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

<TABLE>
<S> <C>

For the quarterly period ended April 3, 1999	Commission file number 0-21835

</TABLE>

SUN HYDRAULICS CORPORATION
(Exact Name of Registration as Specified in its Charter)
- --

<TABLE>
<S> <C>

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)

</TABLE>

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 6,383,148 shares of common stock, par value $.001, outstanding as of May 13, 1999.

Sun Hydraulics Corporation
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For the first quarter ended April 3, 1999

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PART I: FINANCIAL INFORMATION
Item 1.

SUN HYDRAULICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
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	APRIL 3, 1999 (UNAUDITED)	DECEMBER 31, 1998
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,715	$ 1,592
Accounts receivable, net of allowance for doubtful accounts of $173 and $169	5,713	5,342
Inventories	7,639	8,125
Other current assets	914	891
	-------	-------
Total current assets	15,981	15,950
Property, plant and equipment, net	44,128	44,003
Investment in joint venture	212	246
Other assets	788	820
	-------	-------
Total assets	$61,109	$61,019
	=======	=======
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,896	$ 2,877
Accrued expenses and other liabilities	1,777	2,065
Long-term debt due within one year	4,395	4,302
Notes payable to related parties due within one year	340	578
Dividends payable	255	254
Income taxes payable	529	245
	-------	-------
Total current liabilities	9,192	10,321
Long-term debt due after one year	7,099	6,461
Notes payable to related parties due after one year	571	566

Deferred income taxes	3,633	3,656
	-------	-------
Total liabilities	20,495	21,004
	-------	-------
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock	--	--
Common stock	6	6
Capital in excess of par value	24,473	24,386
Retained earnings	15,830	15,363
Accumulated other comprehensive income	305	260
	-------	-------
Total shareholders' equity	40,614	40,015
	-------	-------
Total liabilities and shareholders' equity	$61,109	$61,019
	=======	=======

</TABLE>

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

SUN HYDRAULICS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED	
	APRIL 3, 1999	MARCH 31 1998
	----	----
	(UNAUDITED)	
<S>	<C>	<C>
NET SALES	$18,465	$19,133
Cost of sales	13,945	13,347
	-------	-------
GROSS PROFIT	4,520	5,786
Selling, engineering and administrative expenses	3,092	3,014
	-------	-------
OPERATING INCOME	1,428	2,772
Interest expense	253	260
Miscellaneous (income) expense	63	43
	-------	-------
INCOME BEFORE INCOME TAXES	1,112	2,469
Income tax provision	355	829
	-------	-------
NET INCOME BEFORE EQUITY LOSS IN JOINT VENTURE	757	1,640
Equity loss in joint venture	34	--
	-------	-------
NET INCOME	$ 723	$ 1,640
	=======	=======
BASIC NET INCOME PER COMMON SHARE	$ 0.11	$ 0.26

WEIGHTED AVERAGE SHARES OUTSTANDING	6,367	6,325
DILUTED NET INCOME PER COMMON SHARE	$ 0.11	$ 0.25
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	6,520	6,499

</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
AND COMPREHENSIVE INCOME
(IN THOUSANDS)

<TABLE>
<CAPTION>

	SHARES	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1996	4,000	$ 2,179	$ 2,719	$17,450	$ 49	$22,397
Net proceeds from stock offering	2,300	2	19,250			19,252
Distributions to shareholders				(10,545)		(10,545)
Dividends declared				(883)		(883)
Merger with Sun Holdings (Note 2)		(2,175)	2,123			(52)
Exercise of stock options	22		71			71
Comprehensive income:						
Net income				4,710		4,710
Other comprehensive income:						
Foreign currency translation adjustments					50	50

Comprehensive income						4,760
	-----	-------	-------	-------	----	-------
Balance, December 31, 1997	6,322	6	24,163	10,732	99	35,000
Dividends declared				(1,016)		(1,016)
Exercise of stock options	39		223			223
Comprehensive income:						
Net income				5,647		5,647
Other comprehensive income:						
Foreign currency translation adjustments					161	161

Comprehensive income						5,808
	-----	-------	-------	-------	----	-------
Balance, December 31, 1998	6,361	6	24,386	15,363	260	40,015
Dividends declared				(256)		(256)
Exercise of stock options	22		75			75
Tax effect of non-qualified stock options			12			12
Comprehensive income:						
Net income				723		723
Other comprehensive income:						
Foreign currency translation adjustments					45	45

Comprehensive income						768
	-----	-------	-------	-------	----	-------
Balance, April 3, 1999 (unaudited)	6,383	$ 6	$24,473	$15,830	$305	$40,614
	=====	=======	=======	=======	====	=======

</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>

	THREE MONTHS ENDED APRIL 3, 1999	MARCH 31 1998
	(UNAUDITED)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 723	$ 1,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,199	1,127
Provision for deferred income taxes	(11)	--
(Increase) decrease in:		
Accounts receivable	(371)	(1,617)
Inventories	486	272
Other current assets	(23)	200
Other assets	66	(27)
Increase (decrease) in:		
Accounts payable	(981)	283
Accrued expenses and other liabilities	(288)	(135)
Income taxes payable, net	284	875
Other liabilities	--	--
Net cash provided by operating activities	1,084	2,618
Cash flows from investing activities:		
Capital expenditures	(1,354)	(1,521)
Proceeds from dispositions of equipment	30	--
Net cash used in investing activities	(1,324)	(1,521)
Cash flows from financing activities:		
Proceeds from debt	3,862	2,182
Repayment of debt	(3,131)	(1,312)
Repayment of notes payable to related parties	(233)	(179)
Proceeds from exercise of stock options	75	12
Dividends to shareholders	(255)	(221)
Net cash provided by financing activities	318	482
Effect of exchange rate changes on cash and cash equivalents	45	139
Net increase in cash and cash equivalents	123	1,718
Cash and cash equivalents, beginning of period	1,592	1,249
Cash and cash equivalents, end of period	$ 1,715	$ 2,967
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest (including amounts capitalized)	$ 301	$ 265
Income taxes	$ 82	$ (46)
Non-cash tax effect of non-qualified stock options	$ 12	$ --

</TABLE>

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

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) 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 31, 1998, filed by Sun Hydraulics Corporation (the "Company") with the Securities and Exchange Commission on March 30, 1999.

2. BUSINESS

Sun Hydraulics Corporation and its wholly-owned subsidiaries (the "Company"), 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, and Korea. Sun Hydraulics Corporation ("Sun Hydraulics"), with its main offices located in Sarasota, Florida, designs, manufactures and sells through independent distributors in the United States. Sun Hydraulik Holdings Limited ("Sun Holdings"), a wholly-owned subsidiary of the Company, was formed to provide a holding company vehicle 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, "GmbH"). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England and GmbH, located in Erkelenz, Germany, markets the Company's products in German-speaking European markets. Sun Hydraulics Korea Corporation ("Sun Korea"), a wholly-owned subsidiary of the Company, was acquired September 28, 1998, (see Note 4). Sun Korea, located in Inchon, South Korea, operates a manufacturing and distribution facility.

3. ACQUISITION AND JOINT VENTURE

On September 28, 1998, Sun Hydraulics acquired 100% of the equity shares of Korea Fluid Power Co. Ltd. ("KFP"), which had been the Company's exclusive distributor in South Korea since 1988. This wholly-owned subsidiary's name was changed to Sun Hydraulics Korea Corporation in January 1999. The acquisition price paid by the Company was $860. The amounts paid in excess of the net book value have been capitalized as goodwill, and are amortized over a period of 15 years. Goodwill is recorded under other assets in the Company's financial statements, and was $547, net of amortization as of April 3, 1999.

On November 1, 1998, Sun Hydraulics entered into a 50/50 joint venture agreement ("joint venture") with Links Lin, the owner of Sun Hydraulics Corporation's Taiwanese distributor. This agreement provides for an initial capital contribution of $250, which is recorded in Investment in joint venture in the Company's financial statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that all costs incurred in start-up activities be expensed as incurred. Start-up activities include the costs associated with one-time activities related to opening a new facility, introducing a new product or service, conducting business with a new class of customer or initiating a new process in an existing facility. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. The Company's organization cost of $41 related to the acquisition of Sun Korea was written off as administrative expense in the first quarter of 1999.

5. LONG-TERM DEBT (in thousands)

<TABLE>
<CAPTION>

<S>	April 3, 1999 (unaudited) <C>	December 31, 1998 <C>
Lines of credit agreements	$ 4,017	$ 3,974
Secured notes payable-Korea	55	177
Mortgage note payable-U.S. Manatee County facility	4,830	4,864
Mortgage note payable-German facility	1,571	1,748
Secured notes payable-German equipment	1,021	--
	-------	-------
	11,494	10,763
Less amounts due within one year	(4,395)	(4,302)
	-------	-------
	$ 7,099	$ 6,461
	=======	=======

</TABLE>

The Company has three revolving lines of credit: one in the United States, one in England, and one in Germany. None of these arrangements contain pre-payment penalties.

The United States has a revolving credit facility which provides for a maximum availability of $10,000, payable on demand at the lender's prime rate of interest, and contains no debt covenants. In February 1999, the Company renegotiated this unsecured credit facility for an additional one year term and an interest rate equal to the bank lender's prime rate less 1%, or LIBOR plus 1.9% for predetermined periods of time at the Company's option. At April 3, 1999, the interest rate was 6.75%, and $4,000 was outstanding under this credit facility.

In England, the Company has a $1,200 line of credit, denominated in British pounds, which bears interest at a floating rate equal to 2.25% over the bank's base rate and is payable on demand. At April 3, 1999, there was no balance outstanding on this credit facility.

The German line of credit is a demand note denominated in German marks with interest payable at the lender's prime rate. At April 3, 1999, the interest rate was 8.5%, and $17 was outstanding under this credit facility.

Sun Korea has various notes denominated in Korean Won, and secured by property, plant and equipment, with interest payable at fixed rates ranging from 6% to 6.5% and maturities ranging from February 1999 to March 2005. At April 3, 1999, $55 was outstanding under these credit facilities.

A 10-year mortgage loan of $6,187 was obtained at a fixed interest rate of 8.25% for construction of the Manatee County facility. Terms on the construction note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year mortgage note with a 15-year amortization schedule. The Company applied $1,000 of the IPO proceeds toward repayment of this note. In February 1998, this mortgage note was renegotiated to an interest rate of 7.875%. Effective April 1999, this mortgage note will have an interest rate of 7.375%. Terms are monthly principal and interest payments of $43 for 8.25 years with remaining principal due July 1, 2006. At April 3, 1999, $4,830 was outstanding under this mortgage note.

In May 1996, the Company obtained a mortgage loan of approximately $2,400, denominated in German marks, for the new facility in Erkelenz, Germany. The loan has a term of 12 years and bears interest at 6.47%. At April 3, 1999, $1,571 was outstanding under this mortgage note.

In February 1999, the Company negotiated three loans in Germany, secured by equipment, a ten year 5.1% fixed interest rate loan for approximately $300, a ten year 5.1% fixed interest rate loan for approximately $100, and a ten year 3.5% fixed interest rate loan for approximately $800. At April 3, 1999, the outstanding balance on these facilities was $275, $0, and $746, respectively.

6. SEGMENT REPORTING

In 1998, the Company adopted Statement of Accounting Standards No. 131, "Disclosures about Segments of Enterprise and Related Information" ("SFAS 131"). SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach of determining reportable segments of an organization. The management approach designates the internal organization that is used by management for making operational decisions and addressing performance as the source of determining the Company's reportable segments. Management bases its financial decisions by the geographical location of its operations.

The individual subsidiaries comprising the Company operate predominantly in a single industry as manufacturers and distributors of hydraulic components. The subsidiaries are multinational with operations in the United States, the United Kingdom, Germany, and Korea. In computing earnings from operations for the foreign subsidiaries, no allocations of general corporate expenses, interest or income taxes have been made.

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:

<TABLE>
<CAPTION>

	United States	Korea	United Kingdom	Germany	Elimination	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>
March 31, 1998						
Sales to unaffiliated customers	$14,817	-	$3,096	$1,220	$ -	$19,133
Intercompany sales	1,730	-	575	17	(2,322)	-
Operating profits	2,008	-	645	99	20	2,772
Identifiable assets	44,125	-	8,366	4,287	(105)	56,673
Depreciation expense	913	-	168	46	-	1,127
Capital expenditures	1,135	-	372	14	-	1,521
April 3, 1999						
Sales to unaffiliated customers	$13,542	$722	$2,784	$1,417	$ -	$18,465
Intercompany sales	1,698	-	598	7	(2,303)	-
Operating profits	718	28	453	143	86	1,428
Identifiable assets	46,214	218	9,740	5,117	(180)	61,109
Depreciation expense	916	-	201	82	-	1,199
Capital expenditures	616	(17)	455	300	-	1,354

</TABLE>

Total liabilities attributable to foreign operations were $5,376, and $4,210, at April 3, 1999, and March 31, 1998, respectively. Net foreign currency gains (losses) reflected in results of operations were $17 and $50 for the periods ended April 3, 1999, and March 31, 1998, respectively. Operating profit is total sales and other operating income less operating expenses. In computing segment operating profit, interest expense and net miscellaneous income (expense) have not been deducted (added).

Included in U.S. sales to unaffiliated customers were export sales, principally to Canada and Asia, of $1,617, and $1,760, during the period ended April 3, 1999, and March 31, 1998, respectively.

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.

National Fluid Power Association reports indicate that the United States hydraulic industry's first quarter orders were down 9.8%, and shipments were down 7.9% compared to the same period in 1998. The order slowdown is a result of depressed markets for agricultural equipment, softening markets for construction equipment, and a marked slowdown in spending for capital equipment.

The Company's orders in the first quarter of 1999 were $17.4 million, a decrease of $0.3 million, or 1.5%, from the fourth quarter of 1998, as expected, and a $1.3 million decrease, or 7.1%, from the first quarter of 1998. The decrease in orders from the first quarter of 1998 was due primarily to a decrease in domestic orders of 13.8%. United States distributors' inventories at the end of the first quarter of 1999 were approximately the same as the end of the fourth quarter of 1998. However, management believes the United States distributors started reducing their inventories in the second quarter.

Net sales in the first quarter exceeded management's expectations, reflecting a further reduction in backlog. Net sales for the first quarter of 1999 were $18.5 million, an increase of $1.0 million, or 5.5%, from the fourth quarter of 1998, and a decrease of $0.7 million, or 3.5%, from the first quarter of 1998. The Company changed to a 52-week reporting period at the beginning of the year, and therefore, had two additional production days in the first quarter of 1999 that contributed to net sales. Operating income for the first quarter of 1999 was 10.2% higher than the fourth quarter of 1998 and decreased 48.5% compared to the first quarter of 1998. The decrease from the first quarter of 1998 was due to unfavorable product mix, production start-up costs, and lower net sales spread over a higher fixed cost base.

The Company began conversion to an integrated software system for its Sarasota facility operations in May 1999. This system conversion process reduced productivity in the United States operation in the quarter ended April 3, 1999, and management believes the actual implementation in the second quarter will continue to degrade productivity. The Company is also in the process of implementing a new software system for its Coventry, England, operation. As with any system conversion, there can be no assurances that the timing of the conversions will be met precisely and that the conversion process will not adversely impact operating results.

Prototype production of manifolds in the German plant commenced in the first quarter of 1999, and increased production of aluminum manifolds for the German market will continue in the second quarter. Local production in the German market is expected to provide significantly improved market support and timely product deliveries.

As of March 1999, Sun Hydraulics Systems (Shanghai) Co. Ltd. had equipment in place to begin production of steel and ductile iron manifolds. Although production in China will begin in the second quarter of 1999, at this time the Company does not expect any immediate material contribution to operating results.

The Company introduced its new electrically actuated cartridge valve product line (solenoid valves), in April 1999 at the Hannover Fair in Germany. Pilot production of solenoid products began in the United States in the first quarter of 1999. As the Company continues to increase production capacity for these products in the United States, it is also evaluating possible solenoid valve assembly at the German plant for delivery to support the European market. The solenoid valve product line allows the Company to serve a new, larger market that is currently addressed by most of its competitors.

Production capacity plans call for the relocation of the high-volume cartridge production cell from the Sarasota facility to the Manatee facility by year end. An additional fully automated assembly machine and other equipment will be added to the cell. A second heat treat operation will be added at the Manatee facility by year-end, effectively doubling the Company's heat treat capacity. The space created at the Sarasota plant by the relocation of the cell will permit a new layout of production processes which management believes will improve productivity as well as increase capacity.

COMPARISON OF THREE MONTHS ENDED APRIL 3, 1999 AND MARCH 31, 1998

Net sales decreased 3.5%, or $0.7 million, to $18.5 million in the quarter ended April 3, 1999, compared to $19.1 million in the quarter ended March 31, 1998. United States operations net sales decreased 8.6%, or $1.3 million, in the first quarter of 1999, compared to the first quarter of 1998. This decrease was due primarily to a 31.1%, or $1.2 million decrease in net sales of the manifold product line in the United States. The cartridge valve product line net sales in the United States for the first quarter of 1999 were slightly below the first quarter of 1998. The Company believes that a significant portion of manifold net sales in the first quarter of 1998 represented prior period orders, and reflected "production catch-up" and a large reduction in backlog. United Kingdom operations net sales decreased 10.1%, or $0.3 million, and German operations increased 16.1%, or $0.2 million, in the first quarter of 1999, compared to the first quarter of 1998. The net sales of the Korean operation acquired on September 28, 1998 were $0.7 million.

Gross profit decreased 21.9%, or $1.3 million, to $4.5 million in the quarter ended April 3, 1999, compared to $5.8 million in the quarter ended March 31, 1998. Gross profit as a percentage of net sales was 24.5% for the first quarter of 1999, compared to 30.2% for the first quarter of 1998. The decrease in gross profit as a percentage of net sales was mainly due to a change in product mix, decreased productivity, and lower sales spread over a higher fixed cost base in the United States operation. The decrease in manifold product line net sales in the United States adversely affected the gross profit because these products have a higher margin after variable costs than cartridge valve products. Additionally, cartridge valve product line net sales in the United States in the first quarter of 1999 included a higher content of the new Series '0' products, which are still in a start-up mode. Productivity declined due to start-up of solenoid valve production and training related to new software implementation. Lower net sales in the United States had to cover a base of fixed costs or manufacturing overhead, which increased 7.6% from the same quarter last year, largely due to direct wages and related costs.

Selling, engineering and administrative expenses increased 2.6%, to $3.1 million in the quarter ended April 3, 1999, compared to $3.0 million in the quarter ended March 31, 1998. The increase was due to the addition of Korean operations and increased wages offset by lower advertising and catalogue costs. Selling, engineering and administrative expenses as a percentage of net sales increased to 16.7% from 15.8% for the same period last year with a 3.5% decrease in net sales.

Interest expense was $0.3 million for the quarter ended April 3, 1999, approximately the same as the quarter ended March 31, 1998. Miscellaneous expense for the quarter ended April 3, 1999, was approximately the same as the quarter ended March 31, 1998.

The provision for income taxes in the quarter ended April 3, 1999, was 31.9% of pretax income compared to 33.6% of pretax income in the quarter ended March 31, 1998. This decrease in rate was due primarily to the change in mix of pretax income among the Company's four operating units in Germany, Korea, the United Kingdom and the United States. Tax savings were realized in the United States from the Sun Hydraulics Foreign Sales Corporation and in Korea from provisions of local law which provide newly established companies with an initial tax abatement.

Net income decreased to $0.7 million, representing 3.9% of net sales, for the quarter ended April 3, 1999, compared to $1.6 million, representing 8.6% of net sales for the quarter ended March 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary source of capital has been cash generated from operations, although short-term fluctuations in working capital requirements have 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.

At April 3, 1999, the Company had working capital of $6.8 million. Cash flow from operations for the quarter ended April 3, 1999 decreased $1.5 million, to $1.1 million, compared to $2.6 million for the quarter ended March 31, 1998. Approximately, $0.9 million was due to the decrease in net income. Net cash used in investing activities for the quarter ended April 3, 1999, was $1.3 million compared to $1.5 million for the quarter ended March 31, 1998.

The Company has three revolving lines of credit: one in the United States, one in England, and one in Germany. None of these arrangements contain pre-payment penalties.

In February 1999, the Company renegotiated its one-year, unsecured revolving credit facility in the United States. The credit facility provides for a maximum availability of $10.0 million, payable on demand and does not contain any debt covenants. The interest rate is equal to the bank lender's prime rate less 1% or LIBOR plus 1.9% for predetermined periods of time, at the Company's option. At April 3, 1999, there was $4.0 million outstanding under this credit facility.

A 10-year mortgage loan of $6.2 million was obtained by the Company in May 1996, at a fixed interest rate of 8.25%, for construction of the Manatee County facility in Sarasota, Florida. Terms on the new mortgage note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year note with a 15-year amortization

schedule. In May 1999, this mortgage note was renegotiated to an interest rate of 7.375%. Terms are monthly principal and interest payments with remaining principal due July 1, 2006. At April 3, 1999, $4.8 million was outstanding on this facility.

The Company has notes payable to five former shareholders that bear interest at a weighted rate of 15% and have terms expiring in one to four years. These notes were issued by the Company in 1989 and 1990, in connection with the repurchase of shares of common stock from former shareholders and do not allow for prepayment by the Company. At April 3, 1999, $0.9 million was outstanding under these notes.

In 1996, the Company was awarded a grant of $0.4 million by the German government, which helped to offset the cost of the German facility. This grant requires that the German operation have employed 26 people by June 30, 1998. This deadline has been extended until September 30, 1999, and if the requirement is not met, 50% of the grant plus interest will have to be repaid. This amount has been recorded as a deferred grant. Therefore, the repayment of the $0.2 million would affect only cash and would have no effect on net income.

In Korea, the Company has various secured notes, denominated in Korean Won, and secured by property, plant and equipment, with interest payable at rates ranging from 6% to 6.5% and maturities ranging from December 1998 to March 2005. At April 3, 1999, $0.1 million was outstanding under these credit facilities.

In February 1999, the Company negotiated three loans in Germany, secured by equipment, a ten year 5.1% fixed interest rate loan for approximately $0.3 million, a ten year 5.1% fixed interest rate loan for approximately $0.1 million, and a ten year 3.5% fixed interest rate loan for approximately $0.8 million. At April 3, 1999, the outstanding balance on these facilities was $1.0 million.

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

The Company declared a quarterly dividend of $0.04 per share to shareholders of record on March 31, 1999, which was paid on April 15, 1999.

YEAR 2000 READINESS DISCLOSURE

Management continues to evaluate the issues associated with the year 2000 in an effort to minimize the impact of the millennium date change on its business operations, information technology systems, and production infrastructure. In general, these issues arise from the fact that many existing computer systems, including hardware, software and embedded technology, only use the last two digits to refer to a year. Accordingly, many of these computer systems will not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, these computer systems could fail or create erroneous results.

The Company has established the following four-phased approach to address the year 2000 issue: (1) assessment, (2) testing, (3) renovation and (4) validation. With regard to its internal operations, the assessment phase consist of (i) the inventory of all systems, including hardware, software and embedded systems (such as the Company's CNC equipment) in all of Company's locations, (ii) the identification of all critical applications, and (iii) the collection of

all internal source codes. Other than with regard to its embedded systems, this phase is now substantially completed. The Company anticipates full completion, including assessment of its embedded systems, by the end of the second quarter of 1999.

With regard to its external relationships, the assessment phase includes surveying the Company's material suppliers, distributors, and customers to determine the potential exposure to the Company if such parties fail to correct their year 2000 issues in a timely manner. The Company has now received responses to approximately seventy percent of its third party questionnaires. The Company anticipates the completion of this external assessment by the end of the fourth quarter of 1999.

The Company is currently testing all critical applications for year 2000 readiness and anticipates completion of this testing by the second quarter of 1999. The Company defines "year 2000 ready" to mean that neither the performance nor functionality of any of its critical systems, including both information technology and non-information technology systems, will be materially affected by dates prior to, during and after the year 2000. While testing continues, the Company has entered its renovation phase by replacing the computer systems in its United States Sarasota facility and by commencing replacement of the computer system in the United Kingdom operation with "enterprise manufacturing systems" that, according to representations made by the systems' manufacturers, are currently year 2000 ready. The Company believes that its other three locations' systems are year 2000 ready. The final phase of the Company's year 2000 readiness plan is a validation phase, during which upgraded systems will be re-tested.

The Company anticipates all phases of its year 2000 readiness plan, including the validation phase, to be completed by the end of the fourth quarter of 1999. However, there can be no assurance that these deadlines will be met or precisely when the Company will be year 2000 ready.

The Company has not yet obtained information sufficient to quantify the potential effects of possible internal and external year 2000 non-compliance so as to determine the likely worst-case scenarios or to develop contingency plans to deal with such scenarios. However, a significant interruption in the company's business due to a year 2000 non-compliance issue could have a material adverse effect on the Company's financial position, operations, and liquidity. Also, there can be no assurance that the systems of other companies on which the Company relies will be timely converted or that any such failure to convert by another company will not have an adverse effect on the Company's operations. While the Company intends to develop appropriate contingency plans prior to the end of the fourth quarter of 1999, there can be no assurances that the Company's contingency plans, once developed, will substantially reduce the risk of year 2000 non-compliance.

The Company estimates that the total costs of its year 2000 project will be approximately $0.9 million, including costs totaling $0.7 million incurred through April 3, 1999. These expenditures are being funded through operating cash flows. Although there can be no assurances thereof, the estimated costs of the year 2000 project are not expected to have a material impact on the Company's business, operations or financial condition in future periods.

SEASONALITY AND INFLATION

The Company generally has experienced 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 periods ended April 3,

1999, and March 31, 1998. There can be no assurance, however, that the Company's business will not be affected by inflation in the future.

EURO

On January 1, 1999, eleven member countries of the European Union established fixed conversion rates between their national currencies and the "euro," which will ultimately result in the replacement of the currencies of these participating countries with the euro (the "Euro Conversion"). The Company is currently assessing the potential impact of the Euro Conversion and has initiated an internal analysis to plan for the conversion and implement remediation measures. The Company's analysis will encompass the costs and consequences of incomplete or untimely resolution of any required systems modifications, various technical and operational challenges and other risks including possible effects on the Company's financial position and results of operations. Costs associated with the Euro Conversion are being expensed by the Company during the period in which they are incurred and are not currently anticipated to be material. The Company presently believes that, with remediation measures, any material risks associated with the Euro Conversion can be mitigated.

ITEM 7A. 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. At April 3, 1999, the Company had approximately $4.0 million in variable-rate debt outstanding and, as such, the market risk is immaterial based upon a 10% increase or decrease in interest rates. The Company manages this risk by selecting debt financing at its U.S. bank lender's prime rate less 1%, or the Libor rate plus 1.9%, whichever is the most advantageous.

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; (vi) the Company's Year 2000 readiness plans and costs; and (vii) 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; (vi) the Company's ability timely to become Year 2000 ready, including the Company's ability to identify all critical systems that will be impacted by the Year 2000, the Company's ability, in a cost-efficient manner, to correct, upgrade or replace such systems, and the Year 2000 readiness of third parties with which the Company has material relationships; and (vii) 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 Company's initial public offering, "Business" in the Company's Form 10-K for the year ended December 31, 1998, and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the Form 10-Q for the quarter ended April 3, 1999. 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.

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.
None.

Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits:

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4.17 Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of (pound)800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc. (previously filed as Exhibit 4.17 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).

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4.21 Master Note, dated February 3, 1997, in the amount of $10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.22 Renewal Master Note, dated February 3, 1998, in the amount of $10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).

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21.1 Subsidiaries of the Company (previously filed as Exhibit 21 in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

27.1 Financial Data Schedule for period ended April 3, 1999 (for SEC purposes only).

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+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

Report on Form 8-K dated March 8, 1999, announcing a $0.04 per share dividend on its common stock payable on April 15, 1999, to shareholders of record on March 31, 1999, as well as year end and fourth quarter results.

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 May 14, 1999.

SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

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

EXHIBIT INDEX

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Exhibit 4.25

Dated as of February 3, 1999

RENEWAL MASTER NOTE
(CORPORATION, PARTNERSHIP OR JOINT VENTURE)

This Note has been executed by SUN HYDRAULICS CORPORATION, a corporation formed under the laws of the State of Florida ("Borrower"); if more than one entity executes this Note, the term "Borrower" refers to each of them individually and some or all of them collectively, and their obligations hereunder shall be joint and several.* If a land trustee executes this Note, "Borrower" as used in sections 6 and 7 below also includes any beneficiary(ies) of the land trust.**

FOR VALUE RECEIVED, on or before February 3, 2000, the scheduled maturity date hereof, Borrower promises to pay to the order of NORTHERN TRUST BANK OF FLORIDA, N.A., a national banking association (hereafter, together with any subsequent holder hereof, called "Lender"), at its _______ banking office at 1515 Ringling Blvd., Sarasota, FL, or at such other place as Lender may direct, the aggregate unpaid principal balance of each advance (a "Loan" and collectively the "Loans") made by Lender to Borrower hereunder. The total principal amount of Loans outstanding at any one time hereunder shall not exceed TEN MILLION AND 00/100 UNITED STATES DOLLARS ($10,000,000.00).

Lender is hereby authorized by Borrower at any time and from time to time at Lender's sole option to attach a schedule (grid) to this Note and to endorse thereon notations with respect to each Loan specifying the date and principal amount thereof, the Interim Maturity Date (as defined below) (if applicable), the applicable interest rate and rate option, and the date and amount of each payment of principal and interest made by Borrower with respect to each such Loan. Lender's endorsements as well as its records relating to Loans shall be rebuttably presumptive evidence of the outstanding principal and interest on the Loans, and, in the event of inconsistency, shall prevail over any records of Borrower and any written confirmations of Loans given by Borrower.

If Borrower wishes to obtain a Loan under this Note, Borrower shall notify Lender orally or in writing on a banking day. Any such notice shall be irrevocable; if the notice is received after 2:00 p.m. Eastern time the Loan may not be available until the next banking day. Additional procedures for "Bank Offered Rate" Loans, if available, are set forth below.

Each request for a Loan shall be deemed to be a representation and warranty by Borrower to Lender that: (i) no Event of Default or Unmatured Event of Default (in each case as defined below) has occurred and is continuing as of the date of such request or would result from the making of the Loan; and (ii) Borrower's representations and warranties herein are true and correct as of such date as though made on such date. Upon receipt of each Loan request Lender in its sole discretion shall

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* Insert "N/A" in any blank in this Note which is not applicable.

** Land trustee may not sign upon direction of individual beneficiary(ies) unless Loans are for business purposes.

have the right to request that Borrower provide to Lender, prior to Lender's funding of the Loan, a certificate executed by Borrower's President, Treasurer, or Chief Financial Officer (if Borrower is a corporation), or a general partner or joint venturer of Borrower (if Borrower is a partnership or joint venture) to such effect.

1. INTEREST.

Borrower agrees to pay interest on the unpaid principal amount from time to time outstanding hereunder at the following rate per year: (CHECK ONE ONLY)

[X] (i) The "Prime-Based Rate", which shall mean the Prime Rate minus One percent (1.00%).

[ ] ***(ii) The "Bank Offered Rate", which shall be equal to that rate of interest offered by Lender and accepted by Borrower and fixed for periods of up to one year ("Interest Period(s)") (the last day of any Interest Period being referred to as an "Interim Maturity Date"). Other description N/A .

"Prime Rate" means that rate of interest announced from time to time by Lender called its prime rate, which rate may not at any time be the lowest rate charged by Lender. Changes in the rate of interest on the Loans resulting from a change in the Prime Rate shall take effect on the date set forth in each announcement of a change in the Prime Rate.

Without limiting Borrower's obligation to repay all outstanding Loans in full on the scheduled maturity date, each Loan at the Bank Offered Rate shall be due and payable in full on its Interim Maturity Date. After the maturity of any Loan, whether by acceleration or otherwise, such Loan shall bear interest until paid, at a rate equal to six percent (6%) in addition to the rate in effect immediately prior to maturity (but not less than the Prime Rate in effect at maturity).

If this Note bears interest at the Bank Offered Rate and Borrower requests a Loan, Lender shall in its sole discretion offer or decline to offer a Bank Offered Rate (and if it offers a Bank Offered Rate, the rate of such Bank Offered Rate shall be in Lender's sole discretion), and Borrower shall irrevocably accept or decline such particular Bank Offered Rate and the related Loan and confirm such acceptance in writing by letter or other written communication dated and sent the date of such borrowing. Any confirmation by Lender of the rate and Interest Period for any Bank Offered Rate Loan shall be conclusive in the absence of manifest error. Without limiting Borrower's obligations under any other document or instrument, Lender may rely without inquiry upon any person whom it reasonably believes to be a party authorized to accept or decline such Bank Offered Rate and the related Loan. Lender has no obligation to make a new Loan to Borrower when a Loan at the Bank Offered Rate matures on its Interim Maturity Date.

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*** Do not use if collateral includes real estate.

Interest shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days, including the date a Loan is made and excluding the date a Loan or any portion thereof is paid or prepaid. Interest shall be due and payable as follows:

[X] Monthly, on the 1st day of each month, beginning March 1, 1999, with all accrued but unpaid interest being due and payable in full with the final principal payment due hereunder.

[ ] Quarterly, on the N/A day of each _____________, ______________,
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_____________, and ______________ in each year, beginning ______________, with all accrued but unpaid interest being due and payable in full with the final principal payment due hereunder.

[ ] Other N/A

In addition, if the Bank Offered Rate is available under this Note, interest on any Loan at the Bank Offered Rate, if not otherwise previously due and payable as indicated above, shall be due and payable in full on the last day of each Interest Period. After maturity interest shall be payable on demand.

2. PREPAYMENTS.

Borrower may prepay without penalty or premium any principal bearing interest at the Prime-Based Rate. If Borrower prepays any principal bearing interest at the Bank Offered Rate in whole or in part, or if the maturity of any such Bank Offered Rate principal is accelerated, then, to the fullest extent permitted by law Borrower shall also pay Lender for all losses (including but not limited to interest rate margin and any other losses of anticipated profits) and expenses incurred by reason of the liquidation or re-employment of deposits acquired by Lender to make the Loan or maintain principal outstanding at the Bank Offered Rate. Upon Lender's demand in writing specifying such losses and expenses, Borrower shall promptly pay them; Lender's specification shall be deemed correct in the absence of manifest error. Each Loan bearing interest at the Bank Offered Rate shall be conclusively deemed to have been funded by or on behalf of Lender by the purchase of a deposit corresponding in amount to such Loan and in maturity to the Interest Period specified by Lender.

3. REFERENCES TO PREVIOUS NOTES, FACILITY TYPE, COLLATERAL, GUARANTIES, LOAN & OTHER AGREEMENTS. (Check As Applicable)

LINE OF CREDIT: This Note has been executed pursuant to a line of credit. At the present time Lender intends to make available to Borrower credit as outlined herein or in any related letter until the maturity day indicated above unless in Lender's sole judgment there has occurred an adverse change in the assets, condition or prospects of Borrower or any guarantor. THE LINE OF CREDIT MAY BE CANCELLED OR REDUCED BY LENDER AT LENDER'S SOLE OPTION WITHOUT PRIOR NOTICE TO BORROWER OR ANY OTHER PERSON OR ENTITY. THE LINE OF CREDIT IS REVOCABLE NOTWITHSTANDING PAYMENT OF ANY FEES OR MAINTENANCE OF ANY ACCOUNT BALANCES, AS AND IF PROVIDED IN ANY ACCOMPANYING LETTER OR OTHER DOCUMENT PERTAINING TO SUCH FEES

AND/OR BALANCES. Any such fees and/or balances shall be deemed compensation to Lender for being prepared to respond to Borrower's requests for credit under this Note.

[X] This Note amends, restates, renews and replaces in its entirety the note dated February 3, 1997, in the amount of $10,000,000.00 and any previously renewed note(s). Borrower hereby expressly confirms that all collateral and guaranties given for such prior note(s) shall secure or guarantee this Note. All amounts outstanding under such previous note(s) shall be deemed automatically outstanding hereunder.

[ ] This Note is secured without limitation as provided in the following and all related documents, in each case as amended, modified, renewed, restated or replaced from time to time:

[ ] Security Agreement dated as of N/A .

[ ] Mortgage dated as of N/A on property all or part of which is commonly known as ___________________________

[ ] Pledge Agreement dated as of N/A .

[ ] Other (describe) N/A .

[ ] Payment of this Note has been unconditionally guaranteed by N/A (each individually an all collectively referred to as "guarantor") as provided in separately executed guaranties.

[ ] This Note has been executed pursuant to a N/A Agreement, dated as of the date hereof, as amended, modified, restated, renewed, or replaced from time to time, containing covenants and other terms, to which reference is hereby made.

4. USE OF PROCEEDS. CHECK ONE:

[X] Borrower represents and warrants that the proceeds of this Note will be used solely for business purposes, and not for personal, family or household use, within the meaning of Federal Truth-in-Lending and similar state laws and regulations.

[ ] ****Borrower represents that the proceeds of this Note will be used for personal, family or household use. IF THIS OPTION IS CHECKED, THE FIRST LOAN MUST BE IN THE AMOUNT OF $25,001 OR MORE.

If Loan proceeds will be used to purchase or refinance the purchase of any property describe:
N/A .
- --
- ------------------------------

**** If this box is checked and a land trustee is signing the Note, do not take real estate as collateral.

Notwithstanding any other provision hereof, if this Note is covered by Regulation Z of the Federal Reserve Board (Truth-in-Lending) or any like disclosure requirement, this Note shall be secured by collateral referenced herein or in any other document only if disclosed in a related disclosure statement.

5. REPRESENTATIONS.

Borrower hereby represents and warrants to Lender that:

(a) Borrower and any "Subsidiary" (as defined below) are existing and in good standing under the laws of their state of formation, are duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so might have a material adverse impact on the consolidated assets, condition or prospects of Borrower; the execution, delivery and performance of this Note and all related documents and instruments are within Borrower's powers and have been authorized by all necessary corporate, partnership or joint venture action;

(b) the execution, delivery and performance of this Note and all related documents and instruments have received any and all necessary governmental approval, and do not and will not contravene or conflict with any provision of law or of the partnership or joint venture or similar agreement, charter or by-laws of Borrower or any agreement affecting Borrower or its property; and

(c) there has been no material adverse change in the business, condition, properties, assets, operations or prospects of Borrower or any guarantor since the date of the latest financial statements provided on behalf of Borrower or any guarantor to Lender prior to the execution of this Note.

"Subsidiary" means any corporation, partnership, joint venture, trust, or other legal entity of which Borrower owns directly or indirectly fifty percent (50%) or more of the outstanding voting stock or interest, or of which Borrower has effective control, by contract or otherwise.

6. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default":

(a) failure to pay, when and as due, any principal, interest or other amounts payable hereunder; failure to comply with or perform any agreement or covenant of Borrower contained herein; or failure to furnish (or caused to be furnished to) Lender when and as requested by Lender (but not more often than once every twelve months) fully completed personal financial statement(s) of any individual guarantor on Lender's then-standard form together with such supporting information as Lender may reasonably request; or

(b) any default, event of default, or similar event shall occur or continue under any other instrument, document, note, agreement, or guaranty delivered to Lender in connection with this

Note, or any such instrument, document, note, agreement, or guaranty shall not be, or shall cease to be, enforceable in accordance with its terms; or

(c) there shall occur any default or event of default, or any event or condition that might become such with notice or the passage of time or both, or any similar event, or any event that requires the prepayment of borrowed money or the acceleration of the maturity thereof, under the terms of any evidence of indebtedness or other agreement issued or assumed or entered into by Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor, or under the terms of any indenture, agreement, or instrument under which any such evidence of indebtedness or other agreement is issued, assumed, secured, or guaranteed, and such event shall continue beyond any applicable period of grace; or

(d) any representation, warranty, schedule, certificate, financial statement, report, notice or other writing furnished by or on behalf of Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor to Lender is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified; or

(e) any guaranty of or pledge of collateral security for this Note shall be repudiated or become unenforceable or incapable of performance, or

(f) Borrower or any Subsidiary shall fail to maintain their existence in good standing in their state of formation or shall fail to be duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so might have a material adverse impact on the consolidated assets, condition or prospects of Borrower; or

(g) Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor shall die, become incompetent, dissolve, liquidate, merge, consolidate, or cease to be in existence for any reason; or any general partner or joint venturer of Borrower shall withdraw or notify any partner or joint venturer of Borrower of its or his/her intention to withdraw as a partner or joint venturer (or to become a limited partner) of Borrower; or any general or limited partner or joint venturer of Borrower shall fail to make any contribution required by the partnership or joint venture agreement of Borrower as and when due under such agreement; or there shall be any change in the partnership or joint venture agreement of Borrower from that in force on the date hereof which may have a material adverse impact on the ability of Borrower to repay this Note, or

(h) any person or entity presently not in control of a corporate, partnership or joint venture Borrower, any corporate general partner or joint venturer of Borrower, or any guarantor, shall obtain control directly or indirectly of Borrower, such a corporate general partner or joint venturer, or any guarantor, whether by purchase or gift of stock or assets, by contract, or otherwise; or

(i) any proceeding (judicial or administrative) shall be commenced against Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor, or with respect to any assets of Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor which shall threaten to have a material and adverse effect on the assets, condition or

prospects of Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor; or final judgment(s) and/or settlement(s) in an aggregate amount in excess of One Hundred Thousand UNITED STATES DOLLARS ($100,000.00) in excess of insurance for which the insurer has confirmed coverage in writing, a copy of which writing has been furnished to Lender, shall be entered or agreed to in any suit or action commenced against Borrower, any Subsidiary, any general partner or joint venturer of Borrower or any guarantor; or

(j) Borrower shall grant or any person (other than Lender) shall obtain a security interest in any collateral for this Note; Borrower or any other person shall perfect (or attempt to perfect) such a security interest; a court shall determine that Lender does not have a first-priority security interest in any of the collateral for this Note enforceable in accordance with the terms of the related documents; or any notice of a federal tax lien against Borrower or any general partner or joint venturer of Borrower shall be filed with any public recorder; or

(k) there shall be any material loss or depreciation in the value of any collateral for this Note for any reason, or Lender shall otherwise reasonably deem itself insecure; or, unless expressly permitted by the related documents, all or any part of any collateral for this Note or any direct, indirect, legal, equitable or beneficial interest therein is assigned, transferred or sold without Lender's prior written consent; or

(l) any bankruptcy, insolvency, reorganization, arrangement, readjustment, liquidation, dissolution, or similar proceeding, domestic or foreign, is instituted by or against Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor; or Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor shall take any steps toward, or to authorize, such a proceeding; or

(m) Borrower, any Subsidiary, any general partner or joint venturer of Borrower, or any guarantor shall become insolvent, generally shall fail or be unable to pay its debts as they mature, shall admit in writing its inability to pay its debts as they mature, shall make a general assignment for the benefit of its creditors, shall enter into any composition or similar agreement, or shall suspend the transaction of all or a substantial portion of its usual business.

7. DEFAULT REMEDIES.

(a) Upon the occurrence and during the continuance of any Event of Default specified in Section 6(a)-(k), Lender at its option may declare this Note (principal, interest and other amounts) immediately due and payable without notice or demand of any kind. Upon the occurrence of any Event of Default specified in Section 6(l)-(m), this Note (principal, interest and other amounts) shall be immediately and automatically due and payable without action of any kind on the part of Lender. Upon the occurrence and during the continuance of any Event of Default, Lender may exercise any rights and remedies under this Note, any related document or instrument (including without limitation any pertaining to collateral), and at law or in equity.

In addition, without limiting the Lender's right to accelerate this Note as provided above, if an Event of Default occurs and is continuing under Section 6(a)-(k) (including without limitation

failure to furnish or cause to be furnished financial statements as required by this Note or any related document), then, at the Lender's election and beginning five (5) days after written notice of such an Event of Default is given by Lender and continuing until such Event of Default is no longer continuing and the Lender is aware of such fact, the interest rate hereunder shall increase by one quarter of one percent (.25%) during the first thirty (30) day period beginning five (5) days after such notice is given, and increase (cumulatively) by an additional one quarter of one percent (.25%) during and effective with respect to each thirty (30) day period thereafter during which such Event of Default continues. The increased interest rate(s) provided for in the previous sentence shall apply to the entire outstanding principal balance hereunder, and the interest rate shall revert to the otherwise applicable interest rate effective on the date on which the Event of Default is no longer continuing and the Lender is aware of such fact; the provisions of this sentence and the preceding sentence shall not apply if this Note is covered by Regulation Z of the Federal Reserve Board (Truth in Lending) or any like disclosure requirement.

(b) Lender may, by written notice to Borrower, at any time and from time to time, waive any Event of Default or "Unmatured Event of Default" (as defined below), which shall be for such period and subject to such conditions as shall be specified in any such notice. In the case of any such waiver, Lender and Borrower shall be restored to their former position and rights hereunder, and any Event of Default or Unmatured Event of Default so waived shall be deemed to be cured and not continuing; but no such waiver shall extend to or impair any subsequent or other Event of Default or Unmatured Event of Default. No failure to exercise, and no delay in exercising, on the part of Lender of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies of Lender herein provided are cumulative and not exclusive of any rights or remedies provided by law. "Unmatured Event of Default" means any event or condition which would become an Event of Default with notice or the passage of time or both.

8. NO INTEREST OVER LEGAL RATE.

Borrower does not intend or expect to pay, nor does Lender intend or expect to charge, accept or collect any interest which, when added to any fee or other charge upon the principal which may legally be treated as interest, shall be in excess of the highest lawful rate. If acceleration, prepayment or any other charges upon the principal or any portion thereof, or any other circumstance, result in the computation or earning of interest in excess of the highest lawful rate, then any and all such excess is hereby waived and shall be applied against the remaining principal balance. Without limiting the generality of the foregoing, and notwithstanding anything to the contrary contained herein or otherwise, no deposit of funds shall be required in connection herewith which will, when deducted from the principal amount outstanding hereunder, cause the rate of interest hereunder to exceed the highest lawful rate.

9. PAYMENTS, ETC.

All payments hereunder shall be made in immediately available funds, and shall be applied first to accrued interest and then to principal; however, if an Event of Default occurs, Lender may, in its sole discretion, and in such order as it may choose, apply any payment to interest, principal

and/or lawful charges and expenses then accrued. Borrower shall receive immediate credit on payments received during Lender's normal banking hours if made in cash, immediately available funds, or by debit to available balances in an account at Lender; otherwise payments shall be credited after clearance through normal banking channels. Borrower authorizes Lender to charge any account of Borrower maintained with Lender for any amounts of principal, interest, taxes, duties, or other charges or amounts due or payable hereunder, with the amount of such payment subject to availability of collected balances in Lender's discretion; unless Borrower instructs otherwise, all Loans shall be credited to an account(s) of Borrower with Lender. LENDER AT ITS OPTION MAY MAKE LOANS HEREUNDER UPON TELEPHONIC INSTRUCTIONS AND IN SO DOING SHALL BE FULLY ENTITLED TO RELY SOLELY UPON INSTRUCTIONS, INCLUDING WITHOUT LIMITATION INSTRUCTIONS TO MAKE TRANSFERS TO THIRD PARTIES, REASONABLY BELIEVED BY LENDER TO HAVE BEEN GIVEN BY AN AUTHORIZED PERSON, WITHOUT INDEPENDENT INQUIRY OF ANY TYPE. All payments shall be made without deduction for or on account of any present or future taxes, duties or other charges levied or imposed on this Note or the proceeds. Lender or Borrower by any government or political subdivision thereof. Borrower shall upon request of Lender pay all such taxes, duties or other charges in addition to principal and interest, including without limitation all documentary stamp and intangible taxes, but excluding income taxes based solely on Lender's income.

10. SETOFF.

At any time and without notice of any kind, any account, deposit or other indebtedness owing by Lender to Borrower, and any securities or other property of Borrower delivered to or left in the possession of Lender or its nominee or bailee, may be set off against and applied in payment of any obligation hereunder, whether due or not.

11. NOTICES.

All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been given or made when deposited in the mail, postage prepaid, addressed if to Lender to its ________ banking office indicated above (Attention: Division Head, Lending Division), and if to Borrower to its address set forth below, or to such other address as may be hereafter designated in writing by the respective parties hereto or, as to Borrower, may appear in Lender's records.

12. MISCELLANEOUS.

This Note and any document or instrument executed in connection herewith shall be governed by and construed in accordance with the internal law of the State of Florida, and shall be deemed to have been executed in the State of Florida. Unless the context requires otherwise, wherever used herein the singular shall include the plural and vice versa, and the use of one gender shall also denote the other. Captions herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof; references herein to Sections or provisions without reference to the document in which they are contained are references to this Note. This Note shall bind Borrower, its heirs, trustees (including without limitation successor and replacement

trustees), executors, personal representatives, successor and assigns, and shall inure to the benefit of Lender, its successors and assigns, except that Borrower may not transfer or assign any of its rights or interest hereunder without the prior written consent of Lender. Borrower agrees to pay upon demand all expenses (including without limitation attorneys' fees, legal costs and expenses, and time charges of attorneys who may be employees of Lender, in each case whether in or out of court, in original or appellate proceedings or in bankruptcy) incurred or paid by Lender or any holder hereof in connection with the enforcement or preservation of its rights hereunder or under any document or instrument executed in connection herewith. Borrower expressly and irrevocably waives notice of dishonor or default as well as presentment, protest, demand and notice of any kind in connection herewith. If there shall be more than one person or entity constituting Borrower, each of them shall be primarily, jointly and severally liable for all obligations hereunder.

13. WAIVER OF JURY TRIAL, ETC.

BORROWER HEREBY IRREVOCABLY AGREES THAT, SUBJECT TO LENDER'S SOLE AND ABSOLUTE ELECTION, ALL SUITS, ACTIONS OR OTHER PROCEEDINGS WITH RESPECT TO, ARISING OUT OF OR IN CONNECTION WITH THIS NOTE OR ANY DOCUMENT OR INSTRUMENT EXECUTED IN CONNECTION HEREWITH SHALL BE SUBJECT TO LITIGATION IN COURTS HAVING SITUS WITHIN OR JURISDICTION OVER THE STATE OF FLORIDA. BORROWER HEREBY CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED IN OR HAVING JURISDICTION OVER SUCH STATE, AND HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO REQUEST OR DEMAND TRIAL BY JURY, TO TRANSFER OR CHANGE THE VENUE OF ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT BY LENDER IN ACCORDANCE WITH THIS PARAGRAPH, OR TO CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

[ ] See Rider attached hereto and incorporated herein by reference.

Lender is hereby authorized by Borrower without notice to Borrower to fill in any blank spaces and dates and strike inapplicable terms herein or in any related document to conform to the terms upon which the Loan(s) evidenced hereby are or may be made, for which purpose Lender shall be deemed to have been granted an irrevocable power of attorney coupled with an interest.

Florida documentary stamp tax required by law in the amount of $ N/A
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has been paid or will be paid directly to the Department of Revenue. Certificate of Registration No. __________.

Address for Notices:

SUN HYDRAULICS CORPORATION, 1500 University Parkway
a Florida Corporation Sarasota, FL 34243
Attention:
By: /s/ Jean A. Snyder -------------------------

Jean A. Snyder
Title: Corporate Accounts Manager

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