accounts receivable. At June 30, 1997, \$2.1 million had been drawn down under this credit facility.

Cash generated from operations in the six month period ended June 30, 1997, was \$2.0 million compared to \$3.3 million in the six month period ended June 30, 1996. The cash flow reduction reflected an increase in inventory of \$1.1 million to provide for higher volume shipments and the various production moves and an accounts receivable increase of \$2.0 million as a result of a higher shipment level at the end of the second quarter.

Capital expenditures in the six-month period ended June 30, 1997, were \$3.6 million. This was comprised of \$1.4 million related to the construction of the new facilities in the United States and Germany and \$2.2 million spent for machinery and equipment.

The Company believes that cash generated from operations and its borrowing availability under the \$10 million revolving line of credit will be sufficient to satisfy the Company's operating expenses and capital expenditures for the foreseeable future.

The Company declared a dividend of \$.035 per share to shareholders of record on March 31, 1997, which was paid on April 15, 1997. The Company also declared a dividend of \$.035 per share to shareholders of record July 3, 1997, which was paid on July 15, 1997.

#### SEASONALITY AND INFLATION

The Company experiences reduced activity during the fourth quarter of the year, largely as a result of fewer working days due to holiday shutdowns.

The Company does not believe that inflation had a material effect on its operations for the six months ended June 30, 1997 and June 30, 1996. There can be no assurance, however, that the Company's business will not be affected by inflation in the future.

#### 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 "Risk Factors" in the Form S-1 Registration Statement and Prospectus for the

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Company's initial public offering, and "Business" in the Company's Form 10-K for the year ended December 31, 1996. 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.

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#### PART II OTHER INFORMATION

Item 1. Legal Proceedings.  
None.

Item 2. Changes in Securities.  
None.

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 21, 1997. At the meeting, the following actions were taken by the shareholders:

1. Arthur B. Bodley was reelected as a Director to serve until the Annual Meeting in 1998, and Robert E. Koski and James G. March were reelected to serve until the Annual Meeting in 2000, and until their successors are elected and qualified or until their earlier resignation, removal from office or death. The votes cast for and against each were as follows:

<TABLE>

<CAPTION>

	For ---	Withheld -----
<S>	<C>	<C>
Arthur B. Bodley	5,817,156	7,495
Robert E. Koski	5,822,016	2,635
James G. March	5,822,016	2,635

</TABLE>

2. The appointment of Price Waterhouse, LLP, as the Company's independent certified public accountants for the year 1997 was ratified and approved. The voting on the proposal was as follows:

FOR	5,726,637
AGAINST	93,364
ABSTAIN	4,650

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<TABLE>

<CAPTION>

EXHIBIT

NUMBER

EXHIBIT DESCRIPTION

-----  
<S>    <C>

- 3.1\* Amended and Restated Articles of Incorporation of the Company (previously filed as Exhibit 3.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).
- 3.2\* Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).
- 4.1\* Revolving Credit Agreement, dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida/Sarasota, N.A. (previously filed as Exhibit 4.1 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
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11.1 Statement regarding Computation of Earnings Per Share.

27.1 Financial Data Schedule for quarter ended June 30, 1997. (For SEC purposes only)

</TABLE>

-----  
\* Previously filed.

+ Executive management contract or compensatory plan or arrangement.

## (b) Reports on Form 8-K

Report on Form 8-K dated June 23, 1997, announcing a \$0.035 per share dividend on its common stock payable on July 15, 1997, to shareholders of record on July 3, 1997, and reporting comments made by management at the Registrant's annual shareholders' meeting held on June 21, 1997.

## 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 13, 1997.

## SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

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

## EXHIBIT INDEX

<TABLE>  
 <CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
-----	-----
<S>   <C>	

- |      |   |
|------|---|
| 3.1* | Amended and Restated Articles of Incorporation of the Company (previously filed as Exhibit 3.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).                                   |
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27.1 Financial Data Schedule for quarter ended June 30, 1997. (For SEC purposes only)

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EXHIBIT 10.4

SUN HYDRAULICS CORPORATION  
AMENDMENT NO. 1 TO  
1996 STOCK OPTION PLAN

WHEREAS, SUN HYDRAULICS CORPORATION, a Florida corporation (the "Company"), sponsors the Sun Hydraulics Corporation 1996 Stock Option Plan (the "Plan"); and

WHEREAS, Section 19 of the Plan provides that the Plan may be amended by the Board of Directors (the "Board") of the Company; and

WHEREAS, the Board has determined that it is in the best interest of the Company and its stockholders to amend the Plan, effective as of February 24, 1997, in the manner contemplated below;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 15 of the Plan is amended by deleting the phrase "three (3) months" in the first paragraph of Section 15 regarding death of an optionee and replacing it with the following:

"twelve (12) months"

2. This Amendment shall be effective as of February 24, 1997. Except as otherwise amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, being the duly elected and authorized Secretary of the Company, hereby certifies that this Amendment No. 1 to 1996 Stock Option Plan was legally and validly approved by the Board of Directors of the Company on February 24, 1997.

SUN HYDRAULICS CORPORATION

By: /s/ Gregory C. Yadley

-----  
Gregory C. Yadley, Secretary

Statement regarding Computation of Per Share Earnings  
(in thousands, except per share data)

EXHIBIT 11.1

<TABLE>  
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	Six months ended June 30	
	1997	1996
	-----	-----
<S>	<C>	<C>
PRIMARY		
Net income (Note 3)	\$2,096	\$1,814
	=====	=====
Weighted average shares outstanding	6,517	6,509
Primary EPS	\$ .32	\$ .28
	=====	=====
FULLY DILUTED		
Net income (Note 3)	\$2,096	\$1,814
	=====	=====
Weighted average shares outstanding	6,523	6,488
Fully diluted EPS	\$ .32	\$ .28
	=====	=====

</TABLE>

The treasury stock method was used in the calculation of the average shares outstanding for EPS. The denominator includes the shares outstanding during the year plus the number of shares from assumed exercise of all vested outstanding stock options less the number of treasury shares that would be repurchased from the proceeds of such exercise. For primary EPS, the average stock price for the year is used; in the calculation for fully diluted EPS, the quarter end stock price is used. For the periods presented, the number of shares issued in the initial public offering are also included in the denominator as though the shares had been outstanding since the beginning of each year, in accordance with Regulation S-X, Article 11.

<TABLE> <S> <C>

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF THE REGISTRANT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1>NET OF ALLOWANCE FOR DOUBTFUL AMOUNTS OF \$60.

<F2>NET OF ACCUMULATED DEPRECIATION OF \$15,873.

</FN>

</TABLE>